

SC1040 INSTRUCTIONS 2004 (Rev. 11/9/04)

For tax year 2004, unless you have a valid extension, the due date is April 15, 2005 and the deadline to claim a refund is April 15, 2008.

COMPLETE YOUR FEDERAL RETURN BEFORE YOU BEGIN YOUR SOUTH CAROLINA TAX RETURN. YOUR COMPLETED FEDERAL RETURN WILL CONTAIN INFORMATION WHICH YOU MUST ENTER ON THE SOUTH CAROLINA RETURN.

If you were required to use federal schedules C, D, E and/or F with your federal return or filed a Schedule NR, SC1040TC and/or I-319 with your South Carolina return, attach a copy of your completed federal return and schedule(s) to your South Carolina return.



Complete your federal return first!

NAME, ADDRESS AND SOCIAL SECURITY NUMBER

Use the preaddressed label from the back cover of this booklet only if **ALL** information is correct. It is best to complete your entire return before placing the label on it. **If any information is incorrect, please discard the label.** If you did not receive a preaddressed label or if it was incorrect, print or type your name, address, Social Security number and the code of the county in which you live. For a list of county codes see page 28.

If you are married and filing a joint return, fill in your spouse's name and your spouse's Social Security number.

If you are married and filing separate returns, **do not include your spouse's name or Social Security number in this section. Fill in your spouse's Social Security number next to box # 3 in the filing status section.**

If the taxpayer or spouse died during the taxable year, check the box by the decedent's name.

In compliance with the Federal Privacy Act of 1974, Public Law 93-579, the disclosure of the individual's Social Security number on this form is mandatory. 42 U.S.C. 405(c)(2)(C)(I) allows a State (or a political subdivision hereof) to utilize an individual's Social Security number in connection with the administration of any tax and SC regulation 117-201 provides that any person required to make a return, statement or document to the Department of Revenue must include identifying numbers on such return, statement or document if the Department requests such information. Social Security numbers are primarily used for the purposes of identifying taxpayers and monitoring tax compliance and/or fraud.

ITIN - INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER

If you are a nonresident or resident alien and cannot get a Social Security number, you may contact the Internal Revenue Service to apply for and obtain an Individual Taxpayer Identification Number (ITIN) for the purpose of filing income tax returns. South Carolina will accept this number in lieu of a Social Security number for the purposes of processing your individual income tax returns. For information on obtaining an ITIN, please contact the Internal Revenue Service at 1-800-829-1040.



Make sure your mailing address is complete and correct.

CHECK BOXES

The box just below the city, state, and zip code line should be checked if you use a tax preparer to complete your return or for some other reason you do not need a tax booklet next year. Most tax preparers have a supply of the needed forms and do not need tax booklets. The full SC booklet is also available on our website. (www.sctax.org) If you check this box, next year you will receive a pre-addressed label only. This is a savings of your tax dollars for printing and postage.

Nonresidents for the entire year and part year residents electing to file as a nonresident should check this box and attach Schedule NR to the completed SC1040. **Do not submit the Schedule NR separately.**

If you filed a federal or state extension, check the box.

If you are filing a composite return for a partnership or S corporation, check the box. Use the company name and the company's federal identification number. You need not use "Composite return for" or "Shareholders of" in the name.



It is important to mark your filing status and exemptions to avoid delays in processing your return!

INFORMATION FROM FEDERAL RETURN

FILING STATUS

You **must** check the same filing status you checked on your federal return. Check only one box. **Special rules** may apply to **NC residents**. See first page of General Instructions.

EXEMPTIONS

You **must** enter the same number of exemptions claimed on your federal return. Attach federal Form 8332, Dependency Exemption for Child of Non-Custodial Parent, if you are required to file this form with your federal return.

NOTE: If you are filing a composite return for a partnership or S Corporation, mark single filing status and one exemption.

If you are claiming a deduction for children under six, you must enter in the space provided the number of children under six. Also, be sure to complete the information required on line 48.

Enter the number of taxpayers who are age 65 or older.



Lines 1 and 5 should not be blank. Refer to instructions for these lines.

ROUND-OFF ALL AMOUNTS TO THE NEAREST WHOLE DOLLAR.

Line 1 Enter your Federal Taxable Income from your federal Form 1040, line 42; 1040A, line 27; 1040EZ, line 6; or line K-1 of federal Telefile. **If your Federal Taxable Income is zero or less, enter zero** here and enter your negative amount on line 46.

STOP! Nonresident/Part Year filers complete Schedule NR and go to line 5. See Schedule NR instructions.

Line 2 Resident filers complete lines 29 - 34 and enter figure from line 34 here.

Line 4 Resident filers complete lines 35 - 50 and enter figure from line 50 here.

SOUTH CAROLINA TAX

Line 6 TAX

If your "income subject to tax" on line 5 is less than \$100,000 use the tax tables on pages 29 through 32 to determine your South Carolina tax and enter the amount of tax on line 6.

If your "income subject to tax" on line 5 is \$100,000 or more, use tax rate schedule on page 32 to compute your tax and enter the amount of tax on line 6.

Line 7 TAX ON LUMP SUM DISTRIBUTION

South Carolina provisions for lump sum distributions are the same as the federal provisions. If you used federal Form 4972 for a lump sum distribution, you must use the South Carolina SC4972 to compute the South Carolina tax.

CREDITS

Line 9 CHILD AND DEPENDENT CARE

The South Carolina Credit for Child and Dependent Care expense is 7% of the federal expense for a full year resident. A part year/nonresident is allowed 7% of their prorated federal expenses. See examples below. **Married filing separately cannot claim this credit.** The maximum credit allowed for one child is \$210. The maximum credit for two or more children is \$420.

Example A: Full Year Resident (In this example, the allowable credit is \$140.)

Federal Child Care Expense from Form 2441, line 6 or 1040A, Schedule 2, line 6 is \$2,000

$\$2000 \times .07 = \140

Example B: Part Year/Nonresident (In this example, the allowable credit is \$42.)

Federal Child Care Expense from Form 2441, line 6 or 1040A, Schedule 2, line 6 is \$2,000 and your proration percent from line 42 of SC Schedule NR is 30%, your computation should be:

$\$2000 \times .30 = \$600 \times .07 = \$42$

You may **not** claim this credit if you are a resident of a state which does not offer a credit for child and dependent care expenses to a South Carolina resident.

Line 10 TWO WAGE EARNER CREDIT (MARRIED COUPLE)

This credit can only be claimed by a **married couple filing jointly** when both spouses have earned income. This credit is **not** allowed on returns with a filing status of single, married filing separately or head of household. Do not include gambling or bingo winnings reported on federal form W-2G.

Example - You earned a salary taxed to South Carolina of \$20,000. Your spouse earned \$17,000 taxed to South Carolina and had an IRA deduction taxed to South Carolina of \$1,000. Your SC qualified earned income is \$20,000 and your spouse's is \$16,000 (\$17,000 minus \$1,000). Because your spouse's qualified earned income is less than yours, the credit is based on your spouse's income. Therefore, the credit is \$112 (\$16,000 x .007).

Compute your earned income separately for yourself and your spouse. South Carolina earned income is generally income you receive for services you provide. It includes wages, salaries, tips, commissions and sub-pay. It also includes income earned from self-employment, business income or loss, partnership income or loss, farm income or loss and any other earned income taxed to South Carolina. Earned income does not include gambling or bingo winnings, interest, dividends, Social Security benefits, IRA distribution, unemployment compensation, deferred compensation nor non-taxable income. **It also does not include any amount your spouse paid you.**

(a) You **(b) Your Spouse**

- | | | |
|--|-------|-------|
| 1. Wages, salaries, tips, etc., taxed to South Carolina from South Carolina Schedule NR, Column B, line 1; federal Form 1040, line 7; 1040A, line 7 or 1040EZ, line 1. (Do not include pensions or annuities.) | _____ | _____ |
| 2. Net profit or (loss) from self-employment (from Schedules C and on Schedule K-1 of Form 1065) and any other earned income taxed to South Carolina. | _____ | _____ |



Do Not enter the federal 10% penalty on line 7.



The two wage earner credit **cannot** be claimed on returns with a filing status of single, married filing separately or head of household.

(a) You (b) Your Spouse

3. Add lines 1 and 2. This is your total earned income taxed to SC. _____

South Carolina qualified earned income. This is the amount on which the credit is based. Compute it by subtracting certain adjustments from South Carolina earned income. The adjustments are:

- IRA deduction (from line 25, 1040, or line 17, 1040A)
- One half of self-employment tax (from line 30 of 1040)
- Self-employed health insurance deduction
- Self-employed SEP, simple, and qualified plans
- Repayment of sub-pay

4. Add amounts entered on federal Form 1040 lines 25, 30 through 32. If filing South Carolina Schedule NR, enter amounts from lines 19, 24 through 26 and any repayment of supplemental unemployment benefits (sub-pay) allocable to South Carolina income. _____

5. Subtract line 4 from line 3. This is your qualified earned income taxed to South Carolina. If the amount in column (a) or (b) is zero (-0-) or less, stop here. You may not take this credit. _____

Compute the credit.

6. Enter the smaller of 5(a) or 5(b). **Do not enter more than \$30,000.** _____

7. Multiply the amount on line 6 by .007. **Do not enter more than \$210.** Enter the amount here and on SC1040, line 10. _____

Line 11 OTHER NON-REFUNDABLE CREDITS

See SC1040TC instructions for an explanation of the other non-refundable credits. The appropriate schedules must be attached to your return.

TAX PAYMENTS/CREDITS

Line 14 SC INCOME TAX WITHHELD FROM WAGES

Enter the total SC tax withheld from your wages as shown on your W-2s under "State Income Tax." Enter only amounts withheld to South Carolina. Withholding paid to any other state cannot be claimed on your South Carolina return. Also include amounts withheld on SC41s.

If you have South Carolina withholding from any federal Form 1099, include that amount on line 18.

NOTE: Amounts reported on a South Carolina substitute 1099G/INT **are not** South Carolina withholding.

Attach **READABLE** copies of your W-2s to the front of your return, right side up, at the place provided. **Copies of your W-2s are available only from your employer.** If you do not have a W-2 form, complete SC4852 and provide proof of any tax withheld. You are responsible for submitting information to verify the withholding amount claimed.

Line 15 2004 ESTIMATED TAX PAYMENTS

Enter the total estimated tax payments you made before filing your 2004 South Carolina tax return plus any amount transferred from your 2003 tax return.

Line 16 PAYMENTS ON EXTENSION

If you requested an extension for more time to file your return, enter the amount you paid with the extension, if any. Check the appropriate box on the front of the return below the address portion.

Line 17 NONRESIDENT SALE OF REAL ESTATE

A nonresident of South Carolina who sells real property located in this state is subject to withholding of South Carolina income taxes. Such sale must be reported to South Carolina on an individual income tax return. If state income taxes were withheld at the time of sale, claim the amount withheld on line 17 and **attach a copy of the I-290** to your return. See closing attorney for a copy of I-290.

Line 18 SC INCOME TAX WITHHELD - FORM 1099

Enter the total SC tax withheld from each Form(s) 1099 and attach a copy of each Form(s) 1099 to the front of your return. Form W-2 withholding should be entered on line 14.

NOTE: Amounts reported on a South Carolina substitute 1099 G/INT **are not** South Carolina withholding.

Line 19 TUITION TAX CREDIT

Refer to I-319 to see if you qualify to claim this credit. If you qualify, complete all information on I-319 and attach it to your return. If you have more than one qualifying student, complete a separate I-319 for each student. For more information, visit our website: www.sctax.org

This credit can only be claimed on SC1040. Attach a copy of your federal return.



Tip

Attach all W-2s, 1099s and/or SC41s! Credit for withholding can be allowed **only** if all supporting documents are provided. You can only claim withholding from the state of

Line 23 SOUTH CAROLINA USE TAX

If your use tax has not been remitted during the year, see South Carolina Use Tax Worksheet UT-3W for instructions. Enter the amount from Line 5 of UT-3W (worksheet) on line 23 of SC1040. Purchases subject to use tax are taxed at your county's state and local sales and use tax rate.

Purchases subject to Use Tax
 \$ _____ @ _____ % (your county's rate) = \$ _____

Line 24 ESTIMATED TAX

If you want to apply any or all of your overpayment toward next year's tax, enter the amount on line 24.

Line 25 CONTRIBUTION FOR CHECK-OFFS

See I-330 for specific information about the various funds to which you may contribute. Enter the total from Schedule I-330. Attach I-330 to your return. Your contribution cannot be made unless you attach the I-330.

REFUND OR AMOUNT YOU OWE

Line 27 REFUND

If line 26 is larger than line 21, go to line 28. Otherwise, subtract line 26 from line 21 and enter the "Amount to be Refunded to You" on line 27. The SC Department of Revenue will not refund amounts less than \$1.00.

Line 28 NET DUE - AMOUNT YOU OWE

If you have an amount on line 26, add lines 26 and 22 and enter the "Amount You Owe" on line 28; otherwise, enter the amount from line 22. **STAPLE a check or money order to your return and write your Social Security number and "2004 SC1040" on it.** Make check or money order payable to the "SC Department of Revenue." Note the SC2210 penalty instructions below.

UNDERPAYMENT OF ESTIMATED TAX - SC2210

You may owe a penalty for underpayment if you did not pay at least the smaller of: 90% of your tax liability for 2004; or 100% of your tax liability for 2003. However, if your adjusted gross income is \$150,000 or more, the 100% rule is modified to be 110% of the tax shown on your 2003 income tax return. Use SC2210 to determine any penalty that may be due. If you are due a refund, subtract the penalty amount from the difference of line 21 and line 26 and enter the result on line 27. If you owe tax, add the penalty amount to the sum of the amount due on line 22 and line 26 and enter the result on line 28.

If you have calculated failure to file/pay penalties and interest, add to any calculated underestimation penalty and enter the total in the penalty box on line 28.

ADDITIONS TO FEDERAL TAXABLE INCOME

Enter all numbers on lines 29 through 33 as **positive** numbers even if they are negative numbers on the federal return. Lines 29 through 33 are adjustments which **must be added** to your federal taxable income to determine your South Carolina taxable income. Line 34 is the total of these additions.

Line 29 STATE TAX ADDBACK, IF ITEMIZING ON FEDERAL RETURN

If you deducted state and local income taxes or general sales taxes while itemizing on your 2004 federal income tax return, you are required to add all or part of this amount to federal taxable income to arrive at your South Carolina taxable income. Use the worksheet below to figure the adjustment. (Keep this worksheet for your records.)

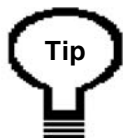
Worksheet A State Tax Adjustment

1. Itemized deductions from 2004 federal Form 1040, line 39. 1. _____
2. Enter allowable federal standard deduction you would have been allowed if you had not itemized. **(Enter zero if married filing separate [MFS] returns -- See federal instructions)** 2. _____
3. Subtract line 2 from line 1. (Enter zero if line 2 is greater than line 1.) 3. _____
4. Enter the amount of state and local income taxes from line 5a or general sales taxes from line 5b of federal Schedule A. If your federal itemized deductions were limited due to your adjusted gross income being more than \$142,700 (\$71,350 married filing separate), go to Worksheet B. 4. _____
5. The lesser of line 3 or line 4. Enter this amount on SC1040 line 29. 5. _____



Tip

See "Common Errors" on page 2 for reasons your refund may be delayed.



Tip

Your state tax addback cannot be less than zero.

Worksheet B State Tax Adjustment. Complete when federal adjusted gross income is more than \$142,700 (\$71,350 married filing separate) and federal itemized deductions are limited:

1. State and local income taxes from line 5a or general sales taxes from line 5b of federal Schedule A. 1. _____
2. Enter the amount from line 3 of the itemized deductions worksheet in the instruction booklet for federal Form 1040. 2. _____
3. Divide line 1 by line 2, and enter the result here. 3. _____
4. Enter the amount from line 9 of the itemized deductions worksheet in the instruction booklet for federal Form 1040. 4. _____
5. Multiply line 3 by line 4, and enter the result here. 5. _____
6. Subtract line 5 from line 1. Enter this amount on line 4 of Worksheet A. 6. _____

Line 30 OUT-OF-STATE LOSSES

If you have reported losses from out-of-state rental property, a business located outside South Carolina, or losses from real property located out of state, enter the amount shown on your federal return on line 30. You must also include any related expenses, such as investment interest. Enter the total of these losses and related expenses on line 30. Personal service income (W-2 or business wages) is taxable to South Carolina **no matter where it is earned**.

Line 31 EXPENSES RELATED TO RESERVE INCOME

Because inactive duty military reserve income is taxed for federal purposes but deductible on your South Carolina return, you must add back the amount of the federal deduction for expenses related to this income. Enter the amount of these expenses on line 31.

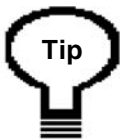
Line 32 INTEREST INCOME

Interest income on obligations of states and political subdivisions other than South Carolina **must be added**. In the case of a mutual fund, add back the percentage of exempt interest income attributable to out-of-state non federal obligations. Enter the amount of taxable interest income on line 32.

Line 33 OTHER ADDITIONS TO INCOME

Attach an explanation of your entry for this line. Some examples of items which you must enter on this line are:

- The \$250.00 educator expenses deduction must be added back.
- Taxpayers that claim 30% or 50% bonus depreciation under federal law must add back the difference between the bonus depreciation taken and the depreciation which would have been allowed without bonus depreciation.
- Taxpayers that claim a child care program credit for donations to a nonprofit corporation (Sch. TC-9) are not allowed a deduction for those donations. The disallowed deductions are an addition to federal taxable income.
- Taxpayers that claim a credit for wages paid to employees terminated due to a base closure (Sch. TC-10) must reduce the deduction for wages paid by the amount of the credit. The amount of this credit is an addition to federal taxable income.
- Federal net operating loss when claiming a different amount for state purposes **is an addition. In no event is the same loss to be deducted more than once**. No carryback losses are allowed.
- Expenses deducted on the federal return related to any income exempt or not taxed by South Carolina **is an addition. Some examples are investment interest to out-of-state partnerships and interest paid to purchase United States obligations**.
- Foreign areas allowances, cost of living allowances and/or income from possessions of the United States are **additions** to federal taxable income.
- Annuity costs recovered in full for state purposes are **additions** to federal taxable income if using the federal ratio for cost recovery.
- Miscellaneous federal estate tax deductions on income in respect of decedent are **additions**.
- Effective for qualifying investments made after June 30, 1998, taxpayers must reduce the basis of the qualifying property to the extent the Economic Impact Zone Investment Tax Credit is claimed. An addition to federal taxable income must be made for the resulting reduction in depreciation.



For further information about additions to federal taxable income visit our website: www.sctax.org

Depending upon how a particular item was reported or deducted, the following items may be an addition or a subtraction:

- A change in the accounting method to conform in the same manner and the same amount to the federal. **This may be an addition or a subtraction.** At the end of the federal adjustment, any balance will continue until fully adjusted.
- The installment method of reporting is to be adjusted if the entire sale has been reported for state purposes or to continue on an installment basis if the entire sale has been reported for federal purposes. **This may be an addition or a subtraction.**
- Adjust the federal gain or loss to reflect any difference in the South Carolina basis and federal basis. **This may be an addition or a subtraction.**

SUBTRACTIONS FROM FEDERAL TAXABLE INCOME

Enter all numbers on lines 35 through 49 as positive numbers even if they are negative numbers on the federal return.

Lines 35 through 49 are adjustments which **should be subtracted** from your federal taxable income to determine your South Carolina taxable income. Line 50 is the total of these subtractions.



Third party sick pay reported on W-2 cannot be treated as permanent disability retirement income.

Line 35 STATE TAX REFUND

If your state tax refund was included on line 10 of your federal Form 1040, that amount should be entered on line 35.

Line 36 TOTAL AND PERMANENT DISABILITY RETIREMENT INCOME TAXED ON YOUR FEDERAL RETURN

If **disability retirement income** was taxed on your federal income tax return for 2004 and you are **totally and permanently disabled**, you may be able to deduct this income from your South Carolina taxable income.

You must be totally and permanently disabled, unable to be gainfully employed in any capacity, receiving income from a disability retirement plan, and eligible for the homestead exemption under Section 12-37-250 to qualify. You do **not** qualify if you are receiving disability income from one job while able to perform another job. You must attach a copy of the physician's statement establishing that you are permanently and totally disabled.



Do not enter wages earned in another state on SC1040 line 37. See SC1040TC.

NOTE: The deduction is limited to payments received from retirement plans. Payments from disability plans which are not retirement plans are not eligible for the deduction. Third party sick pay reported on a W-2 does not qualify for the total and permanent disability retirement deduction.

Line 37 OUT-OF-STATE RENTAL/BUSINESS OR REAL ESTATE INCOME NOT TAXABLE TO SOUTH CAROLINA

If you have income from out-of-state rental property; a business located outside South Carolina; or gain from real property located out of state, as reported on your federal return, enter this amount on line 37. **However, personal service income (W-2 or business wages) is taxable to South Carolina no matter where it is earned.**



South Carolina Capital Gains holding period is the same as the federal holding period (generally more than one year)

Line 38 NET CAPITAL GAIN DEDUCTION

Net capital gains which have been held for a period of more than one year and have been included in the SC taxable income are reduced by 44% for SC income tax purposes.

The term "**net capital gain**" means the **excess** of the **net long-term** capital gain for the taxable year **over** the **net short-term** capital loss for such year. Income received from installment sales as well as capital gain distribution qualifies for this deduction **provided the more than one year holding period has been met**. Multiply the net gain which meets the above guidelines by 44% (.44) and enter the results on line 38 of SC1040.

Example: Taxpayer's gain on stock (held since 1980) is \$10,000. Also reported is a short term (ST) loss on stock held for six months of \$5,000 and a long term (LT) loss on stock held since 1985 which amounts to \$3,000.

SC Net LT Capital Gain (more than one year)	\$7,000 (10,000 gain-3,000 loss)
- SC Net ST Capital Loss	- 5,000 (one year or less)
SC Net Capital Gain	\$2,000
X Net LT Capital Gain Deduction	X44%
<u>Amount to be deducted</u>	<u>\$880.00</u>

Line 39 VOLUNTEER FIREFIGHTERS/RESCUE SQUAD WORKERS/HAZMAT MEMBERS/RESERVE POLICE OFFICERS DEDUCTION

Volunteer firefighters, rescue squad workers, HAZMAT members, reserve police officers, and DNR deputy enforcement officers are allowed a **\$3000 deduction** from their SC taxable income. **Only** those volunteer firefighters, rescue squad workers and HAZMAT members receiving annually a minimum number of points as set by the state fire

marshal are eligible for the deduction. Your employer should provide you with a form stating the number of points earned. A reserve police officer qualifies only if his or her coordinator-supervisor certifies in writing that the officer met all requirements of Chapter 28, Title 23 applicable to a reserve police officer for the entire taxable year. A Department of Natural Resources deputy enforcement officer qualifies only if his or her supervisor certifies in writing that the officer met all requirements of Section 50-3-315 for the entire taxable year. The maximum deduction allowed per taxpayer is \$3000. If only the taxpayer qualifies, enter \$3000. If the taxpayer and spouse both qualify, enter \$6000 on line 39.

Line 40 CONTRIBUTIONS TO THE SC TUITION PREPAYMENT PROGRAM OR SC COLLEGE INVESTMENT PROGRAM

You may deduct 100% of any contributions made to the SC Tuition Prepayment Program in 2004. You may deduct 100% of any contribution made to the SC College Investment (Future Scholar) Program made in 2004 and through April 15, 2005.

Line 41 INTEREST FROM U.S. OBLIGATIONS

If you included your interest income from U.S. obligations (such as U.S. savings bonds, treasury notes and bills, etc.) as income on your federal income tax return for 2004, enter this amount on line 41. Interest income from a mutual fund is excludable by the percentage the fund's assets consist of South Carolina and/or federal obligations.

Interest income from the following obligations **are taxable** for state purposes:
 Federal Home Loan Mortgage Corporation (Freddie Mac)
 Federal National Mortgage Association (Fannie Mae)
 Government National Mortgage Association (Ginnie Mae)

Line 42 NATIONAL GUARD and RESERVE ANNUAL TRAINING and DRILL PAY

The amount of income received for weekend drills and customary training periods when serving in the military reserves or National Guard **should be subtracted**. Generally, the customary training period is one weekend a month and two weeks per year of active duty. Enter the amount on line 42. **Income for active duty or full-time reserves is not tax exempt and should not be included on this line.**

Do not include Military Reserve and National Guard pay which is included in retirement income on this line. See line 49 instructions for other subtractions, page 17.

Line 43 SOCIAL SECURITY AND/OR TIER I RAILROAD RETIREMENT AMOUNT IF TAXED BY FEDERAL

If you are taxed on any Social Security benefits under Title 2 of the Social Security Act or Tier I railroad retirement income on your federal return, enter the amount that was taxed on your federal return on line 43.

Line 44 RETIREMENT DEDUCTION

An **individual** who is under **age 65** may claim a retirement deduction up to \$3,000 of qualified retirement income from his or her own plan.

An **individual** who is **age 65** or older may claim a retirement deduction up to \$10,000 of qualified retirement income from his or her own plan.

Husband and wife must each have their own qualified retirement income to claim their separate retirement deduction. Line 44a applies to the taxpayer whose name appears first on the return. Line 44b applies to the spouse whose name appears second on the return.

"QUALIFIED RETIREMENT INCOME" is income from plans defined in I.R.C. 401, 403, 408 and 457, and all public employee retirement plans of the federal, state and local governments, including individual retirement plans, Keogh plans, and military retirement.

Social Security income, railroad retirement income, and disability retirement income due to permanent and total disability do **NOT** qualify because these items are not taxed by South Carolina. See lines 36 and 43.

Any amount of qualified retirement income subject to a **federal premature withdrawal penalty** does **NOT** qualify for a retirement deduction.

A **surviving spouse** receiving qualified **retirement** income attributable to the deceased spouse may deduct up to \$3,000 or \$10,000 of the qualified retirement income, based on the age the deceased spouse would have been had he or she lived. To claim the deduction on line 44c, a surviving spouse must receive the decedent's qualified retirement income as a surviving spouse. The surviving spouse retirement deduction is in addition to the **individual** retirement deduction.



Provide birth dates for taxpayers claiming the retirement deduction.

Worksheet for Taxpayer line 44a:

1. Maximum deduction allowed for taxpayer based on age (\$3,000 or \$10,000) 1. _____
2. Taxpayer's individual qualified retirement income included in federal Form 1040, lines 15b and 16b, or 1040A, lines 11b and 12b 2. _____
3. Amount on line 1 or 2, whichever is smaller. Enter on line 44a. 3. _____

Worksheet for Spouse line 44b:

1. Maximum deduction allowed for spouse based on age (\$3,000 or \$10,000) 1. _____
2. Spouse's individual qualified retirement income included in federal Form 1040, lines 15b and 16b, or 1040A, lines 11b and 12b 2. _____
3. Amount on line 1 or 2, whichever is smaller. Enter on line 44b. 3. _____

Worksheet for Surviving Spouse line 44c:

NOTE: Calculate separately for each deceased spouse and include total on line 44c.

1. Maximum deduction allowed for surviving spouse based on age of deceased spouse had he/she lived (\$3,000 or \$10,000 per deceased spouse) 1. _____
2. Qualified retirement income received as surviving spouse included in federal Form 1040, lines 15b and 16b, or 1040A, lines 11b and 12b 2. _____
3. Amount on line 1 or 2, whichever is smaller. Enter on line 44c. 3. _____

Line 45 AGE-65-AND-OLDER DEDUCTION

Beginning in the tax year in which a **resident** reaches age sixty-five, he or she is entitled to a deduction of \$15,000 against any SC income. Line 45a applies to the taxpayer whose name appears first on the return. Line 45b applies to the spouse whose name appears second on the return. The amount of the deduction on 45a is reduced by any individual retirement deduction claimed on line 44a. The amount of the deduction on 45b is reduced by any individual retirement deduction claimed on line 44b. The age-65-and-over deduction is not reduced by any surviving spouse retirement deduction claimed on line 44c.

Worksheet for Taxpayer line 45a:

1. Maximum deduction allowed for taxpayer 1. \$15,000.00
2. Amount claimed on line 44a for the taxpayer who is age 65 or older 2. _____
3. Subtract line 2 from line 1. Enter this amount on line 45a. Do not enter an amount less than zero. 3. _____

Worksheet for Spouse line 45b:

1. Maximum deduction allowed for spouse 1. \$15,000.00
2. Amount claimed on line 44b for the taxpayer who is age 65 or older 2. _____
3. Subtract line 2 from line 1. Enter this amount on line 45b. Do not enter an amount less than zero. 3. _____

Line 46 NEGATIVE AMOUNT OF FEDERAL TAXABLE INCOME

If the deductions and personal exemptions from your federal return exceed the income or if there is a business loss that exceeds the other income on the return, a negative federal taxable income would result.

For the SC1040 form, it is important that a negative number not be entered on line 1. Because the South Carolina return begins with federal taxable income, it is important that you get the benefit of the negative amount from the federal taxable income line of the federal return. On the SC1040 form, start with zero on line 1 and put the negative amount from the federal taxable income line of the federal return on line 46 of the SC1040.

Line 47 SUBSISTENCE ALLOWANCE

Police and all commissioned law enforcement officers paid by South Carolina municipal, county, state governments or the federal government, **full-time** firefighters and **full-time** emergency medical service personnel are entitled to subsistence allowances of \$6.67 per regular workday. Your employer should provide you with the number of work days.



Provide birth dates for taxpayers age 65 and older.



Birthdates and Social Security Numbers are required for dependents under age six.

Line 48 DEPENDENTS UNDER SIX YEARS OF AGE

An additional deduction is allowed for each dependent claimed on the federal income tax return who had **not** reached the age of six years by December 31, 2004. Birthdate(s) and Social Security number(s) are required. Use the following worksheet to compute the deduction:

2004 federal personal exemption amount.....	3,100
Number of dependents claimed on your 2004 federal return who had not reached age six during 2004	x _____
Allowable deduction, enter this amount on line 48	_____

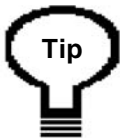
Line 49 OTHER SUBTRACTIONS FROM INCOME

Since these subtractions apply only to a few people, they are not fully explained in this booklet. **Attach an explanation** of your entry on this line. Some examples of items which may be subtracted on line 49 are:



South Carolina does not allow carrybacks of net operating losses.

- South Carolina does not recognize 30% or 50% bonus depreciation in IRC Section 168(k). With or without bonus depreciation, the depreciable life of the property is the same for federal and state purposes. For the tax year in which the property is placed in service, a taxpayer must add back the difference, in the line for other additions, between the depreciation deduction allowed for federal purposes and the deduction that would have been allowed without bonus depreciation. Therefore, the South Carolina adjusted basis is greater than the federal adjusted basis. For all other years of the depreciable life of the property, an additional depreciation deduction is available for South Carolina purposes.
- Effective for tax years beginning after 1984, South Carolina adopted federal depreciation and Section 179 expensing for South Carolina income tax purposes. South Carolina generally recognizes limits for Section 179 that are lower than the federal amounts. However, the increased limits are effective for the tax year beginning January 1, 2004. Either the federal and state differences prior to 1985 or the different limits after 2002 may result in an add-back in the line for other additions. In that case, the South Carolina adjusted basis will be greater than the federal adjusted basis, and the taxpayer may claim an additional South Carolina depreciation deduction at the end of the federal depreciation period. At that time, the balance of personal property basis is depreciable at a rate of 50% per year. The balance of real property basis is depreciable at a rate of 20% per year.
- A deduction is allowed to an individual for the purchase of economic impact zone stock. The deduction is equal to twenty percent of the total amount paid in cash by the taxpayer during the taxable year for the purchase of economic impact zone stock.
- If you itemized and claimed a federal tax credit for qualified mortgage credit certificates (MCC), you may subtract the amount of the tax credit as interest on line 49 of SC1040.
- South Carolina net operating loss. **In no event is the same loss to be deducted more than once.** (Attach your own worksheet.) No carryback losses are allowed.
- Capital expenses amortized under federal statutes will be the same for state purposes. At the end of the federal amortization, the balance of capital expense amortized will continue until fully amortized for state purposes. The amortized amount is a **subtraction** from your income.
- Legislators within a 50-mile radius of the State House are allowed to **subtract** travel expenses.
- Job credit wage reductions for federal purposes are subtractions from income for South Carolina purposes.
- Military Reserve and National Guard pay which is included in retirement income is not taxed for South Carolina purposes.



Be sure to attach the calculations verifying the amount of military retirement income being excluded.

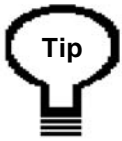
Determine the percentage of your military retirement income which is excludable by dividing the length of time you served in the Reserves and/or National Guard (not full time) by the length of time of your total military service as follows:

$$\frac{\text{Inactive Reserve time} + \text{National Guard time}}{\text{Total Military time (Active and Inactive)}} = \text{_____ \% exclusion}$$

Determine the excludable amount of your military retirement income by multiplying it by the percentage of exclusion as follows:

$$\text{_____ \% exclusion} \times \text{total taxable military retirement income shown on federal return} = \text{excludable military retirement income}$$

Include the amount of excludable military retirement income as a subtraction on line 49.



Attach a copy of the letter certifying the person as a "special needs child".

- If you have adopted a "special needs child", you may **subtract** \$2,000 per year per child as long as the adopted child qualifies as a dependent on your federal return.

Attach a copy of the letter you received at the time of adoption which certified the person as a "special needs child."

A "special needs child" means a person under the age of 18 at the time of adoption, who is a dependent of a public or private non-profit adoption agency, is legally free for adoption and has been determined by the agency to have specific conditions.

Depending upon how a particular item was reported or deducted, the following items may be an addition or subtraction.

- A change in accounting method to conform in the same manner and same amount as federal. At the end of the federal adjustment, any balance will continue until fully adjusted. **This may be an addition or subtraction.**
- The **installment method of reporting** is to be adjusted if the entire sale has been reported for state purposes or to continue on an installment basis if the entire sale has been reported for federal purposes. **This may be an addition or subtraction.**
- Adjust the federal gain or loss to reflect any difference in the South Carolina basis and federal basis. **This may be an addition or subtraction.**

SIGN AND DATE YOUR RETURN

Your return must be signed. Both spouses must sign a joint return.

For deceased taxpayers, returns must be signed by surviving spouse, executor or administrator. For surviving spouse, write "filing as surviving spouse" by your signature.

A personal representative filing the return must sign in his or her official capacity and attach SC1310. Any refund check will be issued to the decedent's surviving spouse or estate.

AUTHORIZATION

The signature section of the return contains a "check the box" authorization for release of confidential information. A check in the "yes" box authorizes the Director of the Department of Revenue or delegate to discuss the return, its attachments and any notices, adjustments or assessments with the preparer.

If a person is paid to prepare the income tax return, his/her signature and federal identification number are required in the spaces provided. Penalties are applicable for failure to comply.

CHECK THE STATUS OF YOUR CURRENT YEAR REFUND:

- www.sctax.org
- **803-898-5300**

24 hours per day. You will need a copy of your return, Social Security number that appears first on that return, and the amount of your expected refund.

IMPORTANT INFORMATION

Review your return:

- Make sure you have received ALL of your W-2s and other tax documents.
- Verify all Social Security number(s) on your return.
- Double check your name, address and all math calculations.
- Make a copy of your complete return for your records.

Before you file your paper return...

- Staple all W-2s and 1099s in the proper area of the SC1040 or SC1040A.
- Staple balance due check in the proper area of form SC1040 or SC1040A.



Sign and date your return. Double check your SSN(s) and math calculations.