

# SC1040 INSTRUCTIONS 2009 (Rev. 9/25/09)

For tax year 2009, unless you have a valid extension, the due date is April 15, 2010 and the deadline to claim a refund is April 15, 2013.

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, I-319 and/or I-335 with your South Carolina return, attach a copy of your completed federal return and schedule(s) to your South Carolina return.

## NAME, ADDRESS AND SOCIAL SECURITY NUMBER

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 6.

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 place 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 or go to **www.irs.gov**

## CHECK BOXES

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, see I-348 Composite Instructions for more information on filing a composite return.

## FILING STATUS

Check the same filing status you checked on your federal return. Check only one box.

## EXEMPTIONS

You **must** enter the same number of exemptions claimed on your federal return. Attach federal Form 8332 if you are required to file this form with your federal return.

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 52.

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

**ROUND-OFF ALL AMOUNTS TO THE NEAREST WHOLE DOLLAR.**

**Line 1** Enter your Federal Taxable Income from your federal Form 1040, line 43; 1040A, line 27; or 1040EZ, line 6. **If your Federal Taxable Income is zero or less, enter zero** here and enter your negative amount on line 50.

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

**Line 2** Resident filers complete lines 32 - 37 and enter figure from line 37.

**Line 4** Resident filers complete lines 38 - 54 and enter figure from line 54.

**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 31 through 34 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 34 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.

**NOTE:** Do not enter the federal 10% penalty on line 7.

**Line 8 TAX ON ACTIVE TRADE OR BUSINESS INCOME**

Enter the amount from I-335, line 7.

**Line 9 TAX ON EXCESS WITHDRAWALS FROM CATASTROPHE SAVINGS ACCOUNTS**

Withdrawals from a Catastrophe Savings Account are taxed at 2.5% unless:

- (1) the taxpayer no longer owns a qualified legal residence in South Carolina;
- (2) the amount contributed was within the allowable limits, and the withdrawal occurred after the taxpayer reached age 70; or
- (3) the withdrawal followed the death of the individual who set up the Account or the surviving spouse.

**CREDITS**

**Line 11 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 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 is \$2,000 and  
 your proration percent from line 44 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 12 TWO WAGE EARNER CREDIT (MARRIED COUPLE)**

This credit can only be claimed by a **married couple filing jointly** when both spouses have earned income taxed to South Carolina. 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 or 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 Schedule C and on Schedule K-1 of Form 1065) and any other earned income taxed to South Carolina.	_____	_____

(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:

- One half of self-employment tax (Form 1040, line 27)
- Self-employed SEP, simple, and qualified plans (Form 1040, line 28)
- Self-employed health insurance deduction (Form 1040, line 29)
- IRA deduction (Form 1040, line 32 or 1040A, line 17)
- Repayment of sub-pay

4. Add amounts entered on federal Form 1040 lines 27 through 29 and 32. If filing South Carolina Schedule NR, enter amounts from lines 21, 22, 23, 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 12. \_\_\_\_\_

**Line 13 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 16 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 20.

**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 17 2009 ESTIMATED TAX PAYMENTS**

Enter the total estimated tax payments you made before filing this South Carolina tax return plus any amount transferred from your 2008 tax return.

**Line 18 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 19 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 this line and **attach a copy of the I-290** to your return. See closing attorney for a copy of I-290.

**Line 20 SC INCOME TAX WITHHELD - FORM 1099**

Enter the total SC tax withheld from each Form 1099 and attach a copy of each Form 1099 to the front of your return. Form W-2 withholding should be entered on line 16.

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

**Line 21 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**. Attach a copy of your federal return.

**Line 22 OTHER REFUNDABLE CREDITS**

Enter amounts from I-333 refundable credit for anhydrous ammonia additive and I-334 refundable credit for production and sale of milk. Attach I-333 and/or I-334.

**Line 26 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. Add the amounts from Line 5 of UT-3W worksheet. Purchases subject to use tax are taxed at your county's state and local sales and use tax rate.

**Line 27 ESTIMATED TAX**

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

**Line 28 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 I-330.

**REFUND OR AMOUNT YOU OWE**

**Line 30 REFUND**

If line 29 is larger than line 24, go to line 31. Otherwise, subtract line 29 from line 24 and enter the "Amount to be Refunded to You" on line 30. The SC Department of Revenue will not refund amounts less than \$1.00.

**Line 31 NET DUE - AMOUNT YOU OWE**

If you have an amount on line 29, add lines 24 and 29 and enter the "Amount You Owe" on line 31; otherwise, enter the amount from line 24. Write your Social Security Number and "2009 SC1040" on your check or money order, and **STAPLE** to your return. 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 in **four equal amounts** by the required due dates at least the smaller of: 90% of your tax liability for 2009; or 100% of your tax liability for 2008.

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 2008 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 24 and line 29 and enter the result on line 30. If you owe tax, add the penalty amount to the sum of the amount due on line 24 and line 29 and enter the result on line 31.

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 31.

**ADDITIONS TO FEDERAL TAXABLE INCOME**

Enter all numbers on lines 32 through 36 as **positive** numbers even if they are negative numbers on the federal return. Lines 32 through 36 are adjustments which **must be added** to your federal taxable income to determine your South Carolina taxable income. Line 37 is the total of these additions.

**Line 32 STATE TAX ADDBACK, IF ITEMIZING ON FEDERAL RETURN**

If you deducted state and local income taxes or general sales taxes while itemizing on your 2009 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 2009 federal Form 1040, line 40a.  | 1. _____ |
| 2. Enter allowable federal standard deduction you would have been allowed if you had not itemized. <b>(Enter zero if married filing separate [MFS] returns -- See federal instructions)</b>  | 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.<br>If your federal itemized deductions were limited due to your adjusted gross income being more than \$166,800 (\$83,400 married filing separate), go to Worksheet B. | 4. _____ |
| 5. The lesser of line 3 or line 4. Enter this amount on SC1040 line 32.  | 5. _____ |

**Worksheet B** State Tax Adjustment. Complete when federal adjusted gross income is more than \$166,800 (\$83,400 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 11 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 33 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 33. You must also include any related expenses, such as investment interest. Enter the total of these losses and related expenses on this line. Personal service income (W-2 or business wages) is taxable to South Carolina **no matter where it is earned**.

**Line 34 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 this line.

**Line 35 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 this line.

**Line 36 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:

- Taxpayers that claim 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 credits such as the Community Development Credit (Sch. TC-14), the Industry Partnership Fund Credit (Sch. TC-36), and the Hydrogen Infrastructure Development Credit (Sch. TC-47), may not claim a deduction for the same qualified contribution which results in the credit.
- Federal net operating loss when claiming a larger amount than for state purposes **is an addition**.
- 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.
- 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.
- A deduction for domestic production activities under IRC Section 199 must be added back.
- A charitable contribution deduction under IRC Section 170 for a gift of land must be added back unless the contribution also meets the requirements of S.C. Code Section 12-6-5590.
- Include any withdrawals during the tax year from a Catastrophe Savings Account that were:
  - (1) necessary because contributions were more than the allowable limits; or
  - (2) more than the amount needed to cover qualified catastrophe expenses. (Qualified catastrophe expenses are expenses paid or incurred because of a major disaster as declared by the Governor.)
 Do not include any withdrawals made by a spouse surviving the spouse who set up the Account.
- As of January 1, 2009, a business must add back any amount paid for services performed by an unauthorized alien if the amount is \$600 or more a year. An "unauthorized alien" is a person who is not admitted for permanent residence and not authorized to be employed either under federal law or by the U.S. Attorney General. An add-back is not required if: (1) the business is a S.C. business exempt from compliance with federal employment verification procedures under federal law; or (2) the person being paid is not directly paid or employed by the business; or (3) the employment status of the person is verified

using the procedures contained in the new law; or (4) the person was hired by the taxpayer before January 1, 2009; or (5) the business made a reasonable investigation of the person and did not know or should not have known that the person was an unauthorized alien.

**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 38 through 53 as positive numbers even if they are negative numbers on the federal return.

Lines 38 through 53 are adjustments which **should be subtracted** from your federal taxable income to determine your South Carolina taxable income. Line 54 is the total of these subtractions.

**Line 38 STATE TAX REFUND**

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

**Line 39 TOTAL AND PERMANENT DISABILITY RETIREMENT INCOME TAXED ON YOUR FEDERAL RETURN**

If **disability retirement income** was taxed on your federal income tax return 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.

**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.**

A surviving spouse may take a disability retirement deduction for amounts received in the year the disabled spouse died. For subsequent years, a surviving spouse is only eligible for the retirement deduction on line 48 and not the disability deduction.

**Line 40 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 this line. **However, personal service income (W-2 or business wages) is taxable to South Carolina no matter where it is earned.**

**Line 41 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.** (SC Capital Gains holding period is the same as the federal.) Multiply the net gain which meets the above guidelines by 44% (.44) and enter the results on this line.

**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	X 44%	
Amount to be deducted	\$880.00	

**Line 42 VOLUNTEER DEDUCTION**

Volunteer firefighters, rescue squad workers, volunteer hazardous material HAZMAT team members, reserve police officers, Department of Natural Resource (DNR) deputy enforcement officers, and members of the State Guard are allowed to deduct **\$3,000**. Volunteer firefighters, rescue squad workers and HAZMAT members qualify **only if** their employer provides them with a form stating that they have earned the minimum number of points established by the State Fire Marshal during the year. Reserve police officers, DNR deputy enforcement officer, and the State Guard members qualify only if the appropriate authority provides them with an I-332 certification form certifying their eligibility for this deduction. An individual is limited to one deduction of \$3,000. If a taxpayer and spouse both qualify, enter \$6,000.

**Line 43 CONTRIBUTIONS TO THE SC COLLEGE INVESTMENT PROGRAM ("FUTURE SCHOLAR") OR TO THE SC TUITION PREPAYMENT PROGRAM**

You may deduct 100% of any contributions to the SC College Investment Program ("Future Scholar") made between January 1, 2009 and through April 15, 2010. You may deduct 100% of any contribution to the SC Tuition Prepayment Program made between January 1, 2009 and December 31, 2009.

**Line 44 ACTIVE TRADE OR BUSINESS INCOME DEDUCTION**

Enter the amount from I-335, line 5.

**Line 45 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, enter the amount on this line. Deduct the interest income from 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 46 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 this line. **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 53 instructions for other subtractions.

**Line 47 SOCIAL SECURITY AND/OR RAILROAD RETIREMENT AMOUNT IF TAXED BY FEDERAL**

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

**Line 48 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 during the tax year may claim a retirement deduction up to \$10,000 of qualified retirement income from his or her own plan.

On line 48a, include only qualified withdrawals from the taxpayer's own qualified retirement plan. On line 48b, include only qualified withdrawals from the spouse's own qualified retirement plan.

"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 39 and 47.

Any portion of qualified retirement income received this tax year that resulted in 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 48c, 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.

**Worksheet for Taxpayer line 48a:**

- 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 48a. 3. \_\_\_\_\_

**Worksheet for Spouse line 48b:**

- 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 48b. 3. \_\_\_\_\_

**Worksheet for Surviving Spouse line 48c:**

NOTE: Calculate separately for each deceased spouse and include total on line 48c.

- 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 48c. 3. \_\_\_\_\_

**Line 49 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 49a applies to the taxpayer whose name appears first on the return. Line 49b applies to the spouse whose name appears second on the return. The amount of the deduction on 49a is reduced by any individual retirement deduction claimed on line 48a. The amount of the deduction on 49b is reduced by any individual retirement deduction claimed on line 48b. The age-65-and-over deduction is not reduced by any surviving spouse retirement deduction claimed on line 48c.

**Worksheet for Taxpayer line 49a:**

- 1. Maximum deduction allowed for taxpayer 1. \$15,000.00
- 2. Amount claimed on line 48a for the taxpayer who is age 65 or older 2. \_\_\_\_\_
- 3. Subtract line 2 from line 1. Enter this amount on line 49a. Do not enter an amount less than zero. 3. \_\_\_\_\_

**Worksheet for Spouse line 49b:**

- 1. Maximum deduction allowed for spouse 1. \$15,000.00
- 2. Amount claimed on line 48b for the taxpayer who is age 65 or older 2. \_\_\_\_\_
- 3. Subtract line 2 from line 1. Enter this amount on line 49b. Do not enter an amount less than zero. 3. \_\_\_\_\_

**Line 50 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 this line of the SC1040.

**Line 51 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 \$8.00 per regular workday. Your employer should provide you with the number of work days.

**Line 52 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 by December 31 of the tax year. Birthdate(s) and Social Security number(s) are required. Use the following worksheet to compute the deduction:

Federal personal exemption amount.....		3,650
Number of dependents claimed on your federal return <b>who had not reached age six during the tax year</b> .....	X	_____
Allowable deduction, enter this amount on line 52 .....		_____

**Line 53 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 this line are:

- South Carolina does not recognize 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 has adopted federal depreciation and Section 179 expensing for South Carolina income tax purposes. For taxable year 2003, South Carolina recognized limits for Section 179 that were lower than the federal amounts. Either the federal and state differences prior to 1985 or the different limits in 2003 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.
- South Carolina net operating loss that is larger than the federal amount is a subtraction. **In no event is the same loss to be deducted more than once.** Attach your own worksheet or keep with your tax records. 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.
- Retirement income paid by the United States government for service in the Reserves or National Guard is not taxed for South Carolina purposes. (You may deduct the entire amount of any stipend paid by the State of South Carolina for National Guard service.)

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:

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

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

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

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

- 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.

- Include amounts contributed to a Catastrophe Savings Account and interest income earned by the account. If your legal residence is insured against hurricane, rising floodwaters, or other catastrophic windstorm event damage, you are allowed to contribute: (1) \$2,000 if the qualified deductible is \$1,000 or less; (2) twice the qualified deductible if it is between \$1,000 and \$7,500; or (3) \$15,000 if the qualified deductible is more than \$7,500. If your legal residence is not insured against hurricane, rising floodwaters, or other catastrophic wind event damage, the limit is \$250,000 or the value of your legal residence, whichever is less.

**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 employer identification number are required in the spaces provided. Penalties are applicable for failure to comply.

## 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.
- Staple balance due check in the proper area of form SC1040.