

Department of Finance and Administration

Legislative Impact Statement

Bill: SB257

Bill Subtitle: TO CREATE THE ACCESS TO CREDIT FOR OUR RURAL ECONOMY (ACRE) ACT; AND TO PROVIDE AN INCOME TAX DEDUCTION FOR CERTAIN AGRICULTURAL LOANS.

Basic Change :

Sponsors: Sen. B. Johnson and Rep. Beaty Jr.

SB257 creates the "Access to Credit for Our Rural Economy (ACRE) Act" to be codified at § 26-51-462. The ACRE Act provides an income tax deduction for the net interest income received from a qualified agricultural loan that is received by an eligible lending institution.

A "qualified agricultural loan" is a loan that:

- Is made on personal property used for an agricultural purpose, including without limitation equipment and machinery, livestock, and crops; or
- Is made on real property that is substantially used for the production of one or more agricultural products, is secured by a first or second lien interest in real property, and has an outstanding loan balance that is either less than 85% of the appraised value of the real estate or more than 85% of the appraised value of the real estate if the loan balance in excess of 85% is insured by private mortgage insurance.

"Net interest income received from qualified agricultural loans" means the product of the ratio of the income earned on qualified agricultural loans over total interest income earned, in relation to the adjusted gross income of the eligible lending institution without regard to the deduction allowed under the bill.

"Eligible lending institution" is defined as a:

- National banking association;
- State bank and a registered out-of-state bank, as those terms are defined in § 23-45-102;
- State trust company, as defined in § 23-51-102; or
- Federal savings bank.

SB257 is effective for tax years beginning on or after January 1, 2024.

Revenue Impact :

FY2024 - \$4.25 million General Revenue Reduction

FY2025 - \$8.5 million General Revenue Reduction

Taxpayer Impact :

An eligible lending institution will be able to deduct net interest income received from qualified agricultural loans from net income.

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Resources Required :

Computer programs, tax forms, and instructions will need to be updated. The Arkansas Integrated Revenue System (AIRS) will require programming at an estimated cost of \$8,000.00.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Department employees will need to be educated as well as the tax community.

Other Comments :

None.

Legal Analysis :

None.