



2026 South Dakota Legislature

Senate Bill 18

Introduced by: The Chair of the Committee on Taxation at the request of the Department of Revenue

1 **An Act to repeal income modifications for the bank franchise tax pertaining to bad**
 2 **debts.**

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF SOUTH DAKOTA:

4 **Section 1. That § 10-1-47 be AMENDED:**

5 **10-1-47.** The terms "United States Internal Revenue Code" and "Internal Revenue
 6 Code" mean the United States Internal Revenue Code as amended and in effect on January
 7 1, 2025. This section applies to §§ 10-4-9.1, 10-4-9.2, 10-4-9.3, 10-4-9.4, 10-4-39, 10-
 8 6-157, and 10-43-10.1, and subdivisions 10-6A-1(7), 10-6B-1(5), 10-18A-1(6), ~~10-43-~~
 9 ~~10.3(6)~~ 10-43-10.3(5), and 10-45A-1(5).

10 **Section 2. That § 10-43-10.2 be AMENDED:**

11 **10-43-10.2.** Added to taxable income are:

- 12 (1) Interest or dividend income derived from obligations or securities of states or
 13 political subdivisions, or authorities thereof, not included in taxable income as
 14 determined under the Internal Revenue Code;
- 15 (2) All income taxes paid or accrued, ~~as the case may be applicable~~, during the tax
 16 year under the provisions of ~~chapter 10-43~~ this chapter or under the provisions of
 17 any income tax, or franchise or privilege taxes measured by income levied by any
 18 other state or political subdivision to the extent that ~~such~~ the taxes were deducted
 19 to determine federal taxable income;
- 20 (3) ~~Bad debt deductions in excess of credits actually ascertained to be worthless and~~
 21 ~~charged off within the tax year;~~
- 22 ~~(4) Any amount subsequently received on account of a bad debt previously charged~~
 23 ~~off as a deduction for tax purposes;~~
- 24 (5) Any amount received as a refund of federal income taxes during the tax year if
 25 that amount was previously deducted in determining net income;

1 ~~(6)~~(4) Dividends received from other corporations to the extent that ~~such~~ the dividends
 2 have been deducted from net income as determined under the Internal Revenue
 3 Code; ~~and~~

4 ~~(7)~~(5) Any capital loss from ~~liquidating~~:

5 (a) Liquidating sales within the twelve-month period beginning on the date on
 6 which a financial institution adopts a plan of complete liquidation, if all of
 7 the assets of the financial institution are distributed in complete liquidation,
 8 less assets retained to meet claims within the twelve-month period, ~~or from~~
 9 ~~the;~~ or

10 (b) The distribution of property in complete liquidation of the financial
 11 institution ~~which~~ that is subject to federal corporate income taxes pursuant
 12 to § 336 of the Internal Revenue Code.

13 **Section 3. That § 10-43-10.3 be AMENDED:**

14 **10-43-10.3.** Subtracted from taxable income are:

15 (1) Dividends received from financial institutions subject to taxation under this
 16 chapter, to the extent ~~such~~ the dividends were included in taxable income as
 17 determined under the Internal Revenue Code;

18 (2) Taxes imposed upon the financial institution within the tax year, under the Internal
 19 Revenue Code, excluding any taxes imposed under 26 USC § 1374 and 26 USC
 20 § 1375;

21 (3) Any interest expense described in §§ 291(e)(1)(B) and 265(b) of the Internal
 22 Revenue Code, which interest expense ~~shall be~~ is deductible;

23 (4) Any capital gain from ~~liquidating~~:

24 (a) Liquidating sales within the twelve-month period beginning on the date on
 25 which a financial institution adopts a plan of complete liquidation, if all of
 26 the assets of the financial institution are distributed in complete liquidation,
 27 less assets retained to meet claims within the twelve-month period, ~~or from~~
 28 ~~the;~~ or

29 (b) The distribution of property in complete liquidation of the financial
 30 institution ~~which~~ that is subject to federal corporate income taxes pursuant
 31 to § 336 of the Internal Revenue Code;

32 (5) ~~Any adjustment to taxable income due to a change in the method used to compute~~
 33 ~~the federal bad debt deduction where the adjustment has already been included in~~
 34 ~~taxable income for purposes of the tax imposed by this chapter;~~

- 1 ~~(6)~~—For those financial institutions making an election pursuant to 26 USC § 1362(a)
2 of the United States Internal Revenue Code, as defined by § 10-1-47, imputed
3 federal income taxes in an amount equal to the taxes that would have been paid
4 on net income as defined in § 10-43-10.1 had the financial institution continued to
5 file its federal tax return without making an election to file pursuant to 26 USC
6 § 1362(a); and
- 7 ~~(7)~~(6) For those financial institutions organized as limited liability companies, imputed
8 federal income taxes in an amount equal to the taxes that would have been paid
9 on net income as defined in § 10-43-10.1 had the financial institution elected to
10 file as a subchapter C corporation under the Internal Revenue Code.