



STATE OF SOUTH CAROLINA **SC1065**
PARTNERSHIP RETURN (Rev. 11/24/08)
Tax Year 2008 3087

Return is due on or before the 15th day of the fourth month following the close of the taxable year.

Mail to: SC Department of Revenue, Partnership Return, Columbia SC 29214-0008

For the year January 1 - December 31, 2008, or fiscal tax year beginning _____ 2008 and ending _____ 2009

Check all boxes that apply:	
Check if this is the first SC1065 filed for this entity	<input type="checkbox"/>
Check if this is the last SC1065 filed for this entity	<input type="checkbox"/>
Check here if address has changed	<input type="checkbox"/>

EIN #:	▶ SC File #:	County:
Total Number of Partners:	Number of Partners that are Not SC Residents:	

ATTACH A COPY OF FORM 1065 FEDERAL PARTNERSHIP RETURN AND COPIES OF ALL SCHEDULES.

Read the instructions carefully and fill in all applicable lines and schedules.

Location of business property: City _____ State _____ Phone Number _____

Complete Schedule SC-K first

Schedule W-H Withholding Tax on Income of Nonresident Partners

STAPLE PAYMENT HERE	1. Total from line 29, page 3, SC1065	1.	
	2. Line 1 times _____ % of income allocated to nonresident partners.	2.	
	3. Amount of line 2 exempt from withholding because of I-309 affidavit or composite filing.	3.	
	4. Subtract line 3 from line 2, if less than zero, enter -0-	4.	
	5. Withholding tax due - line 4 times .05 (5%)	▶ 5.	
	6. Withholding from nonresident sale of real estate (Attach I-290) or SC Withholding from form 1099MISC	▶ 6.	
	7. Amount paid with extension SC8736.	▶ 7.	
	8. Add lines 6 and 7	8.	
	9. Subtract line 8 from line 5. If zero or less, enter zero here. This is the amount due with this return. Refunds cannot be issued from the SC1065. An overpayment must be claimed and refunded at the partner level.	BALANCE DUE ▶ 9.	

The undersigned declares that this return, including the accompanying schedule and statements, has been examined by him (or them) and is to the best of his (or their) knowledge and belief a true and complete return, made in good faith, for the accounting period stated, pursuant to the Code of 2000 and amendments.

14-0832

Please Sign Here	Signature of general partner or LLC/LLP member _____ Date _____		
	I authorize the Director of the Department of Revenue or delegate to discuss this return, attachments and related tax matters with the preparer. Yes <input type="checkbox"/> No <input type="checkbox"/>		
Paid Preparer's Use Only	Preparer Printed Name _____	Check if self-employed <input type="checkbox"/>	Preparer telephone number _____
	Preparer signature _____	EI # _____	
	Firm's name (or yours if self-employed) and address _____		Date _____

SCHEDULE SC-K PARTNERS' SHARES OF INCOME (LOSSES), DEDUCTIONS, CREDITS ETC. (See instructions.)

* Enter amounts from corresponding lines on your federal Schedule K in Column A.

	(A)* Amounts From Federal Schedule K	(B) Plus or Minus South Carolina Adjustment	(C) Federal Schedule K Amounts After SC Adjustments	(D) Amounts Allocated to SC	(E) Amounts Subject to Apportionment
1	Ordinary Business Income (loss)				
2	Net Real Estate Rents (loss)				
3	Other Net Rents (loss)				
4	Guaranteed Payments				
5	Interest Income				
6	Dividends				
7	Royalties				
8	Net Short Term Cap. Gain (loss)				
9	Net Long Term Cap. Gain (loss)				
10	Net § 1231 gain (loss)				
11	Other Income (loss)				
12	§ 179 Deduction				
13a	Contributions				
13b	Investment Interest Expense				
13c	§ 59 (e)(2) Expenditures				
13d	Other Deductions				
14	Total				

15. Amounts from federal Schedule K (line 14, Schedule SC-K, Col. A)			15	
16. Amount Allocated to South Carolina (from line 14, Schedule SC-K, Col. D)			16	
17. Net income (loss) subject to apportionment (from line 14, Schedule SC-K, Col. E)			17	
APPORTIONMENT FACTORS FOR MULTISTATE BUSINESS (LINES 18 THROUGH 21-MULTISTATE ONLY)				
18. SALES	TOTALS	SC		
Total Gross Receipts				
Sales Percentage		%		
For apportionment based on gross receipts only, enter the sales percentage on line 22, skip lines 24 through 27, and enter the amount from line 23 on line 28. See instructions.				
Multiply Sale Percentage by 2 (if you have an entry on Line 19 or 20)		%		
19. PROPERTY				
Total Owned and Rented Property				
Property Percentage		%		
20. PAYROLL				
Total Wages and Salaries				
Payroll Percentage		%		
21. TOTAL PERCENT		%		
22. Apportionment factor (average percent). 100% if operating entirely within SC (see instructions)			22	%
23. Net business income (loss) apportioned to SC (line 17 multiplied by line 22) If line 22 is 100%, skip lines 24 through 27 and enter this amount on line 28.			23	
24. Enter the sales percentage from line 18.			24	
25. Multiply line 17 by line 24. If Line 23 is less than Line 25, STOP HERE and enter amount from Line 23 on line 28			25	
26. Line 23 minus line 25			26	
27. For Tax Year 2008, multiply line 26 by 40% (.40). This is the reduction in SC taxable income allowed this year			27	
28. Line 23 minus line 27			28	
29. Net business income (loss) taxable to SC (line 16 plus line 28).			29	

INSTRUCTIONS FOR SC1065 - SOUTH CAROLINA PARTNERSHIP RETURN (Rev. 11/24/08)

NEW INFORMATION:

Sales-Only Apportionment: For tax years beginning after 2006, manufacturers, sellers, distributors and renters of tangible property will have a new method for apportioning income remaining after allocation. The old 3-factor apportionment method uses a property factor, a payroll factor and a double-weighted sales factor, and divides the result by 4. Under the new method, the taxpayer will either use the 3-factor result or claim a percentage of the benefit of apportionment on the basis of sales alone. The percentage for Tax Year 2008 is 40%, and that percentage will increase by an additional 20% each year until 3-factor apportionment is eliminated entirely in Tax Year 2011. Also, Code Section 12-6-2295 supplies a new definition for "sales" as well as "gross receipts".

Pass-Through Active Trade or Business Income Rate and Safe Harbor Changes: For the tax year beginning in 2008, an individual, estate or trust may elect to file an I-335 to have qualifying active trade or business income from a pass-through entity taxed at 5.5% instead of the graduated tax rate for individual income. The rate will be 5% for tax years beginning after 2008. Also, more taxpayers may be eligible for the safe harbor. The safe harbor is now available if your total South Carolina taxable income from pass-through entities for which you perform personal services is \$100,000 or less, excluding capital gains and losses. A taxpayer who qualifies to use the safe harbor may choose to reduce active trade or business income by one-half without having to determine the actual amount of personal service income.

REMINDERS

- Unless a partner who is an individual, trust or estate participating in composite return completes an I-338 composite return affidavit stating that he has no other income taxable to South Carolina, the partner is not allowed to receive the benefit of any federal deductions and will owe tax at a rate of 7% on any income that does not qualify as active trade or business income (I-335).
- You must add back the federal deduction for domestic production activities provided in IRC Section 199.
- A charitable deduction for a gift of land, under IRC Section 170, must be added back unless the intent of the donor meets the requirements of S.C. Code Section 12-6-5590.
- South Carolina specifically does not recognize IRC Section 168(k) bonus depreciation.
- SC8736 is the extension form for partnership and fiduciary returns.
- Any partnership that pays withholding on income of nonresident partners is required by Section 12-8-1540 to provide each with a federal Form 1099-MISC with "SC only" written at the top and showing the respective amounts of income tax withheld.
- An amended SC1065 must be filed whenever the Internal Revenue Service adjusts a federal Form 1065 return.
Refunds cannot be issued from the SC1065. An overpayment must be claimed and refunded at the partner level.

LIABILITY FOR RETURNS

Every partnership, domestic or foreign, doing business or owning property in South Carolina must file SC1065. Partnership income or loss is computed in the same manner and on the same basis as for an individual. Taxpayers carrying on business in a partnership are liable for income tax in their individual capacities. Each partner's return shall include his distributive share, whether distributed or not, of the net income or loss of the partnership for the taxable year. If a partner and partnership have different taxable years, the partner's return shall include income or loss reported by the partnership during the partner's taxable year.

BALANCE DUE WITH RETURN

Payment should be made for any balance due amount calculated on this return. Make the check payable to the "SC Department of Revenue." Write the file number and/or EIN and "2008 SC1065" on the payment. **Staple** the payment to the front of this form in the indicated area.

SC-K INSTRUCTIONS

Schedule SC-K is a worksheet for making South Carolina adjustments to federal Schedule K items and showing the amount of these items that are allocated or apportioned to South Carolina.

COMPUTATION OF INCOME

Enter the amounts from Column A of federal Schedule K, lines 1 through 13d in the same line numbers of Column A of SC-K.

SOUTH CAROLINA ADJUSTMENT

Column B additions and subtractions are the same that apply to individuals. (See SC1040 and Instructions.)

Add any income taxed by South Carolina but not subject to federal income tax, such as interest income received from states other than South Carolina, or their political subdivisions.

Subtract any income not taxed by South Carolina that is subject to federal income tax, such as interest paid by the US government on US savings bonds, treasury bills, etc.

Add any expense deducted on the federal return related to any income exempt or not taxable to South Carolina.

If you claim 30% or 50% federal bonus depreciation, add the difference between the depreciation taken and the depreciation that would have been allowed without bonus depreciation. Depreciation cannot exceed the basis of an asset. When bonus depreciation is taken in a prior taxable year, a SC subtraction exists for all remaining years of depreciation.

If you elect to claim a reduction in basis as a federal investment credit, subtract the unclaimed federal deduction.

A nonresident seller of South Carolina real property who elects out of installment sales treatment must report the entire gain for the taxable year in which the sale took place.

The following may be additions or subtractions depending on how a particular item is reported or deducted on a federal return:

- change in accounting method
- installment method of reporting income
- federal gain or loss due to difference in basis because of state law prior to 1985

ALLOCATION OF INCOME

Allocation and apportionment statutes are located in SC Code Section 12-6-2210 through 12-6-2320. After allocating the following items, all remaining items are subject to apportionment as described below.

These items must be allocated (List amounts allocated to South Carolina in Column D. Column E does not include amounts allocated to South Carolina or any other state.):

Personal service income: Allocate personal service income, including guaranteed payments, to South Carolina if (a) the income is received by a resident individual or (b) the income is for services performed in South Carolina.

Gains and losses from sale of property: Allocate gains and losses from the sale of **real** property, less all related expenses, to the state in which the real property is located, except that the amount of gain which represents the return of amounts deducted in South Carolina as depreciation is allocated to South Carolina. If a taxpayer's business is conducted partly within and partly without South Carolina, allocate gains and losses from sales of **tangible personal** property unrelated to the business activity of the taxpayer to the state in which the business situs of the investment is located, unless the business situs of the investment is partly within and partly without South Carolina. Allocate gains and losses from sales of **intangible personal** property not connected with the business of the taxpayer and not held for sale to customers in the regular course of business to a corporate partner's principal place of business and a noncorporate partner's domicile.

Rents and royalties: Allocate rents and royalties from the lease of rental of real estate or tangible personal property not used or connected with the taxpayer's trade or business during the year, less all related expenses, to the state where the property was located at the time the income was derived.

Interest and dividends: Allocate interest and dividends not connected with the taxpayer's business, less all related expenses, to a corporate partner's principal place of business and a noncorporate partner's domicile.

APPORTIONMENT OF INCOME

If the entire trade or business of a partnership is carried on in this state, skip lines 18 through 21, enter 100% on line 22, skip lines 24 through 27, and enter the amount from line 17 on line 28.

If the principal business of a multi-state partnership in South Carolina is manufacturing or any form of collecting, buying, assembling, or processing goods and materials within South Carolina or selling, distributing, or dealing in tangible personal property within South Carolina, apportion any income remaining after allocation by using the PROPERTY, PAYROLL, and SALES factors indicated on the form. The apportionment ratio is the sum of the PROPERTY factor, the PAYROLL factor and twice the SALES factor, divided by 4. If two factors apply and one is SALES, the apportionment factor is twice the SALES factor plus the other factor, divided by 3. If only the PROPERTY and PAYROLL factors apply, the apportionment factor is the two added together and divided by 2. If only one factor applies, the PROPERTY, PAYROLL or SALES factor is the apportionment ratio. Compute all percentages to 4 digits to the right of the decimal.

If the principal profits or income of a multi-state partnership are derived from sources other than manufacturing, producing, collecting, buying, assembling, processing, selling, distributing or dealing in tangible personal property, complete line 18, and enter that amount on line 22. Skip lines 24 through 27, and enter the amount from line 23 on line 28.

The PROPERTY factor is the average value of real and tangible personal property not allocated that is owned or rented and used in South Carolina during the taxable year, divided by the average value of real and tangible personal property not allocated that is owned or rented and used everywhere. Tangible personal property is corporeal property such as machinery, tools, implements, equipment, goods, wares, and merchandise, but does not include cash, shares of stock, bonds, notes, accounts receivables, credits, special privileges, franchises, goodwill, or evidences of debt. The average value of property is usually determined by averaging the values at the beginning and end of the taxable year, but an average of monthly or daily values must be used if necessary to fairly represent the yearly average because of material changes during the year. **Inventory** is valued using the taxpayer's book accounting practices unless the Department determines that a different method more accurately reflects net income. If the taxpayer does not take or keep records of periodic inventories or if the method and time of taking the inventories does not accurately reflect the true average inventory, the Department may determine the average inventory from information available. **Owned property other than inventory** is valued at the original cost plus any additions or improvements without regard to deductions for depreciation, amortization, write-downs, or similar charges. If this method of valuation results in the taxation of more than 100% of the income of the taxpayer in all the states in which the taxpayer files a return, the Department may in its discretion adjust the value of property within this State to bring the percentage to 100%, but in no case can the South Carolina property be valued at less than 80%. **Rented and leased real and personal property** is valued at the net annual rental rate multiplied by 8, but the Department may require a different factor for rented or leased personal property if it better reflects the value. Net annual rental rate means the gross annual rate paid by the taxpayer, minus the gross annual rental rate received by the taxpayer for any subrentals of real estate. No reduction in value is allowed for encumbrances. Property used in South Carolina does not include inventories of unmanufactured tobacco stored in a warehouse in South Carolina for shipment to a manufacturer in another state.

The PAYROLL factor is the total amount paid by the taxpayer for compensation in South Carolina during the taxable year, divided by total compensation paid everywhere. Compensation includes salaries, wages, commissions, and other personal service compensation not allocated that is paid or incurred in connection with the taxpayer's trade or business. South Carolina payroll includes all compensation paid to employees chiefly working at, sent out from, or chiefly connected with an office, agency, or place of business of the taxpayer in South Carolina. Exclude compensation paid to general executive officers having company-wide authority from the payroll factor.

The SALES factor is all sales of goods, merchandise and property in South Carolina to anyone other than the U.S. government, divided by total sales everywhere. The sale takes place where goods are received by the purchaser or his designee after all transportation is completed. Sales in South Carolina include all rentals not allocated from tangible personal property located in South Carolina and sales of intangible personal property and receipts from services from income-producing activities performed entirely within South Carolina. If the income-producing activity is performed partly within and partly without South Carolina, sales are attributable to South Carolina to the extent the income-producing activity is performed within South Carolina.

For tax years beginning after 2006, manufacturers, sellers, distributors and renters of tangible property have a new method for apportioning income remaining after allocation. The taxpayer will either use the 3-factor result or claim a percentage of the benefit of apportionment on the basis of sales alone. The percentage for Tax Year 2007 is 20%, and that percentage will increase by an additional 20% each year until 3-factor apportionment is eliminated entirely in Tax Year 2011.

Sales and gross receipts include: (1) receipts from the sale or rental of property maintained for sale or rental to customers in the ordinary course of the taxpayers's trade or business including inventory; (2) receipts from the sale of accounts receivable acquired in the ordinary course of trade or business for services rendered or from the sale or rental of property maintained for sale or rental to customers in the ordinary course of the taxpayer's trade or business if the accounts receivable were created by taxpayer or a related party; (3) receipts from the use of intangible property in this State including, but not limited to, royalties from patents, copyrights, trademarks, and trade names; (4) net gain from the sale of property used in the trade or business; (5) receipts from services; (6) receipts from the sale of intangible property which are unable to be attributed to any particular state or states are excluded from the numerator and denominator of the factor. Sales and gross receipts do not include: (1) repayment, maturity, or redemption of the principal of a loan, bond, or mutual fund or certificate of deposit or similar marketable instrument; (2) the principal amount received under a repurchase agreement or other transaction property characterized as a loan; (3) proceeds from the issuance of the taxpayer's stock or from sale of treasury stock; (4) damages and other amounts received as the result of litigation; (5) property acquired by an agent on behalf of another; (6) tax refunds and other tax benefit recoveries; (7) pension reversions; (8) contributions to capital, except for sales of securities by securities dealers; (9) income from forgiveness of indebtedness; or (10) amounts realized from exchanges or inventory that are not recognized by the Internal Revenue Code.

Alternative apportionment factors apply to other types of business. In each case, enter the alternative apportionment factor in the area for SALES: **Railroad companies** use railway operating revenue from business done within South Carolina during the taxable year, divided by total railway operating revenue from all business as shown by its records kept in accordance with the Uniform System of Accounts prescribed by the Interstate Commerce Commission. Railway operating revenue from business done within South Carolina includes railway operating revenue from business wholly within this State, plus the equal mileage proportion within South Carolina of each item of railway operating revenue received from interstate business. The equal mileage proportion is the distance of movement of property and passengers over lines in South Carolina, divided by the total distance of movement everywhere. **Motor carriers** of property and passengers use vehicle miles within South Carolina during the taxable year, divided by total vehicle miles everywhere.

Pipeline companies use revenue ton miles (one ton of solid property transported one mile), revenue barrel miles (one barrel of liquid property transported one mile), and/or revenue cubic foot miles (one cubic foot of gaseous property transported one mile) within South Carolina, divided by total revenue ton miles, revenue barrel miles, and/or revenue cubic foot miles everywhere. **Airline companies** and **shipping lines** use revenue tons loaded and unloaded in this South Carolina during the taxable year, divided by total revenue tons loaded and unloaded everywhere. Use short tons (two thousand pounds) and a standard weight of 190 lbs. for each passenger (including free baggage). **All other businesses** use gross receipts in South Carolina during the taxable year, divided by gross receipts everywhere.

See Section 12-6-2320 for remedies and alternative accounting procedures if the allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in South Carolina.

TAX CREDITS

Enter non-refundable tax credits on SC1040TC and attach to this return. Attach specific tax credit schedules to your return. Furnish a statement to each partner indicating the amount of credit allocated to that partner.

SCHEDULE W-H INSTRUCTIONS (WITHHOLDING FOR NONRESIDENT PARTNERS)

Withhold 5% of the income taxable to South Carolina of partners who are nonresidents of South Carolina.

FILING REQUIREMENTS

File SC1065 along with the amount withheld to the Department of Revenue by the 15th day of the fourth month following the end of the partnership's taxable year. **Within the same deadline, provide each nonresident partner with a federal Form 1099-MISC with "SC only" written at the top, showing the amount of the nonresident partner's withholding.** Along with SC1065 and payment of withholding, file a schedule disclosing the name, address, tax identification number, income taxable to South Carolina, and tax withheld for each nonresident partner. Attach each federal K-1.

Tiered or layered partnerships must withhold only for activities of the partnership within South Carolina. Any related partnership must attach a statement explaining any pass-through withholding and provide a 1099 to each partner. Before filing SC1065, a partnership may request an extension of time by filing SC8736 by the 15th day of the fourth month following the end of the partnership's taxable year. Upon filing SC8736, include withholding of 5% of income taxable to South Carolina of all nonresident partners. There are exceptions: (a) for composite returns, and (b) for partners that provide an I-309 affidavit stating that the taxpayer is subject to the jurisdiction of the SC Department of Revenue and the courts of South Carolina for purposes of determining and collecting tax, interest and penalties. Include all I-309s when filing SC8736. In lieu of SC8736, the Department of Revenue will accept a federal extension. Attach a copy of the federal extension as long as you file the tax return within the extended period.

INFORMATION TO BE FURNISHED TO PARTNERS

Supply a separate federal Schedule K-1 to each partner, reflecting the partner's proportionate share of South Carolina income. You may copy the completed federal K-1 and indicate any differences for SC purposes by including a foot note. Partnerships receiving passive activity income and losses from investments located within and without of South Carolina must furnish partners with detailed accountings of these amounts. Similar information must be furnished to partners who did not materially participate in the trade or business of a partnership engaged in multi-state operations. These partners may have nondeductible passive losses that cannot offset interest and other business-related portfolio income apportioned to South Carolina.

ACCEPTABLE FORMS OF K-1 INFORMATION

If a partnership has a large number of partners, the Department will accept the K-1 information on a CD or floppy disk in any file format that is compatible with Microsoft Word, Excel or Access. Also, the information will be accepted in microfiche form as well as paper.

FILING REQUIREMENTS FOR PARTNERS

Any partner with income or loss must file a tax return regardless of tax liability.

COMPOSITE FILING

A composite return is a single nonresident individual income tax return (Schedule NR attached to SC1040) filed by a partnership that computes and reports the income and tax of its nonresident partners. The return is due on or before the 15th day of the 4th month following the partner's taxable year end. Any tax due is paid along with filing the return. The partnership does not need to withhold on behalf of any partner participating in a composite return. Partners participating in a composite return do not need to pay estimated tax.

The heading of the composite return states the name, address and federal EIN of the partnership. There is no need to use "Composite Return for" or "Partners of" in the name. Mark the box for filing a composite return. Mark "Single" filing status and one exemption on the face of SC1040.

Two methods are available for calculating tax on a composite return: (1) Compute each participating partner's income tax separately as if the partner were separately reporting income on a nonresident return; OR (2) compute each participating individual's entire share of SC income from the partnership without considering deductions and exemptions. Under either method, add the individual liabilities together to arrive at a total tax. Attach a schedule showing the separate computations. Total the separate tax amounts and enter on the "tax" line of SC1040, page 1.

For tax years beginning after 2005, a partner or shareholder that participates in a composite return will not receive the benefit of any federal deductions and will owe tax at a rate of 7% on any income that does not qualify as active trade or business income (I-335), unless the partner or shareholder completes an I-338 composite return affidavit stating that he has no other income taxable to S.C.

In order to extend the time allowed for filing a composite return, file SC4868 using the name and EIN of the partnership. The tax due must be estimated and paid along with filing the extension on or before the 15th day of the 4th month following the end of the partner's taxable year. Do not use the SC8736 to extend the composite return.

For taxable years after 2004, nonresident partners may participate in composite returns even if they have other sources of income taxable to South Carolina. Disregard the other sources of income taxable to South Carolina when preparing the composite return.

For more detailed information, see Revenue Procedure 92-5 on our website: www.sctax.org