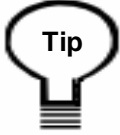


SC1040 INSTRUCTIONS 2002 (Rev. 1/21/03)

For tax year 2002, unless you have a valid extension, the deadline to claim a refund is April 15, 2006.

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 A SCHEDULE NR WITH YOUR SOUTH CAROLINA RETURN, ATTACH A COPY OF YOUR COMPLETED FEDERAL RETURN AND SCHEDULE(S) TO YOUR SOUTH CAROLINA RETURN BEFORE FILING IT.



Complete your federal return first!

NAME, ADDRESS AND SOCIAL SECURITY NUMBER

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

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

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

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 117-1 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.



NOTE: NEXT YEAR, DO YOU REALLY NEED A BOOKLET?

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

SCHEDULE NR

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.

INFORMATION FROM FEDERAL RETURN

FILING STATUS

You **must** check the same filing status you checked on your federal return. Check only one box. **Special rules** may apply to **NC residents**. See page 1 of General Instructions.

EXEMPTIONS

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

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 53.

Line 1 Enter your Federal Taxable income from your federal form 1040, line 41; 1040A, line 27; or 1040EZ, line 6. Also enter this figure on line 33 of this return. If your Federal Taxable income is zero or less enter zero here and enter your negative amount on line 49.

Line 2 Resident filers complete lines 34 - 57 and enter figure from line 57 here. See pages 13-18 for further instructions. Nonresident/Part Year filers complete Schedule NR. Enter amount from line 43 here. See page 20 for further instructions.

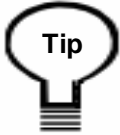
If line 57 of the SC1040 or line 43 of the Schedule NR is less than zero, place a zero on line 2.

SOUTH CAROLINA TAX

Line 3 TAX

If your "income subject to tax" on line 2 is less than \$100,000 use the tax tables on pages 29 through 32 to determine your South Carolina tax and enter the amount of tax on line 3.

If your "income subject to tax" on line 2 is \$100,000 or more, use tax rate schedule on page 32 to compute your tax and enter the amount of tax on line 3.



Do Not enter the 10% penalty on line 4.

Line 4 TAX ON LUMP SUM DISTRIBUTION

South Carolina provisions for lump sum distributions are the same as the federal provisions except South Carolina does not impose a premature distribution penalty. If you used federal form 4972 for a lump sum distribution, you must use the South Carolina form SC4972 to compute the South Carolina tax.

CREDITS

Line 6 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 \$168. The maximum credit for two or more children is \$336.

Example A: Full Year Resident

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

$\$2000 \times .07 = \140.00

In this example, the allowable credit is \$140.00.

Example B: Part Year/Nonresident

Federal Child Care Expense from form 2441, line 6 or 1040A, Schedule 2, line 6 is \$2,000 and your proration percent from line 38 of SC Schedule NR is 30%, your computation should be:

$\$2000 \times .30 = \$600 \times .07 = \$42.00$

In this example, the allowable credit is \$42.00.

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 7 TWO WAGE EARNER CREDIT (MARRIED COUPLE)

This credit can only be claimed by a **married couple filing jointly** when both spouses have earned income. This credit is **not** allowed on returns with a filing status of single, married filing separately or head of household.

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 \$112.00 (\$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, 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 interest, dividends, Social Security benefits, IRA distribution, unemployment compensation, deferred compensation nor non-taxable income. **It also does not include any amount your spouse paid you.**

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

1. Wages, salaries, tips, etc., taxed to South Carolina from South Carolina Schedule NR, Column B; line 1, federal form 1040, line 7; 1040A, line 7 or 1040EZ, line 1. (Do not include pensions or annuities.) _____

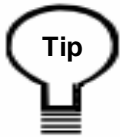
2. Net profit or (loss) from self-employment (from Schedules C and on Schedule K-1 of Form 1065) and any other earned income taxed to South Carolina. _____

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

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

- IRA deduction (from line 24, 1040, or line 16, 1040A)
- One half of self-employment tax (from line 29 of 1040)
- KEOGH retirement plan and self-employed SEP deduction
- Repayment of sub-pay

4. Add amounts entered on federal form 1040 lines 24, 29 through 31. If filing South Carolina Schedule NR, enter amounts from lines 17, 22 through 24 and any repayment of supplemental unemployment benefits (sub-pay) allocable to South Carolina income. _____



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

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. (a) You _____ (b) Your Spouse _____

Compute to 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 either SC1040, line 7. _____

Line 8 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 11 SC INCOME TAX WITHHELD FROM WAGES

Enter the total SC tax withheld from your wages. The SC tax withheld is the amount on your wage slips titled "State Income Tax." Enter only amounts withheld to South Carolina. Withholding paid to any other state cannot be claimed on your South Carolina return.

If you have South Carolina withholding from any federal form 1099, include that amount on line 15.

NOTE: Amounts reported on a 1099G/INT cannot be claimed as South Carolina withholding.

Attach READABLE copies of your wage slips (W-2) to the front of your return, right side up, at the place provided. If you do not have a W-2 form, you must provide proof of any tax withheld from your wages. Copies of your W-2's are available only from your employer.

Line 12 2002 ESTIMATED TAX PAYMENTS

Enter the total estimated tax payments you made before filing your 2002 South Carolina tax return plus any amount transferred from your 2001 tax return.

Line 13 PAYMENTS ON EXTENSION

If you requested an extension for more time to file your return, enter any amount you paid with the extension.

Line 14 NONRESIDENT SALE OF REAL ESTATE

A nonresident of South Carolina who sells real property located in this state is subject to withholding of South Carolina income taxes. Such sale must be reported to South Carolina on an individual income tax return. If state income taxes were withheld at the time of sale, claim the amount withheld on line 14 and attach a copy of the **I-290** to your return.

Line 15 SC INCOME TAX WITHHELD - FORM 1099

Enter the total SC tax withheld from each Form(s) 1099 and attach a copy of each Form(s) 1099 to the front of your return. Form W-2 withholding should be entered on line 11.

NOTE: Amounts reported on a 1099 G/INT cannot be claimed as South Carolina withholding.

Line 16 TUITION TAX CREDIT

A refundable credit may be claimed by a student or by an individual eligible to claim the student as a dependent on his/her federal income tax return, whoever actually paid the college tuition.

You must file form SC1040 to claim this credit and attach a copy of your federal return.

Refer to form I-319 to see if you qualify to claim this credit. If you qualify, complete all information on form 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, refer to South Carolina Revenue Advisory Bulletin #00-1 which can be found on our website: www.sctax.org

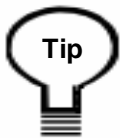
Line 20 SOUTH CAROLINA USE TAX

See South Carolina Use Tax Worksheet UT-3W for instructions. Enter South Carolina Use Tax Due from Line 5 of worksheet on line 20 of your SC1040 if your use tax has not been remitted during the year. Purchases subject to use tax are taxed at your county's state and local sales and use tax rate.

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

Line 21 ESTIMATED TAX

If you want to apply any or all of your overpayment toward next year's tax, enter the amount on line 21.



Attach all W-2's and/or 1099's! Credit for withholding can be allowed **only** if all supporting documents are provided.

Line 22 - 29 CONTRIBUTION CHECK-OFFS

See page 19 for specific information about the various funds to which you may contribute.

REFUND OR AMOUNT YOU OWE

Line 31 REFUND

If you have an amount on line 30, subtract line 30 from line 18 and enter the "Amount to be Refunded to You" on line 31. Otherwise, enter the amount from line 18. The SC Department of Revenue will not refund amounts less than \$1.00.

Line 32 NET DUE - AMOUNT YOU OWE

If you have an amount on line 30, add lines 30 and 19 and enter the "Amount You Owe" on line 32; otherwise, enter the amount from line 19. **Attach a check or money order to your return and write your Social Security number and "2002 Form SC1040" on it.** Make check or money order payable to the "SC Department of Revenue." Note the SC2210 penalty instructions below.

 **UNDERPAYMENT OF ESTIMATED TAX - SC2210**

You may owe a penalty for underpayment if you did not pay at least the smaller of: 90% of your tax liability for 2002; or 100% of your tax liability for 2001. However, if your adjusted gross income is \$150,000 or more, the 100% rule is modified to be 112% of the tax shown on your 2001 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 18 and line 30 and enter the result on line 31. If you owe tax, add the penalty amount to the sum of the amount due on line 19 and line 30 and enter the result on line 32.

ADDITIONS TO FEDERAL TAXABLE INCOME

Enter all numbers on line 34 through 38 as **positive** numbers even if they are negative numbers on the federal return.

Lines 34 through 38 are adjustments which **must be added** to your federal taxable income to determine your South Carolina taxable income. Line 39 is the total of these additions.

Line 34 STATE INCOME TAXES, IF ITEMIZING ON FEDERAL RETURN

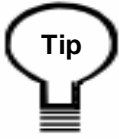
If you deducted state and local income taxes while itemizing on your 2002 federal income tax return, you are required to add all or part of this amount to federal taxable income to arrive at your South Carolina taxable income. Use the worksheet below to figure the adjustment. (Keep this worksheet for your records.)

Worksheet A State Income Tax Adjustment

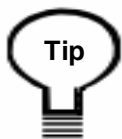
1. Total itemized deductions from 2002 federal Schedule A, line 28. 1. _____
2. The standard deduction you would have been entitled to if you had not itemized your deductions for 2002. (See federal instructions). Enter zero for married filing separate returns. 2. _____
3. Subtract line 2 from line 1. (Enter zero if line 2 is greater than line 1.) 3. _____
4. Enter the amount of state income taxes from line 5 of Schedule A. If your federal itemized deductions were limited due to your adjusted gross income being more than \$137,300 (\$68,650 married filing separate), go to Worksheet B. 4. _____
5. The lesser of line 3 or line 4. Enter this amount on SC1040 line 34. 5. _____

Worksheet B State Income Tax Adjustment. Complete when federal adjusted gross income is more than \$137,300 (\$68,650 married filing separate) and federal itemized deductions are limited:

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



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



Your state income tax add back cannot be less than zero.

Line 35 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 35. You must also include any related expenses, such as investment interest. Enter the total of these losses and related expenses on line 35.

Personal service income (W-2 or business wages) is taxable to South Carolina no matter where it is earned.

Line 36 EXPENSES RELATED TO RESERVE INCOME

If you reported military reserve income on your federal return, you **must add** the expenses related to this income. If you itemized under the miscellaneous deduction subject to two percent, prorate the adjustment based on the ratio of related expense to total expenses claimed, multiplied by the allowable deduction from federal form 1040, Schedule A, line 26. Enter the amount of related expenses on line 36.

Line 37 INTEREST INCOME

Interest income on obligations of states and political subdivisions other than South Carolina **must be added**. Exempt interest income from a mutual fund is excludable by the percentage the fund's assets consist of South Carolina and/or federal obligations. Enter the amount of taxable interest income on line 37.

Line 38 OTHER ADDITIONS TO INCOME

Since these additions apply to only a few people, they are not fully explained in this booklet. Attach an explanation of your entry for this line. Some of the items which **must be added** on this line are:

- Taxpayers that claim 30% bonus depreciation because of the 2002 Jobs Creation Act must add back the difference between the 30% depreciation taken and the depreciation which would have been allowed before the law changed.
- Taxpayers must add back the amount of educator expenses deducted on federal Form 1040, line 23 or Form 1040A, line 16.
- Taxpayers that claim a child care program credit for donations to a nonprofit corporation (Sch. TC-9) are not allowed a deduction for those donations. The disallowed deductions are an addition to federal taxable income.
- Taxpayers that claim a credit for wages paid to employees terminated due to a base closure (Sch. TC-10) must reduce the deduction for wages paid by the amount of the credit. The amount of this credit is an addition to federal taxable income.
- Capital loss carryover incurred in a tax year prior to January 1, 1985.
- Federal net operating loss when claiming a different amount for state purposes **is an addition. In no event is the same loss to be deducted more than once.** No carryback losses are allowed.
- Expenses deducted on the federal return related to any income exempt or not taxed by South Carolina **is an addition. Some examples are investment interest to out-of-state partnerships and interest paid to purchase United States obligations.**
- Foreign areas allowances, cost of living allowances and/or income from possessions of the United States are **additions** to federal taxable income.
- Annuity costs recovered in full for state purposes are **additions** to federal taxable income if using the federal ratio for cost recovery.
- Miscellaneous federal estate tax deductions on income in respect of decedent are **additions**.
- Effective for qualifying investments made after June 30, 1998, taxpayers must reduce the basis of the qualifying property to the extent the Economic Impact Zone Investment Tax Credit is claimed. An addition to federal taxable income must be made for the resulting reduction in depreciation.

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 41 through 55 as positive numbers even if they are negative numbers on the federal return.



For further information about additions to federal taxable income contact your nearest Taxpayer Service Center or visit our website: www.sctax.org

Lines 41 through 55 are adjustments which **should be subtracted** from your federal taxable income to determine your South Carolina taxable income. Line 56 is the total of these subtractions.

Line 41 STATE TAX REFUND

If your state tax refund was included on line 10 of your federal 1040, that amount should be entered on line 41.

Line 42 INTEREST FROM US OBLIGATIONS

If you included your interest income from U.S. obligations (such as U.S. savings bonds, treasury notes and bills, etc.) as income on your federal income tax return for 2002, enter this amount on line 42. Interest income from a mutual fund is excludable by the percentage the fund's assets consist of South Carolina and/or federal obligations.

Interest income from the following obligations **are taxable** for state purposes:

- Federal Home Loan Mortgage Corporation (Freddie Mac)
- Federal National Mortgage Association (Fannie Mae)
- Government National Mortgage Association (Ginnie Mae)

Line 43 NATIONAL GUARD and RESERVE ANNUAL TRAINING and DRILL PAY

The amount of income received for weekend drills and customary training periods when serving in the military reserves or National Guard **should be subtracted**. Generally, the customary training period is one weekend a month and two weeks per year of active duty. Enter the amount on line 43. **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 55 instructions for other subtractions, page 17.

Line 44 PERMANENT DISABILITY RETIREMENT INCOME INCLUDED ON FEDERAL RETURN

If **disability retirement income** was taxed on your federal income tax return for 2002 and you qualify as being **permanently and totally disabled**, you may be able to exclude this income for South Carolina purposes. To qualify as totally and permanently disabled, you must be unable to be gainfully employed and otherwise eligible for the homestead exemption under Section 12-37-250. Qualifying for disability from one job while still being able to perform another job **would not** qualify you as totally and permanently disabled and **would not** qualify you for this deduction. Attach a copy of a physician's statement that you are permanently and totally disabled.

Line 45 SOCIAL SECURITY AND/OR RAILROAD RETIREMENT AMOUNT IF TAXED BY FEDERAL

If you are taxed on any Social Security benefits under Title 2 of the Social Security Act or Tier I and Tier II railroad retirement income on your federal return for 2002, enter the amount that was taxed on your federal return on line 45.

Line 46 RETIREMENT DEDUCTION

An **individual** who is **under age 65** may claim a retirement deduction of no more than \$3,000 of **qualified retirement income**.

An individual who is age **65 or older** may claim a retirement deduction of no more than \$10,000 of **qualified retirement income**.

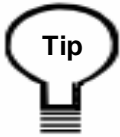
Husband and wife must each have their own qualified retirement income to claim their separate retirement deduction. Line 46a applies to the taxpayer whose name appears first on the return. Line 46b applies to the spouse, whose name appears second on the return.

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

Social Security income, railroad retirement income, and disability retirement income due to permanent and total disability do NOT qualify because these items are not taxed by South Carolina. See lines 44 and 45.

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

A **surviving spouse** receiving qualified **retirement** income attributable to the deceased spouse may deduct up to \$3,000 or \$10,000 of the qualified retirement income, based on the age the deceased spouse would have been had he or she lived. To claim the deduction on line 46c, 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. Enter the birthdate(s) of the decedent(s).



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



Provide birth dates for taxpayers claiming the retirement deduction.

Worksheet for Taxpayer line 46a:

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 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 46a. 3. _____

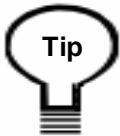
Worksheet for Spouse line 46b:

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 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 46b. 3. _____

Worksheet for Surviving Spouse line 46c:

NOTE: Calculate separately for each deceased spouse and include total on line 46c.

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 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 46c. 3. _____



Provide birth dates for taxpayers age 65 and older.

Line 47 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 47a applies to the taxpayer whose name appears first on the return. Line 47b applies to the spouse, whose name appears second on the return. The amount of the deduction on 47a is reduced by any individual retirement deduction claimed on line 46a. The amount of the deduction on 47b is reduced by any individual retirement deduction claimed on line 46b. The age-65-and-over deduction is not reduced by any surviving spouse retirement deduction claimed on line 46c.

Worksheet for Taxpayer line 47a:

1. Maximum deduction allowed for taxpayer \$15,000.00
2. Amount claimed on line 46a for the taxpayer who is age 65 or older 2. _____
3. Subtract line 2 from line 1. Enter this amount on line 47a. Do not enter an amount less than zero. 3. _____

Worksheet for Spouse line 47b:

1. Maximum deduction allowed for spouse 1. \$15,000.00
2. Amount claimed on line 46b for the taxpayer who is age 65 or older 2. _____
3. Subtract line 2 from line 1. Enter this amount on line 47b. Do not enter an amount less than zero. 3. _____



Do not enter wages earned in another state on SC1040 line 48. See SC1040TC.

Line 48 OUT-OF-STATE RENTAL/BUSINESS OR REAL ESTATE INCOME NOT TAXABLE TO SOUTH CAROLINA

If you have income from out-of-state rental property; a business located outside South Carolina; or gain from real property located out of state, as reported on your federal return, enter this amount on line 48. **However, personal service income (W-2 or business wages) is taxable to South Carolina no matter where it is earned.**



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

Line 49 NEGATIVE FEDERAL TAXABLE INCOME

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

For the SC1040 form, it is important that a negative number not be entered on line 1. Because the South Carolina return begins with federal taxable income, it is important that you get the benefit of the negative amount from the federal taxable income line of the federal return. On the SC1040 form, start with zero on line 1 and put the negative amount from the federal taxable income line of the federal return on line 49 of SC1040.

Line 50 NET CAPITAL GAIN DEDUCTION

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

The term "**net capital gain**" means the **excess** of the **net long-term** capital gain for the taxable year **over** the **net short-term** capital loss for such year. Income received from installment sales as well as capital gain distribution qualifies for this deduction **provided the more than one year holding period has been met**. Multiply the net gain which meets the above guidelines by 44% (.44) and enter the results on line 50 of SC1040.

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

SC Net LT Capital Gain (more than one year)	\$7,000 (10,000 gain-3,000 loss)
- SC Net ST Capital Loss	- 5,000 (one year or less)
<u>SC Net Capital Gain</u>	<u>\$2,000</u>
<u>X Net LT Capital Gain Deduction</u>	<u>X 44%</u>
Amount to be deducted on line 50	\$880.00

Line 51 SUBSISTENCE ALLOWANCE

Subsistence allowances of \$5 per regular workday are allowed for 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. Your employer should provide you with the number of work days.

Line 52 QUALIFYING VOLUNTEER FIREFIGHTERS/RESCUE SQUAD MEMBERS DEDUCTION

Volunteer firefighters and rescue squad members are allowed a **\$3000 deduction** from his or her SC taxable income. **Only** those volunteer firefighters or rescue squad members receiving annually a minimum number of points as set by the state fire marshal are eligible for the deduction. Your employer should provide you with a form stating the number of points earned. If you qualify, enter \$3000 on line 52.

Line 53 DEPENDENTS UNDER SIX YEARS OF AGE

An additional deduction is allowed for each dependent claimed on the federal income tax return who had **not** reached the age of six years by December 31, 2002. Birthdate(s) and social security number(s) are required. Use the following worksheet to compute the deduction:

2002 Federal Personal Exemption Amount.....	3,000
Number of dependents claimed on your 2002 federal return who had not reached age six during 2002	x
Allowable deduction, enter this amount on line 53	_____

Line 54 ADDITIONAL SELF-EMPLOYED HEALTH INSURANCE DEDUCTION

A deduction is allowed for the portion of premiums paid for self-employed health insurance and **not deducted** pursuant to Internal Revenue Code 162(L).

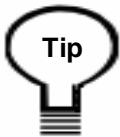
Line 55 OTHER SUBTRACTIONS FROM INCOME

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 of the items which may be subtracted on line 55 are:

- A deduction is allowed for contributions to the College Investment (future scholar) Program.
- A deduction is allowed for contributions to the SC Tuition Prepayment Program.
- A deduction is allowed to an individual for the purchase of economic impact zone stock. The deduction is equal to twenty percent of the total amount paid in cash by the taxpayer during the taxable year for the purchase of economic impact zone stock.
- If you itemized and claimed a federal tax credit for qualified mortgage credit certificates (MCC), you may subtract the amount of the tax credit as interest on line 55 of SC1040.
- South Carolina net operating loss. **In no event is the same loss to be deducted more than once.** (Attach your own worksheet.) No carryback losses are allowed.
- South Carolina and federal depreciation expenses are the same. Any asset with a different basis must be adjusted at the end of the federal depreciation as follows: personal property must be depreciated by the straight line method at the rate of 50 percent per year and real property must be depreciated by the straight line method at the rate of 20 percent per year.
- 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.



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



South Carolina does not allow carrybacks of net operating losses.



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

- Legislators within a 50-mile radius of the State House are allowed to **subtract** travel expenses.
- Depreciable assets with a higher state basis because of: (1) taxable corporate liquidation prior to January 1, 1985; (2) exchange of property corporate liquidation prior to January 1, 1985; (3) exchange of property prior to January 1, 1985, as a result of not having a situs in South Carolina; or (4) IRC Section 179 expensing prior to January 1, 1985, may continue the state depreciation in the same manner. If you elect to continue this option, **subtract** the excludable portion from your income.
- Job credit wage reductions for federal purposes are subtractions from income for South Carolina purposes.
- Military Reserve and National Guard pay which is included in retirement income is not taxed for South Carolina purposes.

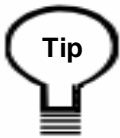
Determine the percentage of your military retirement income which is excludable by dividing the length of time you served in the Reserves and/or National Guard (not full time) by the length of time of your total military service as follows:

$$\frac{\text{Reserve time} + \text{National Guard time}}{\text{Total Military time}} = \text{_____ \% exclusion}$$

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 on line 55.



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

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

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

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

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

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

SIGN AND DATE YOUR RETURN

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

For deceased taxpayers, returns must be signed by surviving spouse, executor or administrator.

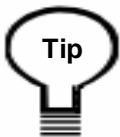
For surviving spouse, write "filing as surviving spouse" by your signature.

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

POWER OF ATTORNEY

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

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



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