



South Carolina Department of Revenue

2006

Corporate Booklet

www.sctax.org

*Federal Tax Form 1120, 1120A, 1120F, or 1120S must be completed **before** a state Form SC1120 or SC1120S can be prepared!*

ELECTRONIC SERVICES

- Fed/State 1120 - File both your federal corporate return and SC1120/SC1120S in one transmission using third party tax preparation software.
- EFT - Corporate income taxes, including estimated tax payments and license tax, can be paid electronically.
- DORePAY - Corporate declaration payments and Corporate extensions with payments can now be made by an electronic payment system. Go to www.sctax.org and look for the DORePAY logo.
- See page 4 for information on electronic payment options.

You may obtain forms or tax information by visiting our website at www.sctax.org or at your nearest Taxpayer Service Centers which are listed on page 4.

Mail Returns To: SC Department of Revenue, Corporation Return, Columbia SC 29214-0100

TOLL FREE NUMBER: Forms/Fax-On-Demand: 1-800-768-3676

POLICY DOCUMENT SUMMARY

The South Carolina Department of Revenue (SCDOR) issues Policy Documents on a variety of tax related topics. Some examples of these documents which may be of interest to corporate taxpayers are as follows:

1. New Jobs Credit: County Rankings - S.C. Revenue Information Bulletin.
2. New Jobs Credit: Computation and Examples - S.C. Revenue Ruling #99-5.
3. Per Capita Income of Counties - S.C. Revenue Information Bulletin.
4. Quarterly Interest Rate - S.C. Information Letter.
5. Policy Document Index - S.C. Information Letter.

6. Single Member Limited Liability Company - S.C. Revenue Ruling #98-11.
7. Nexus for Income Tax (Geoffrey Implications) - S.C. Revenue Ruling #98-3.
8. Public Law 86-272 and South Carolina Income Tax - S.C. Revenue Ruling #97-15.
9. License Fee Based on Capital Stock and Paid-In or Capital Surplus - Computation and Proration Questions. SC Revenue Ruling #05-11
10. Job Tax Credit - New Small Business Provisions - S.C. Revenue Ruling #05-17

These Policy Documents are on the (SCDOR) website at www.sctax.org

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ABBREVIATED INSTRUCTIONS - FORM SC1120

If all of the corporation's activities are in South Carolina, federal taxable income is modified by Schedule A and B adjustments to arrive at South Carolina taxable income. After making this modification complete Part 1, page 1 to arrive at the income (loss) and compute the tax. Complete SC1120-TC for any nonrefundable credits. Then complete line 14 in Schedule D and take the total stated capital amount to Part II, page 1 to compute the license tax. Then complete the remainder of Schedule D.

If the corporation's activities are multi-state, federal taxable income as modified by Schedule A and B adjustments is taken to Schedule G for allocation and apportionment. Complete Schedule F to directly allocate dividends and capital gains on real estate and income items not related to the business of the corporation. Complete Schedule H to apportion the business income (loss) of the corporation. Generally manufacturers, retailers and others dealing with tangible personal property use the four factor apportionment ratio of Schedule H-1. Service providers, constructions contractors, renters of real estate and others not dealing with tangible personal property use the single factor formula apportionment method of Schedule H-2. After allocation and apportionment, complete Schedule G to arrive at total South Carolina income (loss). Take the Schedule G amount to Part I, Page I to compute the tax. Complete SC1120-TC for any nonrefundable credits. For License tax purposes take total stated capital on line 14, Schedule D to Schedule E for apportionment and take this amount as apportioned to Part II, page 1 to compute the license tax. Then complete the remainder of Schedule D.

POSTAL RATE INFORMATION

You must put sufficient postage on your envelope. Envelopes without enough postage will be returned to you by the post office. Envelopes with insufficient postage will be returned and not considered timely filed

if not received by the due date. If your envelope contains more than three pages, it may require additional postage. Oversized envelopes may also require additional postage. In these cases, you should consider taking the return to the post office to determine proper postage. Your envelope should include your complete return address in the upper left corner.

TAXPAYER IDENTIFICATION FOR SC1120 AND SC1120S.

S.C. FILE NUMBER. Your South Carolina Corporate Income Tax File Number is printed on your postcard. Please include on return. If using preparer software, the file number should be entered in this area.

INCOME TAX PERIOD ENDING. If you are a 52-53 week federal filer, you must use a 52 week period for SC purposes. For example, if the Federal 52/53 week ends on January 3, enter December 31. NOTE: The federal taxable income entered on Line 1, Part 1 is not affected.

LICENSE FEE PERIOD ENDING. This period is one year ahead of the income tax period. For instance, if the income tax period ends December 31 of the current year, the license fee period ends December 31 of the following year.

FEDERAL IDENTIFICATION NUMBER. Please include on return.

NAME. Include name of Corporation.

MAILING ADDRESS. This should be the address used for all corporate income tax correspondence.

If there is a change of address, mark the appropriate block. If there is a change of accounting period, mark the appropriate block.

WHAT'S NEW

GENERAL

South Carolina has updated income tax laws to generally conform to the Internal Revenue Code of 1986 as amended through December 31, 2005, including the effective dates, with the modifications explained in the instructions.

The increased Section 179 limits provided in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27) are effective only for taxable years beginning after December 31, 2003.

TAX CREDIT FOR INCREASED PORT CARGO VOLUME

Beginning with calendar year 2005 as a base year, for most taxpayers, engaged in manufacturing, warehousing, or distribution which uses port facilities in this State and which increases its port cargo volume at these facilities by a minimum of five percent in a single calendar year over its base year port cargo volume are eligible to claim a tax credit in the amount determined by the Coordinating Council for Economic Development. See SC SCH TC-30.

RETAIL FACILITIES REHABILITATION CREDIT

The "South Carolina Historic Rehabilitation Incentives Act" applies to rehabilitation expenses incurred for eligible sites placed in service on or after July 1, 2006. There is a new credit which can be used against property or income tax for expenses incurred in rehabilitating abandoned retail facility sites located in the state. The amount of the credit is ten percent of the expenditures.

The entire credit may not be taken for the taxable year in which the eligible site is placed in service, but must be taken in equal installments over an eight-year period beginning with the year in which property is placed in service. Any unused portion of a credit installment may be carried forward for the succeeding five years. This credit may be claimed on SC SCH TC-31, "Credit for Retail Facilities Rehabilitation".

CREDIT FOR MERCURY SWITCH DISPOSAL

A vehicle recycler or scrap recycling facility participating in the End-of-Life Vehicle Solutions (ELVS) Program is entitled to a credit in the amount of \$2.50 for each mercury switch collected and submitted for disposal in accordance with the ELVS program. These credits may be used to reduce the taxpayer's corporate income tax liability or corporate license fees. Any unused credits may be carried forward to subsequent taxable years until these credits are exhausted. See SC SCH TC-33.

CORPORATE TAX MORATORIUM

A new corporate tax moratorium is established in SC Code Section 12-6-3367 with an effective date of May 31, 2006. This moratorium re-establishes the corporate tax moratorium in SC Code Section 12-6-3365 that was repealed July 1, 2005. See SC SCH TC-34.

QUALIFIED ALTERNATIVE MOTOR VEHICLE CREDIT

For tax years after 2005, a South Carolina resident taxpayer who is eligible for and claims the new qualified fuel cell motor vehicle credit, the new advanced lean burn technology motor vehicle credit, the new qualified hybrid motor vehicle credit based on the combined city/highway metric or standard set by federal Internal Revenue Code Section 30B, and the new qualified alternative fuel motor vehicle credit allowed in Internal Revenue Code Section 30B is allowed a

credit against income taxes in an amount equal to twenty percent of that federal income tax credit. The credit is nonrefundable and if the amount of the credit exceeds the taxpayer's liability for the applicable taxable year, any unused credit may be carried forward and claimed in the five succeeding taxable years.

The credit amount must be calculated without regard to the phaseout period limits of Internal Revenue Code Section 30B(f). See SC SCH TC-35.

INDUSTRY PARTNERSHIP FUND CREDIT

A taxpayer may claim as a credit against his state income tax, corporate license fees, or insurance premium tax, or any combination of them, one hundred percent of an amount contributed to the Industry Partnership Fund at the South Carolina Research Authority, or an SCRA-designated affiliate, or both, up to a maximum credit of six hundred fifty thousand dollars for an individual taxpayer, not to exceed an aggregate credit of two million dollars for all taxpayers in tax year 2006; up to a maximum credit of one million three hundred thousand dollars for an individual taxpayer, not to exceed an aggregate credit of four million dollars for all taxpayers in tax year 2007; and up to a maximum credit of two million dollars for an individual taxpayer, not to exceed an aggregate credit of six million for all taxpayers for each tax year beginning after December 31, 2007. See SC SCH TC-36.

WHOLE EFFLUENT TOXICITY TESTING CREDIT

A manufacturing facility may claim a tax credit equal to twenty-five percent of costs it incurs in complying with whole effluent toxicity testing. The credit is allowed only against corporate income taxes. Unused credits may be carried forward for ten years. See SC SCH TC-37.

CREDIT FOR INSTALLATION OF SOLAR ENERGY

For tax years beginning on or after January 1, 2006, a new tax credit is allowed against the income tax liability of a taxpayer in an amount equal to twenty-five percent of costs incurred by the taxpayer in the installation of a solar energy heating or cooling system, or both, in a building owned by the taxpayer. The tax credit must not be claimed before completion of the installation, and must be claimed for the year that costs were incurred. The amount of the credit may not exceed \$3,500 or fifty percent of the taxpayer's liability for that taxable year, whichever is less. If the amount of the credit exceeds \$3,500, the taxpayer may carry forward the excess for up ten years. See SC SCH TC-38.

ADDITIONAL CREDITS AGAINST BANK TAX

Effective June 6, 2006, banks may now qualify for new jobs tax credit, corporate headquarters credit and infrastructure credit.

CORPORATE LICENSE FEE FOR CDC

Corporation license fee is inapplicable for a community development entity certified by the United States Department of the Treasury through the Community Development Financial Institution Fund as a company established to distribute allocations received as a part of the New Market Tax Credit Program. Effective June 14, 2006.

WHAT'S NEW (cont.)

BIODIESEL MOTOR FUEL CREDIT

For tax years beginning after December 31, 2005, a taxpayer may claim on SC SCH TC-39 income tax credits against corporate income tax for:

- (1) A credit for **\$0.20** per gallon of biodiesel motor fuel **produced mostly from soybean oil and sold**, up to a maximum of 3,000,000 gallons per year from each facility, for **a maximum of five years for each facility**.
- (2) A credit for **\$0.30** per gallon of biodiesel motor fuel **a majority of which is produced from feedstock other than soybean oil and sold**, up to a maximum of 3,000,000 gallons per year for **a maximum of five years**.

Both credits are available for not more than one facility in each county in any calendar year, with priority given to the first facility in a county producing biodiesel motor fuel. Credits may also be claimed for producing biodiesel motor fuel for **internal use** without regard to the per county limitation. This credit may be carried forward up to 3 years.

NEW JOBS TAX CREDIT - SMALL BUSINESS PROVISIONS

For tax years beginning on or after January 1, 2006, the job tax credit was expanded to make it available to most types of small businesses (a business with 99 or fewer employees) who create and maintain a required minimum monthly average number of new, full time jobs by reducing the required monthly average increase of new, full time jobs from 10 jobs to 2 jobs for most types of qualifying businesses. The amount if the credit is reduced if gross wages are less than 120% of the county's or state's average per capita income, which ever is lower. See SC SCH TC4SB.

NEW JOBS TAX CREDIT - SMALL BUSINESS MONTHLY CREDIT

Beginning with the first full month wages are paid for the new full-time jobs created, the taxpayer is allowed a jobs tax credit in an amount equal to 8.33 percent of the maximum credit amount each month, for not more than sixty consecutive months, multiplied by the number of new full-time jobs for which wages are paid for the full month. A credit is not allowed for any month in which the new employment increase falls below the minimum level of two. To claim the credits the minimum gross wages requirement is met if the gross wages paid for the month, when annualized, meet the minimum requirement. See SC SCH TC-4SM.

MINORITY BUSINESS CREDIT

Effective June 13, 2006, the maximum tax credit that can be claimed by state contractors having subcontracts with minority firms (TC-2) is increased from \$25,000 to \$50,000 annually, and the time allowed for claiming the credit is expanded from 6 to 10 years.

EXTRAORDINARY RETAIL ESTABLISHMENT

Extraordinary retail facilities now qualify for jobs tax credit. An extraordinary retail establishment is a single store located in a county with at least three and one-half million visitors a year, and it must be a destination retail establishment which attracts at least two million visitors a year with at least thirty-five percent (35%) of those visitors traveling at least fifty miles to the establishment. The extraordinary retail establishment must have a capital investment of at least twenty-five million including land, buildings and site prep, and one or more hotels must be built to service the establishments.

PASS THROUGH BUSINESS TAX RATE

For tax years beginning in 2006, there is a reduced income tax rate on active trade or business income of a pass through business (sole proprietor, partnership, S corporation, or limited liability company taxed as a sole proprietorship, partnership, or S corporation) instead of the graduated tax rate for individual income tax.

Taxpayers may elect annually to use the business income tax rate on the active trade or business income received by the owner of a pass-through business. The rate is 6.5% for the tax year 2006.

WHAT'S NEW FORMS CHANGES FOR 2006

NEW FORMS

SC 1120V and SC 8453C

NEW TAX CREDITS

New Jobs Credit - Small Business (TC-4SB)
New Jobs Credit - Small Business Monthly (TC-4SM)
Tax Credit for Increased Port Cargo Volume (TC-30)
Credit for Retail Facilities Rehabilitation (TC-31)
Credit for Mercury Switch Disposal (TC-33)
Corporate Tax Moratorium per Section 12-6-3367 (TC-34)
Alternative Motor Vehicle Credit (TC-35)
Industry Partnership Fund Credit (TC-36)
Whole Effluent Toxicity Testing Credit (TC-37)
Credit for Installation of Solar Energy (TC-38)
Biodiesel Motor Fuel Credit (TC-39)

SCHEDULE SCK-1

Schedule SCK-1 is now included in the booklet to assist in reporting each shareholders' pro rata portion of SC taxable income.

NEW CORPORATE ELECTRONIC FILING

Taxpayers can file their South Carolina 1120/1120S (along with their federal corporate returns) electronically in a single transmission using third party tax preparation software. Check out our website at www.sctax.org for information on developers that support corporate Fed/State electronic filing.

REMINDERS



Calculator - A penalty and interest calculator is now available on our website under: www.sctax.org>Penalty and Interest Calculator.

CONTINGENT FEES FOR RETURN PREPARATION

South Carolina generally recognizes the Internal Revenue Code of 1986, as amended through December 31, 2005, and the current Treasury Circular No. 230. The United States Treasury Circular No. 230 is a document published to consolidate federal statutes and regulations that affect individuals who are eligible to practice before the Internal Revenue Service. Treasury Circular No. 230 states that a practitioner may not charge a contingent fee for preparing an original tax return or for any advice rendered in connection with a position taken or to be taken on an original tax return.

TAX CREDITS, CONSOLIDATED RETURNS, AND CONTROLLED GROUPS

For taxable years after 2004, any credits earned under Chapters 6 or 14 of Title 12, earned by a corporation included in a consolidated corporate income tax return under Code Section 12-6-5020 **must be used and applied against the consolidated tax.**

The portion of the statute that provided that any credits earned under Chapter 6 by one member of a controlled group of corporations may be used and applied by that member and by any other members of the control group has been deleted.

The definition of the term "controlled group of corporations" has been deleted from Code Section 12-6-3480(5).

PAYMENT BY ELECTRONIC FUNDS TRANSFER

Corporations can pay income tax, estimated income tax, and license tax payments electronically. To get started the company must register with the SC Department of Revenue. The registration process takes up to three weeks. For more information about electronic funds transfers (EFT)

or to receive an EFT Program Guide call 1-800-476-0311 or in the Columbia area (803) 898-5740, or write to SCDOR, EFT/EDI Help Desk, Columbia, SC 29214-0016. After transmitting your payments electronically, be sure to check the EFT block on your return.



DOR ePAY - ELECTRONIC PAYMENT SYSTEM

- Corporate Filers can submit SC1120-CDP (corporate declaration payments), SC1120-T (extension with payments) and receivable payments directly to the SC Department of Revenue via DOR ePAY. Go to www.sctax.org and look for the DOR ePAY logo.
- Payment must be submitted by credit card or by Electronic Funds Withdrawal (bank draft).
- Corporations must use their assigned South Carolina Corporate Income Tax File Number in order to transmit their payments. If you do not have this number you may contact the Corporate Section at (803) 898-5705.

TAXPAYER SERVICE CENTERS

MAIN OFFICE Columbia Mills Building, 301 Gervais Street, P.O. Box 125, Columbia, SC 29214 (803) 898-5000

Charleston Southpark Office Building, 3 Southpark Circle, Suite 202, Charleston, SC 29407 (843) 852-3600, (843) 556-1780 (FAX)

Florence 1452 West Evans Street, P.O. Box 5418, Florence, SC 29502 (843) 661-4850, (843) 662-4876 (FAX)

Greenville Century Plaza, 211 Century Drive, Suite 210-B, Greenville, SC 29607 (864) 241-1200, (864) 232-5008 (FAX)

Myrtle Beach 1330 Howard Parkway, Myrtle Beach, SC 29577-1407 (843) 839-2960, (864) 839-2964 (FAX)

Rock Hill Business and Technology Center, 454 S. Anderson Road, Suite 202, P.O. Box 12099, Rock Hill, SC 29731 (803) 324-7641 (803) 324-8289 (FAX)

SC1120 GENERAL INSTRUCTIONS (Rev. 9/21/06)

FILING REQUIREMENTS - Every corporation, except those listed below, that is transacting or conducting business within this state is required to file SC1120. A corporation must be chartered or qualified to do business in this state with the Office of the Secretary of State.

Special Returns for certain organizations not required to file SC1120:

- Non-profit corporations: see SC990T and instructions
- Banks: file SC1101B
- Savings and Loans: file SC1104
- S Corporations: file SC1120S
(See instructions for SC1120S information).
- Insurance Companies: File with the South Carolina Department of Insurance.
- Homeowners Associations **filing federal Form 1120H with no taxable income.**

A copy of the federal form and supporting schedules must be attached to each return.



CAUTION: A corporation must continue to file a return and pay the license fee until such charter or qualification is canceled regardless of the activity of the corporation. (See the section of these instructions entitled "Final Return").

BASIS OF RETURN

The taxable income as shown on federal Form 1120, 1120A, or 1120F is the basis of the South Carolina return, with certain adjustments for federal and state differences. A copy of the federal return and all supporting schedules must be attached to the South Carolina return. The South Carolina gross income and taxable income of a corporation is the corporation's gross income and taxable income as determined under the Internal Revenue Code subject to the modifications required by state law.

WHEN TO FILE

In general, a corporation must file its income tax return by the fifteenth day of the third month after the end of the tax year. A new corporation filing a short period return must generally file by the fifteenth day of the third month after the short period ends. A corporation that has dissolved must file by the fifteenth day of the third month after the date it has dissolved and filed the Articles of Dissolution with the Secretary of State.

REQUEST FOR EXTENSION TO FILE

If any corporate income tax or license fee is anticipated to be due, the taxpayer must use South Carolina extension SC1120-T or file electronically at www.sctax.org under DORePAY.

If no income tax or license fee is anticipated to be due and the taxpayer has requested a federal extension, the federal extension will be accepted as a South Carolina extension if the corporate return is received within the time as extended by the Internal Revenue Service.

Corporations filing a consolidated return should file a single South Carolina extension and attach a schedule listing the corporations to be included in the **South Carolina consolidation**. A federal extension will be accepted if all corporations filing in South Carolina are included in one or more federal extensions. A schedule must also be attached listing the corporations included in the South Carolina consolidation.

A copy of the federal or South Carolina extension(s) must be attached to the return when filed.

There is no extension for payment of corporate income tax or license fee. Any income tax or license fee due must be paid by the prescribed due date to avoid the assessment of late penalties and interest.

An extension of time to file the Corporate Income Tax Return requested on an SC1120-T or on a federal extension does not extend the Business Personal Property Return (Form PT-100) which must be filed by the last day of the fourth month following the end of the taxable year.

CORPORATIONS ARE REQUIRED TO INCLUDE INFORMATION IN THE HEADING OF THE RETURN (See next two items below).

TOTAL GROSS RECEIPTS

The amount to enter for Total Gross Receipts is the amount from Line 1c of the Federal Return Form 1120 or 1120S. If there is no entry for Line 1c, enter total income from all other sources.

TOTAL COST OF DEPRECIABLE PERSONAL PROPERTY IN SOUTH CAROLINA

The amount to enter for depreciable personal property in South Carolina includes the total original cost of furniture, fixtures, machinery, equipment and vehicles without regard to any deductions for depreciation.

If filing consolidated, enter the total cost of these respective amounts for all members of the consolidated group. Attach a schedule showing the separate amounts for each corporation.

DECLARATION OF ESTIMATED TAX

The corporation must file a declaration of estimated income tax with the SC Department of Revenue on or before the fifteenth day of the fourth month following the beginning of the taxable year. If the amount of estimated tax is less than one hundred dollars, no such declaration is required. A declaration of estimated tax for the period must be completed on SC1120-CDP and (100%) one hundred percent of the tax liability shown to be due thereon must be paid on or before the fifteenth day of the fourth month, after the close of the preceding income year or in four equal installments on the fifteenth day of the fourth, sixth, ninth and twelfth months.

A corporation may avoid the penalty for Underpayment of Declaration by paying each payment timely if the total tax paid is at least the same as the total tax due, pursuant to requirements for federal estimated income tax in Internal Revenue Code Section 6655. See SC2220 for computation of the penalty.

PENALTIES AND INTEREST

Avoid penalties and interest by correctly filing and paying the tax when due.

- A corporation is required under Code Section 12-54-210 to keep books, papers, memoranda, records, render statements, make returns and comply with regulations as the department prescribes. If a Corporation fails to comply with the provisions of this section, a **failure to comply penalty** must be added not to exceed five hundred dollars for the period covered by the return in addition to other penalties provided by law.

- If a corporation fails to file its tax return when due (including any extensions of time for filing), it may be subject to a **failure to file penalty**. The penalty shall be five percent of the amount of the tax due if failure is for not more than one month, with an additional five percent for each additional month or fraction thereof during which the failure continues, not exceeding twenty-five percent in the aggregate. The penalty is calculated on the amount of tax shown due on the return reduced by any amounts paid on or before the date prescribed for payment of the tax. In any event, the SC Department of Revenue may assess a late filing penalty of up to \$500.00 in addition to the above specified late filing penalties.
- If a corporation fails to pay any tax on or before the due date, a **failure to pay penalty** must be added to the tax. The penalty shall be one-half of one percent of the amount of the tax if the failure is for not more than one month, with an additional one-half of one percent for each additional month or fraction thereof during which the failure continues, not exceeding twenty-five percent.
- If a corporation underpays its tax liability and the underpayment is due to negligence or disregard of regulations, it will be charged a **negligence penalty** of five percent of the underpayment plus fifty percent of the interest payable.
- If a corporation substantially understates its tax, it will be charged a **substantial understatement penalty** of twenty-five percent of the understatement. A substantial understatement is the greater of ten percent of the tax liability or ten thousand dollars. In the case of an S Corporation or a personal holding company a substantial understatement is the greater of five thousand dollars or ten percent of the tax liability.
- If a corporation fails to remit the tax due it will be charged **interest** at the rate provided under Internal Revenue Code Sections 6621 and 6622. The interest must be calculated on the full amount of tax or portion thereof, exclusive of penalties, from the time the tax was due until paid in its entirety.

AMENDED RETURN

In order to amend a previously filed SC1120 or SC1120S, complete a new form and check the amended box on the face of the return. **Also, write Amended on the face of the return.** An explanation of the adjustments and a copy of the federal 1120X must be attached to the amended return.

CONSOLIDATED RETURNS

For South Carolina Income Tax purposes a consolidated return shall mean a single return for two or more corporations in which income or loss and license fee is computed separately for each corporation and combined into one return. All corporations included in the consolidated return must be subject to tax in South Carolina and have the same accounting year. The election to file a consolidated return must be made on an original and timely filed return. Once an election is made, such election must be adhered to until permission is granted by the SC Department of Revenue to file a separate return. These corporations must also be substantially under the control of the same interest. "Substantial control" means the ownership of at least eighty percent of all classes of stock. A domestic or multi-state corporation can file a consolidated return. You must compute the income and license fee separately for each entity included in the consolidation.

Remember: a multi-state corporation must compute and use a separate apportionment ratio in arriving at the SC taxable income and license fee for each entity included in the consolidation.

The following is an example of a multi-state consolidated return:

Income: Corporation	Taxable Income	SC Apportionment Ratio	SC Taxable Income
A	45,000	80%	36,000
B	(15,000)	90%	(13,500)
	Total SC Taxable Income		22,500

License: Corporation	Total Stated Capital	SC Apportionment Ratio	(X .001 + 15.00) Not less than \$25
A	150,000	80%	135.00
B	1,000	90%	25.00
	Total SC License Fee		160.00

TRANSFERS TO A CORPORATION CONTROLLED BY THE TRANSFEROR

If a person receives stock or securities of a corporation in exchange for property and no gain or loss is recognized under Section 351 of the Internal Revenue Code, the person (transferor) and the transferee must attach the same information required by the Internal Revenue Regulations 1.351-3.

FINAL RETURN

A corporation must follow the steps listed below when filing a "Final Return" and ceasing to exist or when withdrawing from this state.

1. A domestic corporation must file the Articles of Dissolution with the Secretary of State.
2. A corporation other than a domestic corporation must file the Articles of Withdrawal with the Secretary of State.
3. The corporation must file a final tax return by the fifteenth day of the third month after the end of the tax year after filing such Articles of Dissolution or Withdrawal. A schedule must accompany the final return showing the distribution of the assets to the stockholders.
 - An extension of time to file may be obtained by filing Form SC1120-T prior to expiration of the filing period **if there is tax due.**
 - If the taxpayer is not required to make a payment for tax or license fee at the time of the extension, and the taxpayer has been granted an extension of time to file a federal income tax return, it is not necessary to file a separate state extension form. Attach a copy of the properly filed federal extension to the **final** South Carolina return when filed.
4. The appropriate box in the upper right corner of the return should be marked in the space indicating the reason for the final return.

SIGNATURE

The return must be signed by an officer of the corporation duly authorized to make the report on behalf of the corporation.

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.

ACCOUNTING METHOD

The accounting method must be the same as the method used for federal income tax purposes. If a change in accounting method is approved or changed by the Internal Revenue Service, the taxpayer must provide the SC Department of Revenue with a copy of the written permission (Form 1128) received from the Internal Revenue Service.

- (A) A taxpayer's method of accounting under this chapter must be the same as for federal income tax purposes.
- (B) If a taxpayer's method of accounting is changed for federal income tax purposes:
- (1) The method of accounting for South Carolina income tax purposes is changed. The taxpayer shall provide the department with a copy of the written permission received from the Internal Revenue Service. When written permission is not required to change a method of accounting, the taxpayer shall provide the department with a copy of the election or statement provided to the Internal Revenue Service.
 - (2) Additional South Carolina income or deductions which result from adjustments that are necessary because of a change in the method of accounting are included in or deducted from income as provided in the Internal Revenue Code.

DEFINITIONS

- 'Tangible property' is real property and corporeal personal property and does not mean money, bank deposits, shares of stock, bonds, credits, evidences of debt, choses in action, or evidences of an interest in property.
- 'Intangible property' is all property other than tangible property.

- 'Income year' is the calendar year or the fiscal year upon the basis of which the federal net income is computed.
- 'Fiscal year' is an income year ending on the last day of any month other than December.
- 'Received' for the purpose of the computations of net income under this chapter means 'received or accrued' and 'received and accrued' must be construed according to the method of accounting upon the basis of which the net income is computed.
- 'Foreign corporation' is any corporation chartered outside of South Carolina. A 'Domestic corporation' is chartered in South Carolina.
- The phrase 'property having an actual situs in this state' includes real property physically located within this state and personal property of a bona fide resident of this state wherever situated.
- All of the various terms defined in Sections 7701-7703 of the Internal Revenue Code have the same meaning for South Carolina income tax purposes, unless a different meaning is clearly required.
- 'Resident corporation' is a corporation whose principal place of business is located within this state. 'Non-resident corporation' is any corporation other than a resident corporation.

ROUNDING OFF CENTS TO THE NEAREST WHOLE DOLLAR

The corporation may show the money items on the return and accompanying schedules as whole dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

USE TAX ON OUT-OF-STATE PURCHASES

South Carolina schools lose funds each year because taxpayers buy merchandise out of state and do not pay South Carolina tax on those purchases. In addition to the loss of revenue for public education, South Carolina businesses are placed at an unfair disadvantage because they must collect the sales tax.

If you buy goods from out of state and bring those goods into South Carolina, you owe 5% state use tax (6% or 7% or applicable rate if you operate in a county with a local tax). The use tax is complementary to the sales tax and has been in existence since 1954. If you paid sales tax to another state, you are allowed a credit for the tax you already paid equal to the amount due in South Carolina. For example, if you bought goods in North Carolina and paid 5%

sales tax there, you would owe no more use tax to South Carolina unless you operate in a local option tax county and then you would owe an additional 1% or 2% or applicable rate tax, depending on the county.

Use tax for corporations is usually paid under the corporation's Sales Tax License or Use Tax Registration number. If your corporation makes regular purchases of goods from out of state for use in South Carolina, you should obtain a Use Tax Registration number. If you need assistance, contact the Registration Unit at the Department at (803) 898-5872.

TAXPAYERS' BILL OF RIGHTS

- You have the right to apply for relief or assistance from the Taxpayer Rights' Advocate within the Department of Revenue. The Taxpayer Rights' Advocate is responsible for the resolution of taxpayer complaints and problems. Under certain conditions, the advocate may postpone until resolution any actions determined to cause you irreparable loss.
- You have the right to request and receive forms, instructions and other written materials in plain, easy-to-understand language.
- You have the right to prompt, courteous service from us in all your dealings with the Department of Revenue.
- You have the right to request and receive written information guides, which explain in simple and nontechnical language, appeal procedures and your remedies as a taxpayer.
- You have the right to receive notices which contain descriptions of the basis for and identification of amounts of any tax, interest and penalties due.

THE FAMILY PRIVACY PROTECTION ACT

Under the Family Privacy Protection Act, the collection of personal information from citizens by the Department of Revenue is limited to the information necessary for the Department to fulfill its statutory duties. In most instances, once this information is collected by the Department, it is protected by law from public disclosure. In those situations where public disclosure is not prohibited, the Family Privacy Protection Act prevents such information from being used by third parties for commercial solicitation purposes.

SC1120 C CORPORATION INSTRUCTIONS

Part I COMPUTATION OF INCOME TAX LIABILITY

Line 2. Net Adjustment

Complete Schedule A and B, page 2 and enter the amount from line 12.

Some of the **additions** to federal taxable income are:

- Interest on other states' obligations. (Interest on obligations from this state and any of its political subdivisions is exempt).
 - State and local income taxes or state and local franchise taxes measured by net income, any income taxes, or any taxes measured by or with respect to net income.
 - South Carolina law allows the same depletion as Internal Revenue Code Sections 611 through 613. A corporation that allocates or apportionment income has the option of adding back depletion before apportionment and of deducting depletion after apportionment on mines, oil, and gas wells and other natural deposits located in this state, except that the allowances may not exceed fifty percent of the net income apportioned to South Carolina.
 - Any taxpayer who is reporting income or deducting expenses over a time period as a result of a change of accounting method or accounting year, shall continue to report income or deduct expenses in the manner provided in the Internal Revenue Code and approved by the Internal Revenue Service. At the expiration of the authorized adjustment period, the balance of the income or expenses must be reported or deducted in the same manner and amount for South Carolina income tax purposes until all of the income or expenses have been fully reported or deducted.
 - Transitional adjustment on items of prepaid income or deferred expenses. (See the instructions on Accounting Method and attach a schedule showing how the addition was derived).
 - Federal net operating losses are additions to income.
 - Taxpayers must reduce the basis of certain property to the extent the corporate headquarters credit is claimed. An **addition** must be made for the resulting reduction in depreciation.
 - 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.
 - Corporate taxpayers that claim a child care program credit for donations to a nonprofit South Carolina corporation providing child care services to its employees (Schedule TC-9) are not allowed a deduction for these donations. The disallowed deductions are an addition to federal taxable income.
 - The deduction for wages paid must be reduced by the amount of credit claimed for wages paid to employees terminated due to base closure or due to federal facility reduction in force (Schedule TC-10). The amount of this credit is an addition to federal taxable income.
- South Carolina does not recognize the deduction for domestic production activities provided in IRC Section 199. The amount of the deduction must be added back.

Also, South Carolina does not recognize the federal election for special taxation of income from qualifying shipping activities provided in IRC Section 1354. The income taxed at the special rate must be added back.

Some of the **deductions** from federal taxable income are:

- The "gross-up" of dividends received from a Foreign Corporation located outside of the U.S. required by a Domestic U.S. corporation electing the foreign tax credit as provided for in Internal Revenue Code Section 78 is **subtracted** from federal net taxable income.
- Reduction in depreciable property due to investment credit election will result in an ordinary expense for South Carolina purposes.
- If a corporation disposes of an asset that has a different South Carolina basis and federal basis, the corporation shall adjust SC gain or loss to reflect the difference in the basis of the assets.
- Transitional adjustment for items of prepaid income or deferred expenses. (See the instructions for Accounting and attach a schedule showing how the deduction was derived).
- If a taxpayer is reporting income from the liquidation of a corporation under Internal Revenue Code Section 337 using the installment method of reporting or from an installment sale under Internal Revenue Code Section 453, and the corporation has previously reported all the gain for South Carolina tax purposes, then SC income must be reduced by the amount of the installment gain.
- If a corporation is claiming a reduction in salaries and wages due to the federal jobs credit, subtract this amount for South Carolina purposes.
- Dividends received from foreign corporations (located outside of the U.S.) that are included in federal taxable income may be reduced in the same manner that dividends received from domestic corporations are deducted under Internal Revenue Code Section 243.

FEDERAL BONUS DEPRECIATION ADJUSTMENTS

South Carolina **did not adopt** the bonus federal depreciation signed into law in May 2002 or 2003. When the taxpayer includes the 30% or 50% additional depreciation allowance in calculating federal taxable income, the taxpayer must adjust the basis of the property for computing the first-year depreciation expense, as well as the subsequent year's depreciation expense on the qualifying property. An addition or subtraction is also required in the calculation of SC taxable income for the difference in the depreciation expense claimed for federal purposes and the amount allowed for SC purposes. Adjustments to SC taxable income on SC Corporate returns can be reported on Schedules A and B (Additions to/Deductions from Federal Taxable Income). Attach a schedule showing computation of the differences reported.

An addition or subtraction may be required when qualifying property is sold to reflect the difference in the amount of gain or loss on the sale of the property and the amount of any depreciation recapture, if any, as a result of the differing basis in the property for federal and state purposes. Attach a schedule showing computation of the differences reported.

Line 5

South Carolina Net Operating Loss ("NOL") Carryover. For taxable years beginning after December 31, 1984, South Carolina has adopted the federal net operating loss with modification as provided in Section 12-6-1110. However, for South Carolina Net Operating Loss purposes no carrybacks are allowed. If a corporation has a South Carolina loss carryover which has not expired as of January 1, 1985, the loss may be carried forward until exhausted or the statute (which is the same as Internal Revenue Code 172) has expired.

Be sure to make the addition on Schedule A, SC1120 if a federal net operating loss is claimed on the federal Form 1120. CAUTION: Do not make the adjustment for net operating loss on Schedule G, SC1120.



After adding the federal NOL to federal taxable income in Schedule A, the South Carolina NOL is subtracted on Line 5. If the prior year was the first year of loss, the current year Line 5 amount is obtained from Line 4 of the previous year.

Line 8

For South Carolina purposes, if a corporation has receipts from invoices issued by a seller directly to an unrelated purchaser outside the United States, better known as "foreign trade receipts", and wishes to defer the state income taxes, see Form TD-1 for instructions and computations. Line 8 would also include any deferred LIFO recapture tax pursuant to IRC Section 1363.

Line 10

For taxable years after 2004, any credits earned under Chapters 6 or 14 of Title 12, earned by a corporation included in a consolidated corporate income tax return under Code Section 12-6-5020 **must be used and applied against the consolidated tax.**

Line 12

South Carolina recognizes the shareholders deferral of foreign trade receipts by a Domestic International Sales Corporation (DISC). Multiply the deferred federal foreign trade income by 5.0% to determine the South Carolina deferred income tax liability.

The interest for South Carolina is calculated by using the same interest rate used on the federal form. Enter only the interest determined on line 12, SC1120. Also, enter the interest applicable to deferred tax on line 8.

Also include on line 12 any interest on tax attributable to payments received on installment sale of certain timeshares and residential lots. Write "Section 453(I)(3)" to the left of the amount. Attach a statement showing the computations.

Line 14(a)

Attach Form W-2, I-290 or 1099. **(South Carolina Schedule K-1 or Partner Information (SC1065) or Settlement Statements are not accepted.)** See Code Section 12-8-590(D) and Code Section 12-8-1540(A). If you are a fiscal year taxpayer, include a schedule of amounts withheld on a monthly basis.

Line 14(b) Include prior year overpayments in the total amount on this line.

Line 19

If line 15 is larger than line 18, enter the overpayment and indicate how the overpayment is to be applied.

Part II Computation of License Fee

Every corporation organized under the laws of the state of South Carolina and every corporation organized to do business under the laws of another state, territory or country and qualified to do business in this state and any other corporation required to file an income tax return shall compute and pay a license fee except:

- corporations organized for tax exempt purposes and exempt from income tax pursuant to Internal Revenue Code Section 501
- volunteer fire departments and rescue squads
- cooperative under Chapters 45 and 47 of Title 33
- building and loan association or credit union doing a strictly mutual business
- insurance, fraternal, beneficial, or mutual protection insurance company
- foreign corporation whose entire income is not included in gross income for federal income tax purposes due to any treaty obligation of the United States
- homeowner's association within the meaning of Internal Revenue Code Section 528(c)(1) and filing, Federal Form 1120-H

- community development entity certified by the Department of Treasury.

The license fee is computed on the total capital stock and the entire surplus of a corporation other than its earned surplus.

If a consolidated return is filed, the license fee shall be measured by the total capital and paid in surplus for each corporation considered separately without offset for investment of one corporation in the capital or surplus of another corporation in the group electing to file the consolidated return. Do not file separate returns paying the license fee if you are filing a consolidated return for income tax purposes.

The license fee for a bank holding company, a savings and loan holding company and an insurance holding company must be measured by the capital stock and paid in surplus of the holding company minus the capital stock and paid in surplus of any bank, savings and loan association, or insurance company that is a subsidiary of the holding company.

A corporation may prorate its license fee when its tax year is changed and a return of less than twelve months is required. This proration applies only to short periods due to a change in accounting period and does not apply to short periods due to initial or final returns. The prorated license fee cannot be less than \$25.00.

In place of the license fee based on capital stock and paid in capital, a license fee based on gross receipts from regulated business and South Carolina property used in the conduct of business is imposed on certain companies that are organized under South Carolina law or that are qualified to do business in South Carolina as a waterworks company, power company, electric cooperative, light company, gas company, telephone company, telegraph company, express company, street railway company, or navigation company. These enumerated companies are not defined by statute or regulation.

Line 20

The total capital and paid in surplus should be entered. If the corporation is subject to apportionment, Schedule E should be completed and the amount on line 2 entered.

Line 21

Multiply the total capital and paid in surplus by one mill (.001). Then add \$15.00. The license fee cannot be less than \$25.00. For a combined taxpayer, apply the above computation to each corporation in the combined group and then total them. The license fee for each of the corporations cannot be less than \$25.00.

Line 22

Enter the amount from SC1120-TC, Part II for credits applied to the license fee.

Line 24

Any amount paid with a tentative return or a transfer from the declaration of taxes should be entered. (Total payments should be entered on line 25.)

Line 27

See instructions on page 6 and 7 or use the Penalty and Interest calculator on our website: www.sctax.org.

Line 29

An overpayment, as indicated by line 29, may be (a) credited to the following year's estimated tax, (b) credited to the current year's tax liability, or (c) refunded.

Schedule A - Additions to Income: Refer to instructions for line 2.

Schedule B - Deductions from Income: Refer to instructions for line 2.

Schedule C - Summary of Credits

SC1120-TC along with the applicable Tax Credit Schedule must be attached to the tax return. See SC1120-TC for further instructions.

Schedule D - Annual Report: Complete all information requested.

Schedule E - License Fee-Multi-state: Complete all information requested.

SCHEDULE F - INCOME SUBJECT TO DIRECT ALLOCATION

Definitions:

- "Income from property not connected with the business" means income other than income from property connected with the business.
- "Principal place of business" means the domicile of a corporation, except when none of the business of the corporation is conducted in the state of domicile, in which circumstances the SC Department of Revenue shall determine, in light of the available evidence, the principal place of business.
- "Related expenses" means any cost incurred, directly or indirectly in connection with the investment for the production of income or future income which is or will be specifically or directly allocable.

Line 1 - Interest from intangible property not connected with the business of the taxpayer, less all related expenses, is allocated to the principal place of business of the corporation.

Line 2 - Dividends received from corporate stocks not connected with the taxpayer's business (after dividends received deductions under Internal Revenue Code Section 243) less all related expenses, are allocated to the state of the corporation's principal place of business.

Line 3 - Rents received from the lease or rental of real or tangible personal property and royalties from tangible property, where the property was not used in or connected with the business of the taxpayer during the income year, less all related expenses, are allocated to the state in which the property is located.

Line 4 - Gains or losses from the sale of real property are allocated to the state in which the property is located.

Line 5 - Gains or losses from the sale of intangible personal property not connected with the business of the taxpayer, less all related expenses, is allocated to the principal place of business of the corporation.

Line 6 - Income, less all related expenses from any other investment, including investments in subsidiaries, the net income from which is not properly includable in the net apportionable income of corporations engaged in Interstate Commerce under the Constitution of The United States because it is unrelated to the business activity of the corporation conducted partly within and partly without South Carolina, is allocated to the state in which the business situs of the investment is located; provided, that if the business situs of such investment is partly within and partly without South Carolina, the income is subject to apportionment.

NOTE: Attach an explanation of each type of income that is **not allocated** to South Carolina.

SCHEDULE G - MULTI-STATE OPERATIONS

If a multi-state business, complete this schedule.

SCHEDULE H-1 - FOUR FACTOR FORMULA (Double Weighted Sales)

A taxpayer whose principal business in the state is:

- (a) manufacturing or any form of collecting, buying, assembling or processing goods and materials within this state, or
- (b) selling, distributing or dealing in tangible personal property within this state,

shall make returns and pay annually an income tax upon a proportion of its remaining net income after allocation computed on the basis of the arithmetical average of the following factors:

(A) Property

- a) The property factor is a fraction in which the numerator is the average value of the taxpayer's real and tangible personal property owned or rented and used in this state during the taxable year and the denominator is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the taxable year. The property factor does not include property which produces income that is allocated rather than apportioned.
- b) As used in this factor, tangible personal property means 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.
- c) The average value of property is determined by averaging the values at the beginning and end of the taxable year. If this average does not fairly represent the yearly average because of material changes during the year, the average must be determined on a monthly or daily basis.

d) For purposes of this factor, value of property is determined as follows:

(1) Inventory is valued using the taxpayer's book accounting practices unless in the department's opinion 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.

(2) For property owned other than inventory, value is 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 one hundred percent 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 the property within this state to bring the percentage to one hundred percent, but in no case can the property in this state be valued at less than eighty percent of the value as defined in this subsection.

(3) For rented and leased real and personal property, value is the net annual rental rate multiplied by eight. For rented or leased personal property the department may require a factor other than a multiplier of eight to be used if it better reflects the value. Net annual rental rate means the gross annual rate paid by the taxpayer, less the gross annual rental rate received by the taxpayer for any subrentals of real estate.

(4) In determining the value of property, no deduction may be made for encumbrances on the property.

(5) Inventories of unmanufactured tobacco stored in a warehouse in this state for subsequent shipment to a manufacturer in another state, are not considered property used in this state.

(B) Payroll

a) The payroll factor is a fraction in which the numerator is the total amount paid by the taxpayer for compensation in this state during the taxable year and the denominator is the total compensation paid everywhere during the taxable year.

b) Compensation includes salaries, wages, commissions, and other personal service compensation paid or incurred in connection with the taxpayer's trade or business. For purposes of this factor, 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 this state is deemed to be in connection with the trade or business of the taxpayer in this state.

c) Compensation paid to general executive officers having company-wide authority is excluded from the payroll factor.

d) All compensation in connection with income separately allocated is excluded from the payroll factor.

(C) Sales

a) The sales factor is a fraction in which the numerator is the total sales of the taxpayer in this state during the taxable year and the denominator is the total sales of the taxpayer everywhere during the taxable year.

b) The term "sales in this state" includes sales of goods, merchandise, or property received by a purchaser in this state other than the United States Government. The place where goods are received by the purchase after all transportation is completed is considered as the place at which the goods are received by the purchaser. Direct delivery into this state by the taxpayer to a person designated by a purchaser constitutes delivery to the purchaser in this state.

c) The word "sales" includes, but is not limited to:

(1) rentals from tangible personal property located in this state which are not separately allocated; and

(2) sales of intangible personal property and receipts from services if the entire income-producing activity is within this state. If the income-producing activity is performed partly within and partly without this state, sales are attributable to this state to the extent the income-producing activity is performed within this state.

Line 1 - Enter all land located in South Carolina at the beginning of the year in column (a) (Section 1, Within South Carolina) and the ending South Carolina land in column (b). Enter the total beginning land in column (a) (Section 2, Total Everywhere) and the total ending land in column (b).

Line 2 - Enter the buildings in the same manner as line 1.

Line 3 - Enter the machinery and equipment in the same manner as line 1.

Line 4 - Enter the inventory in the same manner as line 1.

Line 5 - Enter all tangible personal property not entered above.

Line 6 - Enter all property from Schedule F, line 9, column 6; construction in progress; any property not held or used to produce income and unmanufactured tobacco stored in a warehouse in South Carolina.

Line 7 - Add lines 1 through 5 and subtract line 6.

Line 8 - Add line 7 of columns (a) and (b) in Section 1, within South Carolina and divide by 2. Perform the same computation for Section 2, Total Everywhere.

Line 9 - Multiply by 8, the net annual rental value of the real estate and tangible personal property rented or leased and enter the results on line 9.

Line 10 - Add lines 8 and 9. Divide line 10, column 1 by line 10, column 2. Enter property ratio in column 3.

Line 11 - Enter all salaries, wages, commissions and other personal service compensation paid in connection with the business of the taxpayer. South Carolina does not recognize federal job credit reduction; therefore, use gross payroll.

Line 12 - Subtract all such compensation paid to general executive officers having company wide authority and all compensation from Schedule F, line 9, column 5.

Line 13 - Divide line 13, column 1 by line 13, column 2 and enter the results in column 3.

Line 14 - Enter the sales attributable to South Carolina in column 1 and total sales from everywhere in column 2. Divide line 14, column 1 by line 14, column 2 and enter the results in column 3.

Line 15 - Enter the same sales ratio computed on line 14.

Line 16 - Add column 3, lines 10, 13, 14 and 15.

Line 17 - Divide line 16 by 4 and enter results.

If the sales ratio does not exist, the average is computed by using two as a denominator. If a ratio other than the sales ratio does not exist, the average is computed by using three as a denominator. If only one factor exists, use the ratio derived in that factor.

SCHEDULE H-2 - GROSS RECEIPTS

If the principal profits or income of a taxpayer, other than a public service corporation and a utility and electric cooperative are derived from sources other than manufacturing, producing, collecting, buying, assembling, processing or selling, distributing or dealing in tangible personal property, such taxpayers shall make returns and pay annually an income tax upon a proportion of its remaining net income computed on the basis of the ratio of gross receipts from within this state during the income year to the total gross receipts of such year within and without the state. Examples of corporations subject to a gross receipts method of apportionment are construction contractors, service companies other than public service corporations and corporations primarily engaged in rental real estate activities.

Line 1 - Enter the total gross receipts from within South Carolina in column 1 and total gross receipts everywhere in column 2.

Line 2 - Items not included in gross receipts are those items of income listed in Schedule F instructions, lines 1-6, that are specifically and directly allocated before apportionment of the remaining net income. For S corporations, exclusions are directly allocable items of income shown on lines 2 - 6 of Schedule SC-K Worksheet.

Line 3 - Subtract line 2 from line 1. Divide line 3, column 1 by line 3, column 2 and enter results on line 4, column 3.

SCHEDULE H-3 - PUBLIC SERVICE CORPORATIONS

The income remaining after allocation for the following companies must be apportioned using the following factors:

(1) Railroad Companies.

a) Railroad companies shall use a fraction in which the numerator is railway operating revenue from business done within this state during the taxable year and the denominator is total railway operating revenue from all business done by the taxpayer as shown by its records kept in accordance with the Uniform System of Accounts prescribed by the Interstate Commerce Commission.

b) If the department finds that the accounting records of a taxpayer do not accurately reflect the division of revenue by state lines as to each transaction involving interstate revenue, the department may adopt rules and promulgate regulations which determine averages which approximate with reasonable accuracy the proportion of interstate revenue actually earned upon lines in this state.

c) For the purposes of this item:

(i) "Railway operating revenue from business done within this State" means railway operating revenue from business wholly within this state, plus the equal mileage proportion within this state of each item of railway operating revenue received from the interstate business of the taxpayer.

(ii) "Equal mileage proportion" means the proportion which the distance of movement of property and passengers over lines in this state bears to the total distance of movement of property and passengers over lines of the taxpayer receiving the revenues.

(iii) "Interstate business" means railway operating revenue from the interstate transportation of persons or property into, out of, or through this state.

(2) Motor carriers of property and passengers shall use a fraction in which the numerator is vehicle miles within this state during the taxable year and the denominator is total vehicle miles everywhere during the taxable year.

(3) Telephone service companies shall use a fraction in which the numerator is gross receipts in this state during the taxable year and the denominator is total gross receipts everywhere. The term "gross receipts in this state" includes gross revenues derived from services rendered wholly within this state, plus that portion of the company's interstate revenues attributable to this state in accordance with the Federal Communications Standard Classification of Accounts.

(4) Pipeline companies shall use a fraction in which the numerator is the revenue ton miles (one ton of solid property transported one mile), revenue barrel miles (one barrel of liquid property transported one mile), or revenue cubic foot miles (one cubic foot of gaseous property transported one mile) within this state during the taxable year and the denominator is the total revenue ton miles, revenue barrel miles, or revenue cubic foot miles, of the taxpayer everywhere during the taxable year.

(5) Airline companies shall use a fraction in which the numerator is revenue tons loaded and unloaded in this state during the taxable year, and the denominator is revenue tons loaded and unloaded everywhere during the taxable year. A revenue ton is a short ton (two thousand pounds) and is computed by using a standard weight of one hundred ninety pounds per passenger (including free baggage) multiplied by the number of passengers loaded and unloaded plus the tons of airmail, express, and freight loaded and unloaded within and without this state.

(6) Shipping Lines. Where the income is derived principally from the operation of a shipping line, the corporation shall apportion its net apportionable income to South Carolina on the basis of the ratio of revenue tons loaded and unloaded within and without this state for such year. A revenue ton is a short ton (two thousand pounds) and must be computed using a standard weight of one hundred ninety pounds per passenger (including free baggage) multiplied by the number of passengers loaded and unloaded.

SCHEDULE J

Must be completed for every corporation included in the consolidated return.

SC1120S S CORPORATION INSTRUCTIONS

General

Prior to January 1, 1984, South Carolina did not recognize S Corporations; therefore, all corporations in South Carolina were taxed as C Corporations. South Carolina statutes were changed to adopt the federal statutes with regard to treatment of S Corporations, including the tax on certain types of income. Note the following Transitional Rule.

Transitional Rule

For tax years beginning after December 31, 1983, a corporation which had a valid S election in effect for federal tax purposes, had the option: (1) to continue being taxed for South Carolina purposes as a C Corporation. (File SC1120.) or (2) to elect to be an S Corporation and exempt from corporate income tax. (File SC1120S.)

For tax years beginning after December 31, 1984, newly formed corporations and C Corporations making an S election are bound by the election for federal purposes and the option available does not apply. Foreign corporations with a valid S election that began operating in South Carolina after December 31, 1984, must file as an S Corporation. Once made in either event, a South Carolina S election may not be revoked or terminated unless the S election is revoked or terminated for federal income tax purposes. The approval of an S election by the Internal Revenue Service is approval for South Carolina income tax purposes as of the effective date of the federal election. An S election may be made for South Carolina income tax purposes, only if it is made for federal purposes or there is an existing S election for federal purposes. The rule of changing tax years does not apply for state purposes unless similarly applied for federal purposes (that is, a change in year is not mandated for South Carolina income tax purposes unless mandated for federal purposes also). A corporation shall give the SC Department of Revenue notice of its intent to be an S Corporation by filing with the Department a copy of the election it files with the Internal Revenue Service, although failure to file the notice does not void the corporation's S election for South Carolina income tax purposes.

Filing Requirements

Generally, if the corporation has a valid S election and is doing business in this state, SC1120S must be filed. If an S Corporation has met the requirements of the Transitional Rule and elected for South Carolina purposes to be treated as a C Corporation, SC1120 must be filed. Public Utilities must file SC1120U.

Request for Extension to File

- If any corporate income tax or license fee is anticipated to be due, the taxpayer must use South Carolina extension SC1120-T or file electronically at www.sctax.org under DORePAY.
- If no income tax or license fee is anticipated to be due and the taxpayer has requested a federal extension, then the federal extension will be accepted as a South Carolina extension if the corporate return is received within the time as extended by the Internal Revenue Service.
- A copy of the federal or South Carolina extension(s) must be attached to the return when filed.
- There is no extension for payment of corporate income tax or license fee. Any income tax or license fee due must be paid by the prescribed due date to avoid the assessment of late penalties and interest.
- Frequently, individual taxpayers, who are shareholders in S Corporations, extend their individual income tax returns because they don't have the information K-1's from the S Corporation. However, the S Corporation fails to file the required extension for the S Corporation. The S Corporation must file a State extension (SC1120-T) with the Department of Revenue or file a federal extension (Form 7004) by the original due date of the return.

Part I Computation of Income

Line 1. The amount on this line is the total of federal Schedule K lines 1 through 10 income (loss) amounts. This is necessary to make the S Corporation income tax return consistent with form SC1120S-WH (Withholding Tax on Income of Nonresident Shareholders).

Note: Generally all income (loss) amounts are considered business related and subject to apportionment by multi-state corporations.

Line 2. Include on this line the net amount of South Carolina adjustments to all of the income (loss) amounts included in the line 1 total. (Schedule SC-K is continued as a worksheet to arrive at the adjustments.) Additions to and subtractions from federal taxable income include the same adjustments possible for a C Corporation plus the following:

Excess net passive income under IRC Section 1375 when taxed on the federal return and built-in gains and certain capital gains under IRC Section 1374 when taxed on the federal return.

Line 4. If a multi-state S Corporation, the total net income as adjusted (line 3, page 1, SC1120S) is carried to Schedule G, line 1 for apportionment. Complete Schedule G and enter the results on line 4. If not a multi-state S Corporation, enter the amount from line 3 on line 4.

Line 5. Income on line 4 that is taxed to the shareholders is subtracted on line 5. This is generally the same amount shown on line 4, however, any income subject to tax on the Federal Form 1120S pursuant to IRC Sections 1374 and 1375 would not be subtracted on this line.

Lines 6 and 7. South Carolina imposes a corporate tax at the rate of .05 (5.0%) on the excess net passive income and/or built-in gains which are added to federal income. Also include on line 7 any deferred LIFO recapture tax pursuant to IRC Section 1363.

Schedules E, F, G and H

See instructions for Schedules E, F, G, and H of C Corporations. If the related expenses for portfolio income are included in portfolio deductions the related expenses should not be entered in Schedule F to reduce directly allocated income.

Note:

- S Corporations do not have a net operating loss carryover, as the losses flow through to the shareholders each year.
- Deferral of income and tax on foreign trade receipts would flow through to the shareholders of an S Corporation. Interest is also paid by the shareholders. If applicable, give a schedule of details.

Part II Computation of License Fee and QSSS Procedures

An S Corporation pays a license fee the same as a C Corporation. An exception is Qualified Subchapter S Subsidiaries "QSSS". For S Corporations other than QSSS, see C Corporation instructions under Computation of License Fee. For tax years beginning after December 31, 2000, a QSSS is treated as a disregarded entity for South Carolina "SC" license fee and annual report purposes. If a corporation owns a QSSS that is disregarded, the QSSS does not owe a separate corporate license fee. The QSSS is treated as part of the corporation which owns it and that corporation pays a license fee. **List the Qualified Subchapter S Subsidiaries (QSSS) for SC purposes on page 4 of SC1120S.**

For income tax purposes, assets, liabilities, income, and deductions of a QSSS are treated the same as for federal income tax purposes. Attach a schedule listing the entities included for SC income tax purposes.

SCHEDULE SC-K WORKSHEET INSTRUCTIONS

This schedule is provided primarily as a worksheet to make South Carolina adjustments to federal Schedule K items and to show the amount of these items that are apportioned or allocated to South Carolina. Column (C) additions to and subtractions from federal taxable income include the same adjustments possible for a C Corporation. The items appearing at numbers 1 through 10 on the federal Schedule K are generally classified as business related using South Carolina apportionment and allocation rules. If the S Corporation has multi-state operations, these items are subject to apportionment using the same (apportionment) ratio as determined in Schedule H of SC1120S. See exceptions in instructions to Line 2, page 1, SC1120S. Also, see instructions to lines 1, 2, and 4, Part I Computation of Income.

Column (F) shows the Column (D) items after application of apportionment and allocation rules. The amounts in Column (F) are taxable by the state of South Carolina.

Lines 11 through 12D. If the S Corporation has multi-state operations, multiply the amount(s) in Column (D) by the apportionment ratio determined in Schedule H of SC1120S.

Non-refundable credits

Any non-refundable credit is distributed to shareholders in proportion to shares held.

EXAMPLE MULTI-STATE S CORPORATION:

XYZ Corporation, a South Carolina S Corporation does business in South Carolina and Georgia and has the following income and deductions: dividend income of \$1,000, long term capital gain from the sale of South Carolina real estate of \$2,000, ordinary business income of \$60,000, and a cash charitable contribution of \$4,000. The Corporation has two shareholders - Mr. X who resides in South Carolina and owns seventy percent of the stock and Ms. Y who resides in Georgia and owns thirty percent. The dividend of \$1,000 **which was received from corporate stock not connected with the taxpayer's business** should be allocated to the respective domiciles of the individual taxpayers, and the long term capital gain from the sale of real estate of \$2000 is allocated to the state it is located in. The apportionment rates for the two states have been computed to be sixty percent for South Carolina and forty percent for Georgia. The ordinary business income and the charitable contribution should be apportioned per South Carolina law based on the apportionment rates.

TRANSACTIONS	TRANSACTION AMOUNT	60% APPORTIONED TO S.C.	100% ALLOCATED TO S.C.	Mr. X's S.C. SHARE (70%)	Ms. Y's S.C. SHARE (30%)
Ordinary Business Inc.	60000	36000		25200	10800
Dividend Income	1000		1000	700	0
Long Term Capital Gain	2000		2000	1400	600
Charitable Contribution	4000	2400		1680	720

Note: Dividends **not connected** with the taxpayers' business are allocated to the domicile of an individual taxpayer. Dividends **connected** with the taxpayers' business are subject to apportionment.

Information to be furnished to shareholders:

Shareholders who are **residents of South Carolina** must be provided with the total amount of their proportionate share of the following items:

- 1) South Carolina adjustments from Schedule SC-K Worksheet, Column (C) plus
- 2) Schedule SC-K worksheet column (E) amounts that are allocated or apportioned to states other than South Carolina.

This total amount would be the respective shareholder's "S Corporation modification" to federal taxable income.

If using Schedule SCK-1 provide each shareholder with a statement that list the amounts from Column (C) and Column (E) of SC-K Worksheet.

Shareholders who are **nonresidents of South Carolina** must be provided with their share of the Schedule SC-K Worksheet, Column (F) items. These amounts are reportable to the state of South Carolina.

Note: The total of lines 1 through 10 of Schedule SC-K Worksheet, Column (F) should equal the amount shown on line 5 of page 1.

S Corporations receiving rental and other passive activity income and losses pursuant to IRC Section 469, from investments located within and without South Carolina, must furnish shareholders with details for proper reporting of these amounts. Similar information must be furnished to shareholders who did not materially participate in the trade or business of an S Corporation with multi-state operations. (Such shareholders may have nondeductible passive losses which cannot offset interest and other business related portfolio income apportioned to South Carolina.)

COMPUTATION OF INCOME TAX LIABILITY			
1.	Total of line 1 through 10, Schedule K of Federal Form 1120S	▶	1. 63,000
2.	Net Adjustment from line 15, Schedule A and B	▶	2. < 0 >
3.	Total Net Income as Reconciled (add line 1 plus or minus line 2)	▶	3. 63,000
4.	If Multi-state Corporation, enter amount from line 6, Schedule G; otherwise, enter amount from line 3.	▶	4. 38,700
5.	LESS: Income on line 4 taxed to shareholders of S Corporation	▶	< 38,700 >
5.		▶	0
6.	South Carolina Net Income subject to tax (line 4 less line 5)	▶	6. 0
7.	TAX: Multiply amount on line 6 by .05 (5.0%)	▶	7.
8.	Payments: (a) Tax Withheld (see instructions)	▶	(b) Paid by Declaration
	(c) Paid with Tentative Return	▶	(d) Credit from Line 23b
	Refundable Credits: (e) Ammonia Additive	▶	(f) Milk Credit
9.	Total Payments and Refundable Credits (add lines 8a through 8f)	▶	9. 0
10.	Balance of Tax Due (line 7 less line 9)	▶	10. 0
11.	Interest Due	▶	0
	Penalty Due (See penalty and interest instructions.)	▶	0
11.		▶	0
12.	TOTAL INCOME TAX, Interest and Penalty Due (add lines 10 and 11)	▶	BALANCE DUE 12. 0

SCHEDULE F INCOME SUBJECT TO DIRECT ALLOCATION

(A) Allocated Income	(B) Gross Amounts	(C) Related Expenses	(D) Net Amounts (Column B minus Column (C))	(E) Net Amounts Allocated Directly to SC
Dividend Income	1,000		1,000	700
Long Term Capital Gain	2,000		2,000	2,000
1. Total Allocated Income (Enter the total of Column D here)			3,000	
Total Allocated Income to S.C. (Enter the total for Column 5.)				2,700

Attach an explanation of each type of income listed above that is not allocated to South Carolina.

SCHEDULE G COMPUTATION OF TAXABLE INCOME FOR CORPORATIONS CLAIMING MULTI-STATE OPERATIONS

1. Total net income as reconciled. Enter amount from line 3, Page 1	1.	63,000
2. Less: Income subject to direct allocation to SC and other states from Schedule F, line 1	2.	3,000
3. Total net income subject to apportionment (line 1 less line 2)	3.	60,000
4. Multiply amount on line 3 by appropriate ratio from Schedule H-1, 2, or 3 and enter result here	4.	36,000
5. Add: Income subject to direct allocation to SC from Schedule F, line 2	5.	2,700
6. Total S.C. Net Income (sum of lines 4 and 5 above) also enter on line 4, Part 1 of Page 1	6.	38,700

SCHEDULE SC-K WORKSHEET

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

	(A) Description	(B) * Amounts From Federal Schedule K	(C) Plus or Minus South Carolina Adjustments	(D) Federal Schedule K Amounts After SC Adjustments	(E) Col. (D) Amounts Apportioned or Allocated to States Other than SC	(F) Col. (D) Amounts Apportioned or Allocated in SC
1	Ordinary Business Income (loss)					
2	Net Real Estate Rents (loss)	60,000		60,000	24,000	36,000
3	Other Net Rents (loss)					
4	Interest Income					
5a	Ordinary dividends	1,000		0	300 *	700*
5b	Qualified dividends					
6	Royalties					
7	Net Short Term Cap. Gain (loss)	2,000		0		2,000
8	Net Long Term Cap. Gain (loss)					
9	Net § 1231 Gain (loss)					
10	Other Income (loss)					
11	§ 179 Deduction					
12a	Contributions	4,000		4,000	1,600	2,400
12b	Investment Interest Expense					
12c	§ 59 (e)(2) Expenditures					
12d	Other Deductions					

* NOTE: Dividends not connected with the taxpayers' business are allocated to the domicile of an individual taxpayer.

Non-Refundable Tax Credits: Enter Total Credits from SC1120-TC, line 39. _____
SC1120-TC must be attached to return.



STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
WITHHOLDING TAX ON INCOME OF NONRESIDENT SHAREHOLDERS

SC1120S-WH
(Rev. 9/21/06)
3312

SC CORPORATE FILE # FOR ACCOUNTING PERIOD ENDING

--	--

FED EI #

SAMPLE

(Signature of duly authorized officer taxpayer)

Date

Corporate Name and Address

1. Amount from line 5 of SC1120S (less allocated income). 1.

		3	8	0	0	0	0
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 .

		0	0
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 *
 2. Line 1 times 30 % of income allocated to nonresident shareholders. 2.

		1	1	4	0	0
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		0	0
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 3. Amount of line 2 exempt from withholding. Attach statement. See instructions. 3.

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		0	0
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 4. Subtract line 3 from line 2. 4.

		1	1	4	0	0
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		0	0
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 5. Withholding tax due - line 4 x .05. 5.

				5	7	0
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		0	0
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- 14-0822

* NOTE: \$38,700 (line 5 of the SC1120S) less \$700 directly allocated dividends. See page 13 and 14.

WITHHOLDING ON INCOME OF S CORPORATION SHAREHOLDERS WHO ARE NONRESIDENTS OF SOUTH CAROLINA

S Corporations are required annually to withhold 5% (percent) of the South Carolina taxable income of shareholders who are nonresidents of South Carolina. The income tax withheld must be paid to the SC Department of Revenue when filing SC1120S-WH by the fifteenth day of the third month following taxable year end of the S Corporation. By this same date, the S Corporation must provide nonresident shareholders a form 1099-MISC with "South Carolina Only" written at the top showing respective amounts of income and tax withheld. Along with filing SC1120S-WH and payment of tax, the S Corporation must attach a schedule disclosing the name, address, tax identification number, South Carolina taxable income and tax withheld for each nonresident shareholder. S Corporations requesting an extension of time to file SC1120S must estimate South Carolina taxable income of nonresidents and pay 5% withholding tax on this amount and file SC1120S-WH by the 15th of the third month following its taxable year end. Each nonresident must attach a copy of this form 1099-MISC to his respective income tax return as verification for claiming credit for this withholding.

A nonresident shareholder may provide the S Corporation with an affidavit agreeing that he is subject to the jurisdiction of the Department and the Courts of this State for purposes of determining and collecting South Carolina tax, interest and penalties which may be due. An affidavit form may be obtained from the SC Department of Revenue. The S Corporation may attach such affidavit to SC1120S-WH and the S Corporation is not required to withhold income tax on behalf of such shareholder. If an affidavit has previously been filed it should not be resubmitted. SC1120S-WH is not required to be filed if the S Corporation has no South Carolina taxable income for the year. **S Corporations that report the income of their nonresident shareholders on a composite return are not required to withhold tax, file SC1120S-WH or file affidavits.** See composite filing below.

COMPOSITE FILING

A composite return is a single nonresident individual income tax return (Schedule NR attached to SC1040) filed by an S-Corporation that computes and reports the income and tax of its nonresident shareholders. The return is due on or before the 15th day of the 4th month following the shareholder's taxable year end. Any tax due is paid along with filing the return.

Two methods are available for calculating tax on a composite return: (1) Compute each participating shareholder's income tax separately as if the shareholder were separately reporting income on a nonresident return; OR (2) compute each participating individual's entire share of SC income 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.

The S-Corporation does not need to withhold on behalf of any shareholder participating in a composite return. Shareholders participating in a composite return do not need to pay estimated tax. For more detailed information, see Revenue Procedure 92-5 on our website: www.sctax.org

NEW: For tax years beginning after 2005, a 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 a active trade or business income (I-335), unless the shareholder completes an I-338 composite return affidavit stating that he has no other income taxable in to South Carolina.

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

In order to extend the time allowed for filing a composite return, file SC4868 using the name and EIN of the S-Corporation. Mark the composite box. Do not use the SC1120T to extend the composite return. 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 shareholder's taxable year.