

SC1040 INSTRUCTIONS 2016 (Rev. 11/3/16)

IMPORTANT INFORMATION BEFORE YOU BEGIN

For tax year 2016, unless you have a valid extension, the due date is **April 15, 2017** and the deadline to claim a refund is April 15, 2020.

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.

The references to form numbers and line descriptions on federal income tax forms were correct at the time of printing. If they have changed and you are unable to determine the proper line to use, please contact the SC Department of Revenue individual income tax section at 1-844-898-8542 or by email ITax@dor.sc.gov. These instructions are to be used as a guide in the preparation of a South Carolina individual income tax return and are not intended to cover all provisions of the law.

If you were required to use federal schedules C, D, E and/or F with your federal return or filed a Schedule NR, SC1040TC, I-319 and/or I-335 with your South Carolina return, attach a copy of your completed federal return and schedule(s) to your South Carolina return.

Form SC1040X should be used to correct or change an SC1040 that you have previously filed. SC1040X can be filed only **after** you have filed an original return.

NOTE ON CONFORMITY: Due to publication deadlines, conformity issues are not addressed in our instructions.

NAME, ADDRESS AND SOCIAL SECURITY NUMBER

Print or type your social security number. A check box is provided to indicate if the taxpayer is deceased.

Print or type your name, mailing address, and the county code of the county in which you live. See county code listing in these instructions. A check box is provided to indicate if this is a new mailing address. **Make sure your mailing address is complete and accurate on your return.**

For a foreign address, check the box indicating that the address is outside the United States. In the box provided print or type the complete foreign address including postal code.

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

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

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

SOCIAL SECURITY PRIVACY ACT DISCLOSURE

It is mandatory that you provide your social security number on this tax form. 42 U.S.C. 405(c)(2)(C)(i) permits a state to use an individual's social security number as means of identification in administration of any tax. SC Regulation 117-201 mandates that any person required to make a return to the SC Department of Revenue shall provide identifying numbers, as prescribed, for securing proper identification. Your social security number is used for identification purposes and to process any refund due you.

ITIN - INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER

If you are a nonresident or resident alien and cannot get a social security number, you may contact the Internal Revenue Service to apply for and obtain an individual taxpayer identification number (ITIN) for the purpose of filing income tax returns. South Carolina will accept this number in place of a social security number for the purposes of processing your individual income tax returns. For information on obtaining an ITIN, please contact the Internal Revenue Service at 1-800-829-1040 or go to www.irs.gov.

CHECK BOXES

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

If you are filing a composite return for a partnership or S corporation, check the box and see I-348 Composite Instructions for more information on filing a composite return. Do not check this box if you are an individual.

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

If you served in a Military Combat Zone during the filing period, check the box and enter the combat zone.

If your return is affected by a federally declared Disaster Area, check the box and enter the disaster area.

FILING STATUS

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

EXEMPTIONS

You **must** enter the same number of exemptions claimed on your federal return. Attach federal Form 8332, Release/Revocation of Release of Claim to Exemption for Child by 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 t** under subtractions from federal taxable income.

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

Enter your dependents first and last name, social security number, relationship, and date of birth.

LINE INSTRUCTIONS FOR SC1040

ROUND OFF ALL AMOUNTS TO THE NEAREST WHOLE DOLLAR.

Line 1 - FEDERAL TAXABLE INCOME

Enter your **Federal Taxable Income** from your federal form. **If your Federal Taxable Income is zero or less, enter zero** here and enter your negative amount on **line r**.

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

ADDITIONS TO FEDERAL TAXABLE INCOME

Enter all numbers on **lines a through e** as **positive** numbers even if they are negative numbers on the federal return. **Lines a through e** are adjustments which **must be added** to your federal taxable income to determine your South Carolina taxable income. Line 2 is the total of these additions.

Line a - STATE TAX ADD BACK, IF ITEMIZING ON FEDERAL RETURN

If you deducted state and local income taxes or general sales taxes while itemizing on your 2016 federal income tax return, you are required to add all or part of this amount to federal taxable income to arrive at your South Carolina taxable income. Use the worksheet below to figure the adjustment. (Keep this worksheet for your records.)

Worksheet A - State Tax Adjustment	
1. Itemized deductions from 2016 federal Form 1040, Schedule A lines 4, 9, 15, 19, 20, 27 and 28.	1. _____
2. Enter allowable federal standard deduction you would have been allowed if you had not itemized. Enter zero if married filing separate (MFS) returns. (See federal instructions)	2. _____
3. Subtract line 2 from line 1. (Enter zero if line 2 is greater than line 1.)	3. _____
4. Enter the amount of state and local income taxes or general sales taxes from federal Schedule A.	4. _____
5. The lesser of line 3 or line 4. Enter this amount on SC1040 line a .	5. _____

Line b - 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 b**. You must also include any related expenses, such as investment interest. Enter the total of these losses and related expenses on this line. Personal service income (W-2 or business wages) is taxable to South Carolina **no matter where it is earned**.

Line c - EXPENSES RELATED TO RESERVE INCOME

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

Line d - INTEREST INCOME

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

Line e - OTHER ADDITIONS TO INCOME

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

- Taxpayers who claim bonus depreciation under federal law must add back the difference between the bonus depreciation taken and the depreciation which would have been allowed without bonus depreciation.
- Taxpayers who claim a nonrefundable Exceptional Needs Children Education credit for contributions to a nonprofit scholarship funding organization are not allowed a deduction for these contributions. If a taxpayer deducts the amount of the contribution on his or her federal return, the taxpayer must add back the amount of the deduction for South Carolina purposes.

- Taxpayers who 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 who claim credits such as the Community Development Credit (Sch. TC-14), the Industry Partnership Fund Credit (Sch. TC-36), and the Credit for Child Care Program (Sch. TC-9), may not claim a deduction for the same qualified contribution which results in the credit.
- Federal net operating loss when claiming a larger amount than for state purposes **is an addition**.
- Expenses deducted on the federal return related to any income exempt or not taxed by South Carolina **is an addition. Some examples are investment interest to out-of-state partnerships and interest paid to purchase United States obligations.**
- Foreign areas allowances, cost of living allowances and/or income from possessions of the United States are **additions** to federal taxable income.
- Effective for qualifying investments made after June 30, 1998, taxpayers must reduce the basis of the qualifying property to the extent the Capital Investment Tax Credit is claimed. An addition to federal taxable income must be made for the resulting reduction in depreciation.
- A deduction for domestic production activities under IRC Section 199 must be added back.
- A charitable contribution deduction under IRC Section 170 for a gift of land must be added back unless the contribution also meets the requirements of SC Code Section 12-6-5590.
- Include any withdrawals during the tax year from a Catastrophe Savings Account that were:
 - (1) necessary because contributions were more than the allowable limits; or
 - (2) more than the amount needed to cover qualified catastrophe expenses. (Qualified catastrophe expenses are expenses paid or incurred because of a major disaster as declared by the Governor.)
 Do not include any withdrawals made by the surviving spouse of the account owner.
- As of January 1, 2009, a business must add back any amount paid for services performed by an unauthorized alien if the amount is \$600 or more a year.

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.**

Line 2 - TOTAL ADDITIONS

Add **lines a through e** and enter total. These are your total additions.

SUBTRACTIONS FROM FEDERAL TAXABLE INCOME

Enter all numbers on **lines f through v** as positive numbers even if they are negative numbers on the federal return.

Lines f through v are adjustments which **should be subtracted** from your federal taxable income to determine your South Carolina taxable income.

Line f - STATE TAX REFUND

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

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

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

You must be totally and permanently disabled, unable to be substantially gainfully employed, receiving income from a disability retirement plan, and eligible for the homestead exemption under SC Code Section 12-37-250. You must attach a copy of the physician's statement establishing that you are permanently and totally disabled.

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

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

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

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

Line i - 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 South Carolina taxable income are reduced by 44% for South Carolina 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.** (South Carolina Capital Gains holding period is the same as the federal.) Multiply the net gain which meets the above guidelines by 44% (.44) and enter the results on this line.

Example: Taxpayer's gain on stock (held more than one year) 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	\$ 7,000
(more than one year)	(10,000)
- SC Net ST Capital Loss	- 5,000 gain - 3,000 loss)
SC Net Capital Gain	\$ 2,000 (one year or less)
Net LT Capital	<u>X 44%</u>
X Gain Deduction	\$ 880
Amount to be deducted	

Line j - VOLUNTEER DEDUCTION

Volunteer firefighters, rescue squad workers, volunteer hazardous material HAZMAT team members, reserve police officers, Department of Natural Resource (DNR) deputy enforcement officers, members of the State Guard, and State Constables are allowed to deduct \$3,000.

- **Volunteer firefighters, rescue squad workers and HAZMAT members** qualify **only** if their employer provides them with a form stating that they have earned the minimum number of points established by the State Fire Marshal during the year.
- **Reserve police officers, DNR deputy enforcement officers, and State Guard members** qualify only if the appropriate authority provides them with an I-332 certification form certifying their eligibility for this deduction.
- **Volunteer state constables** qualify if they complete a minimum logged service time of two hundred forty hours per year and have been designated by the State Law Enforcement Division (SLED) as a state constable before the taxable year for which the deduction is first claimed. The volunteer state constable must be current with the required SLED approved annual training for constables for the most recently completed fiscal year as evidenced by a copy of the documentation provided to SLED of this annual training.

An individual is limited to one deduction of \$3,000. If a taxpayer and spouse both qualify, enter \$6,000. Enter the amount on **line j** and check the type of deduction.

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

You may deduct 100% of any contributions to the SC College Investment Program ("Future Scholar") made between January 1, 2016 and through April 15, 2017. You may deduct 100% of any contribution to the SC Tuition Prepayment Program made between January 1, 2016 and December 31, 2016.

Line l - ACTIVE TRADE OR BUSINESS INCOME DEDUCTION

Enter the amount from I-335, line 5.

Line m - INTEREST FROM UNITED STATES OBLIGATIONS

If you included your interest income from United States obligations (such as United States savings bonds, treasury notes and bills, etc.) as income on your federal income tax return, enter the amount on this line. Deduct the interest income from South Carolina and/or federal obligations. For additional information see **South Carolina Revenue Ruling 16-2** on our website **dor.sc.gov**.

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 n - CERTAIN NONTAXABLE NATIONAL GUARD OR RESERVE PAY

Income received from National Guard or Reserve members for customary annual training, weekend drills, and other inactive duty training is generally exempt from South Carolina income tax.

- Members of the National Guard or Reserves may deduct all inactive duty pay from the United States or any state for weekend drills and other inactive duty training actually attended.
- Members of the National Guard and active duty Reserve members may also deduct up to 15 days of customary annual training pay, also referred to as "active duty training" or "ADT".
- Inactive duty Reserve members may also deduct up to 14 days of customary annual training pay, also referred to as "active duty training" or "ADT" plus up to 2 days of travel time listed on official orders.
- Full-time Active Guard and Reserve (AGR) employees may deduct up to 15 days of annual training actually attended and up to 24 days of weekend drills (a maximum of 39 days) at the daily rate of pay.

For additional information see **South Carolina Revenue Ruling #09-16** on our website dor.sc.gov. Do not include Military Reserve and National Guard pay which is included in retirement income on this line. See **line v** instructions for other subtractions.

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

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

Lines p-1 - p-3 - RETIREMENT DEDUCTION

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

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

On **line p-1**, include only qualified withdrawals from the taxpayer's own qualified retirement plan. On **line p-2**, include only qualified withdrawals from the spouse's own qualified retirement plan.

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

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

Any portion of qualified retirement income received this tax year that resulted in a **federal premature withdrawal penalty** does **NOT** qualify for a retirement deduction.

A **surviving spouse** receiving qualified **retirement** income attributable to the deceased spouse may deduct up to \$3,000 or \$10,000 of the qualified retirement income, based on the age the deceased spouse would have been had he or she lived. To claim the deduction on **line p-3** 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 from his or her own plan.

Worksheet for Taxpayer line p-1:	
1. Maximum deduction allowed for taxpayer based on age (\$3,000 or \$10,000).	1. _____
2. Taxpayer's individual qualified retirement income included in federal form. (Taxable IRA Distributions, Pensions, and Annuities)	2. _____
3. Amount on line 1 or 2, whichever is smaller Enter on line p-1 .	3. _____

Worksheet for Spouse line p-2:	
1. Maximum deduction allowed for spouse based on age (\$3,000 or \$10,000).	1. _____
2. Spouse's individual qualified retirement income included in federal form. (Taxable IRA Distributions, Pensions, and Annuities)	2. _____
3. Amount on line 1 or 2, whichever is smaller. Enter on line p-2 .	3. _____

Worksheet for Surviving Spouse line p-3:	
NOTE: Calculate separately for each deceased spouse.	
1. Maximum deduction allowed for surviving spouse based on age of deceased spouse had he/she lived (\$3,000 or \$10,000 per deceased spouse).	1. _____
2. Qualified retirement income received as surviving spouse included in federal form. (Taxable IRA Distributions, Pensions, and Annuities)	2. _____
3. Amount on line 1 or 2, whichever is smaller. Enter on line p-3 .	3. _____

Lines p-4 - p-6 MILITARY RETIREMENT DEDUCTION

An individual taxpayer who has military retirement income, each year may deduct an amount of his South Carolina earned income from South Carolina taxable income equal to the amount of military retirement income that is included in South Carolina taxable income. The deductions are phased in over five years beginning in 2016. The term "retirement income" means the total of all otherwise taxable income not subject to a penalty for premature distribution received by the taxpayer or the taxpayer's surviving spouse in a taxable year from a qualified military retirement plan. For purposes of a surviving spouse, "retirement income" also includes a retirement benefit plan and dependent indemnity compensation related to the deceased spouse's military service. A surviving spouse receiving military retirement income that is attributable to the deceased spouse shall apply this deduction in the same manner that the deduction applied to the deceased spouse. If the surviving spouse also has another retirement income, an additional retirement exclusion is allowed.

Military Retirement Deduction Under the age of 65:

For 2016, the deduction is limited to **\$5,900** for individual taxpayers **under the age of 65**. Taxpayers must have other earned income, other than the military retirement, to take the deduction. South Carolina earned income is generally income you receive for services you provide. It includes wages, salaries, tips, commissions and sub-pay. It also includes income earned from self-employment, business income or loss, partnership income or loss, farm income or loss and any other earned income taxed to

South Carolina. Earned income does not include gambling or bingo winnings, interest, dividends, social security benefits, IRA distribution, retirement plan or annuity benefits, unemployment compensation, deferred compensation or non-taxable income. It also does not include any amount you paid your spouse. Once the phase in is complete, the under age 65 military retirement deduction will be \$17,500 per taxpayer in 2020. In the case of married taxpayers who file a joint federal income tax return, the deduction allowed by this section shall be calculated separately as though they had not filed a joint return, so that each individual's deduction is based on the same individual's retirement income and earned income. **Caution: Taxpayers under the age of 65 receiving military retirement income; but no earned income, would only be eligible for the retirement deduction on line p-1 or p-2.**

Example 1: Taxpayer under the age of 65 has military retirement income of \$5,000 and earned income of \$4,000. Taxpayer's **military retirement deduction** is \$4,000.

Example 2: Taxpayer under the age of 65 has military retirement income of \$4,000 and earned income of \$0. Taxpayer **does not** qualify for the **military retirement deduction** since there is no earned income; however, the taxpayer **would** qualify for the \$3,000 **retirement deduction** on line p.

Example 3: Taxpayer under the age of 65 has military retirement income of \$5,900 and retirement income from other sources of \$12,000. Additionally, the taxpayer has earned income of \$7,000. Taxpayer's **military retirement deduction would be \$5,900. Caution: Individual taxpayers are only allowed one retirement deduction, for all retirement income whether military or other retirement. Surviving spouse benefits would be calculated separately.**

Military Retirement Deduction Age 65 and older:
An individual taxpayer who is age 65 and older who has military retirement may deduct **\$18,000 for 2016** of military retirement income that is included in South Carolina income. For taxpayers age 65 and older, there are no requirements for other earned income. The deduction is phased in over five years beginning in 2016. Once the phase in is complete, the age 65 and older military retirement deduction will be \$30,000 per taxpayer in 2020. **Caution: See the instructions for line q age 65 and older deduction.**

Line q - AGE 65 AND OLDER DEDUCTION

Beginning in the tax year in which a **resident** reaches **age 65**, he or she is entitled to a deduction of \$15,000 against any South Carolina income. **Line q-1** applies to the taxpayer whose name appears first on the return. **Line q-2** applies to the spouse whose name appears second on the return. **The amount of the deduction on line q-1 and q-2 is reduced by any individual retirement deduction claimed on line p-1 and p-2; as well as, any military retirement deduction claimed on lines p-4 and p-5. The age 65 and over deduction is not reduced by any surviving spouse retirement deduction claimed on line p-3 or p-6.**

See the examples below. Assume for all examples that taxpayers have income to qualify for the age 65 and older deduction in addition to the retirement deductions.

Example 1: Taxpayer age 65 and older has no military or other sourced retirement income on lines p-1 or p-4. Taxpayer is eligible for a deduction of \$15,000 on line q-1.

Example 2: Taxpayer age 65 and older has no military retirement income; but other sourced retirement of \$14,000. Taxpayer is allowed a deduction of \$10,000 on line p-1 and a deduction of \$5,000 on line q-1.

Example 3: Taxpayer age 65 and older has military retirement income of \$13,000 and is allowed a deduction on line p-4 of \$13,000. Taxpayer is allowed a deduction of \$2,000 on line q-1. The maximum allowed deduction for 2016 is \$15,000.

Example 4: Taxpayer age 65 and older has military retirement income of \$20,000. Taxpayer is eligible for a military retirement deduction of \$18,000 on p-4. Taxpayer is not allowed an additional amount on line q-1. Maximum retirement deduction for military retirement for taxpayers age 65 or older is \$18,000 for 2016. See instructions for military retirement.

Example 5: Taxpayer age 65 and older has military retirement income of \$16,000, and other sourced retirement income of \$8,000. Taxpayer is allowed a deduction on line p-4 of \$16,000. Taxpayer is not allowed an additional amount on line q-1. See instructions for military retirement.

Line r - NEGATIVE AMOUNT OF FEDERAL TAXABLE INCOME

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

Line s - SUBSISTENCE ALLOWANCE

Police and all commissioned law enforcement officers paid by South Carolina municipal, county, state governments or the federal government, **full-time** firefighters, and **full-time** emergency medical service personnel are entitled to subsistence allowances of \$8.00 per regular workday. Your employer should provide you with the number of work days.

Line t - DEPENDENTS UNDER SIX YEARS OF AGE

An additional deduction is allowed for each dependent claimed on the federal income tax return who had **not** reached the age of six by December 31 of the tax year. Birthdate(s) and social security number(s) are required. See worksheet below.

EXEMPTION WORKSHEET	
Federal personal exemption amount	\$4,050
Number of dependents claimed on your federal return who had not reached age six during the tax year	X
Allowable deduction, enter this amount on line t .	_____

Line u - CONSUMER PROTECTION SERVICES

An individual may deduct the costs incurred by him or her in the tax year to purchase a monthly or annual contract or subscription for identity theft protection and identity theft resolution services. The deduction is only for individuals who filed a return with the SC Department of Revenue for a tax year between 1998 and 2012 or when another's personal identifiable information was included on the return. **The deduction may not be claimed for an individual who either deducted the same actual costs as a business expense or is enrolled in the identity theft protection and resolution services offered free of charge by the State. The deduction is limited to \$300 for an individual taxpayer, and to \$1,000 on a joint return or a return claiming dependents.**

Identity theft protection includes products and services designed to prevent an incident of identify fraud or identity theft or otherwise protect the disclosure of a person's personal identifying information (for example your SSN) by preventing a third party from gaining unauthorized acquisition of another's personal identifying information to obtain financial resources or other products, benefits or services. Identity theft resolution services include products and services designed to assist persons whose

personal identifying information was obtained by a third party, which results in minimizing the effects of the identity fraud or identity theft incident and restoring the person's identity to pre-theft status.

Line v - OTHER SUBTRACTIONS FROM INCOME

Attach an explanation of your entry on this line. Some examples of items which may be subtracted on this line are:

- **Phase-out Adjustment Worksheet.** Complete if itemized deductions and exemptions are limited on your federal return based on adjusted gross income over \$311,300 if married filing jointly or qualifying widow(er), over \$285,350 if head of household, or over \$259,400 if single; or over \$155,650 if married filing separately:

Phase-out Adjustment Worksheet:	
1. Enter the total of Schedule A, lines 4, 9, 15, 19, 20, 27 and 28.	1. _____
2. Enter total number of exemptions claimed on line 6d of federal Form 1040.	2. _____
3. Multiply line 2 by \$4,050.	3. _____
4. Add lines 1 and 3.	4. _____
5. Enter the amount from federal Form 1040, line 40.	5. _____
6. Enter the amount from federal Form 1040, line 42.	6. _____
7. Add lines 5 and 6.	7. _____
8. Subtract line 7 from line 4. Enter this amount on SC1040, line v Other Subtractions.	8. _____

- **SC ABLE Savings Account.** You may deduct 100% of any contributions made to an ABLE savings account, subject to program limitations, between January 1, 2016 and December 31, 2016. See the SC Treasurer's Office website, treasurer.sc.gov for more information.
- South Carolina does not recognize bonus depreciation in IRC Section 168(k). With or without bonus depreciation, the depreciable life of the property is the same for federal and state purposes. For the tax year in which the property is placed in service, a taxpayer must add back the difference, in the line for other additions, between the depreciation deduction allowed for federal purposes and the deduction that would have been allowed without bonus depreciation. Therefore, the South Carolina adjusted basis is greater than the federal adjusted basis. For all other years of the depreciable life of the property, an additional depreciation deduction is available for South Carolina purposes.
- South Carolina net operating loss that is larger than the federal amount is a subtraction. **In no event is the same loss to be deducted more than once.** Attach your own worksheet or keep with your tax records. No carryback losses are allowed.
- Legislators within a 50-mile radius of the State House are allowed to **subtract** travel expenses.
- Retirement income paid by the United States government for service in the Reserves or National Guard is not taxed for South Carolina purposes. (You may deduct the entire amount of any stipend paid by the State of South Carolina for National Guard service.)

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

MILITARY RETIREMENT EXCLUSION WORKSHEET		
Inactive Reserve time		
+ Inactive National Guard time	=	_____ % exclusion
Total Military time (Active and Inactive)		
Determine the excludable amount of your military retirement income by multiplying it by the percentage of exclusion as follows:		
_____ % exclusion X	total taxable military retirement income shown on federal return	= excludable military retirement income

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

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

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

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

- Include amounts contributed to a Catastrophe Savings Account and interest income earned by the account. If your legal residence is insured against hurricane, rising floodwaters, or other catastrophic windstorm event damage, you are allowed to contribute: (1) \$2,000 if the qualified deductible is \$1,000 or less; (2) twice the qualified deductible if it is between \$1,000 and \$7,500; or (3) \$15,000 if the qualified deductible is more than \$7,500.

If your legal residence is not insured against hurricane, rising floodwaters, or other catastrophic wind event damage, the limit is \$250,000 or the value of your legal residence, whichever is less.

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

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

Line 4 - TOTAL SUBTRACTIONS

Add **lines f through v** and enter the total. These are your total subtractions.

SOUTH CAROLINA TAX

Line 6 - TAX

If your "income subject to tax" on line 5 is less than \$100,000, use the SC1040 tax tables to determine your South Carolina tax and enter the amount of tax on line 6.

If your "income subject to tax" on line 5 is \$100,000 or more, use the tax rate schedule provided in the SC1040 tax tables to compute your tax and enter the amount of tax on line 6.

Line 7 - TAX ON LUMP SUM DISTRIBUTION

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

This separate tax on lump sum distributions is in addition to the regular tax computed on line 6.

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

Line 8 - TAX ON ACTIVE TRADE OR BUSINESS INCOME

Enter the amount from I-335, line 7.

Line 9 - TAX ON EXCESS WITHDRAWALS FROM CATASTROPHE SAVINGS ACCOUNTS

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

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

CREDITS

Line 11 - CHILD AND DEPENDENT CARE

The South Carolina Credit for Child and Dependent Care expense is 7% of the federal expense for a full year resident. A part-year/nonresident is allowed 7% of their prorated federal expenses. See

Compute your earned income separately for yourself and your spouse. South Carolina earned income is generally income you receive for services you provide. It includes wages, salaries, tips, commissions and sub-pay. It also includes income earned from self-employment, business income or loss, partnership income or loss, farm income or loss and any other earned income taxed to South Carolina. Earned income does not include gambling or bingo winnings, interest, dividends, social security benefits, IRA distribution, unemployment compensation, deferred compensation or non-taxable income. **It also does not include any amount your spouse paid you.**

examples below. **Married filing separately cannot claim this credit.** The maximum credit allowed for one child is \$210. The maximum credit for two or more children is \$420.

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

Federal Child Care Expense from Form 2441, is \$2,000
 $\$2,000 \times .07 = \140

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

Federal Child Care Expense from Form 2441, is \$2,000 and your proration percent from line 44 of SC Schedule NR is 30%. Your computation should be:

$\$2,000 \times .30 = \$600 \times .07 = \$42$

Part-year Resident/Nonresident: This credit is not available if you are a resident of a state that does not offer a credit for child and dependent care expenses to individuals filing as nonresidents of that state.

Line 12 - TWO WAGE EARNER CREDIT (MARRIED COUPLE)

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

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

* **South Carolina qualified earned income.** This is the amount on which the credit is based. Compute it by subtracting certain adjustments from federal form SC1040 South Carolina earned income. The adjustments are:

- Deductible part of self-employment tax
- Self-employed SEP, simple, and qualified plans
- Self-employed health insurance deduction
- IRA deduction
- Repayment of sub-pay

LINE 12 - TWO WAGE EARNER CREDIT WORKSHEET

	(a) You	(b) Your Spouse
1. Wages, salaries, tips, etc., taxed to South Carolina from South Carolina Schedule NR, Column B, line 1 or federal form . (Do not include pensions or annuities.)	_____	_____
2. Net profit or (loss) from self-employment (from Schedule C and on Schedule K-1 of Form 1065) and any other earned income taxed to South Carolina.	_____	_____
3. Add lines 1 and 2. This is your total earned income taxed to South Carolina.	_____	_____
4. Add the adjustment amounts entered on federal Form 1040. *(See adjustments above). If filing South Carolina Schedule NR, enter amounts from lines 21, 22, 23, 26 and any repayment of supplemental unemployment benefits (sub-pay) allocable to South Carolina income.	_____	_____
5. Subtract line 4 from line 3. This is your qualified earned income taxed to South Carolina. If the amount in column (a) or (b) is zero (-0-) or less, stop here. You may not take this credit.*	_____	_____
Compute the credit.		
6. Enter the smaller of 5(a) or 5(b). Do not enter more than \$30,000.	_____	_____
7. Multiply the amount on line 6 by .007. Do not enter more than \$210. Enter the amount here and on SC1040, line 12.	_____	_____

Line 13 - OTHER NON-REFUNDABLE CREDITS

See SC1040TC instructions for an explanation of the other non-refundable credits. The appropriate schedules must be attached to your return. If filing electronically, keep a copy with your tax records.

TAX PAYMENTS/CREDITS

Line 16 - SC INCOME TAX WITHHELD FROM WAGES

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

If you have South Carolina withholding from any federal Form 1099, include that amount on line 20.

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

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

Line 17 - 2016 ESTIMATED TAX PAYMENTS

Enter the total estimated tax payments you made before filing this South Carolina tax return plus any amount transferred from your 2015 tax return.

Line 18 - PAYMENTS ON EXTENSION

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

Line 19 - NONRESIDENT SALE OF REAL ESTATE

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

Line 20 - SC INCOME TAX WITHHELD - FORM 1099

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

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

Line 21 - TUITION TAX CREDIT

Refer to I-319 to see if you qualify to claim this credit. If you qualify, complete all information on I-319 and attach it to your return. If you have more than one qualifying student, complete a separate I-319 for each student. Attach a copy of your federal return.

Line 22 - OTHER REFUNDABLE CREDITS

Enter amounts from I-333 refundable credit for anhydrous ammonia additive, I-334 refundable credit for production and sale of milk, I-360 refundable credit for classroom teachers expenses, and I-361 refundable exceptional needs children education credit and check the box that applies. Attach the appropriate credit form to the SC1040. Refer to the I-333, I-334, I-360, and I-361 to see if you qualify to claim the credit.

Line 26 - SOUTH CAROLINA USE TAX What is Use Tax?

This is the tax due on purchases outside of South Carolina for use, storage, or consumption in South Carolina. The use tax is paid to the SC Department of Revenue when the State Sales and Use Tax has not been collected by the seller. Examples include: purchases from retailers made via the internet (retailers' websites and retailers' sales on auction sites), through out-of-state catalog companies, home shopping networks or when visiting another state. The tax rate for the use tax is the same as the sales tax. The rate is determined by where the tangible personal property will be used, stored or consumed, regardless of where the sale takes place. **Therefore, the tax rate for the use tax will be the 6% state rate plus the applicable local use tax rate for the location where the tangible personal property will be used, stored or consumed.** For more information and updated tax rates, see our website dor.sc.gov.

How is the Use Tax Paid? The purchaser, as an individual, may report and pay their use tax on an SC1040, UT-3 Use Tax Return or electronically through DORePay. If you **owe** use tax and have NOT paid it either on a UT-3 or electronically, **complete the South Carolina Use Tax Worksheet** and enter the result on **line 26**. If you have paid your use tax during the year on a UT-3, electronically or have no use tax due, check the box on line 26.

Line 26 - SOUTH CAROLINA USE TAX WORKSHEET

The state sales and use tax rate is **6% plus the applicable local use tax rate of the county** in which you are located or other applicable rate wherever tangible personal property was delivered. The chart below contains a combined tax rate of the state's basic rate (6%) along with the local tax rate of some counties as of May 1, 2016 to be used for line 2 of the worksheet on the following page.

- 6% Beaufort, Greenville, Greenwood, Oconee, Spartanburg, Union
- 7% Abbeville, Allendale, Anderson, Barnwell, Calhoun, Dorchester, Edgefield, Fairfield, Georgetown, Horry, Kershaw, Laurens, Lexington, McCormick, Newberry, Orangeburg, Pickens, Saluda, Williamsburg, York
- 8% Aiken, Bamberg, Berkeley, Cherokee, Chester, Chesterfield, Clarendon, Colleton, Darlington, Dillon, Florence, Hampton, Horry-City of Myrtle Beach, Jasper, Lancaster, Lee, Marion, Marlboro, Richland, Sumter
- 8.5% Charleston

SC USE TAX WORKSHEET				
Column A Date of Purchase	Column B Name of Store/ Company/ Vendor	Column C Total Price of Purchases <small>(includes shipping & handling, warranty costs and sales or use tax due and paid on the purchase.)</small>	Column D Sales or Use Tax Due and Paid to another state or local jurisdiction	Column E Amount Taxable <small>(subtract Column D from Column C)</small>
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		Total of Column C:	Total of Column D:	Total of Column E:
Line 1		\$	\$	\$
Line 2	Enter your County's state and local sales and use tax rate. SC statewide tax rate is 6%. The local tax rate is in addition to the state tax rate. Note: Sales of unprepared foods are exempt of the State sales and use tax rate; however, local taxes still apply to sales of unprepared food unless the local tax law specifically exempts such sales.			%
Line 3	Multiply Line 1 of Column E by the rate on Line 2 of Column E.			\$
Line 4	Enter here the applicable amount of tax due and paid other state and local jurisdictions from Line 1, Total of Column D.			\$
Line 5	SC Use Tax Due. Subtract Line 4 from Line 3. Enter here and on line 26 of the SC1040. Round to the nearest dollar.			\$

Line 27 - ESTIMATED TAX

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

Line 28 - CONTRIBUTIONS FOR CHECK-OFFS

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

REFUND OR AMOUNT YOU OWE

Line 30 - REFUND

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

Line 30a - REFUND OPTIONS

You now have three ways to receive your refund. You can choose **direct deposit** to have the funds deposited directly into your bank account (the fastest option for most filers), or you can choose to have a **debit card** or a **paper check** mailed to you. Debit cards are issued by Bank of America and are subject to program limitations. Mark an **X** in **one box** to indicate your choice. If you choose direct deposit, you **must** enter your account information on **line 30b**.

Line 30b - DIRECT DEPOSIT INFORMATION

Choose direct deposit for a fast, simple, safe, secure way to have your refund deposited automatically to your checking or savings account. If you choose direct deposit, enter your account information on line 30b. If you don't enter complete and correct account information on line 30b, we'll mail you a paper check. Direct deposit of your refund is not available if the refund would go to an account outside of the United States.

Mark an **X** in the box for the type of account, **checking or savings**.

Enter your bank's **9-digit routing transit number (RTN)** in the space provided. The **RTN** should begin with 01 through 12, or 21 through 32. If not, the direct deposit will be rejected. **Do not use a deposit slip to verify the number.** It may contain internal routing numbers that are not part of the actual routing number.

Enter your **bank account number (BAN)** in the space provided. The number can contain up to 17 alphanumeric digits. If fewer than 17 digits, enter the number from left to right. Do not enter hyphens, spaces or special symbols. Do not include the check number.

Contact your bank if you need to verify that your bank account information is accurate prior to submitting your return. If we cannot make the direct deposit for any reason, we will send a paper check to the mailing address on your return. **Make sure your mailing address is complete and accurate on your return.**

Line 31 - NET TAX

If you have an amount on line 29, add lines 25 and 29 and enter on line 31; otherwise, enter the amount from line 25.

Line 32 - LATE FILING AND/OR LATE PAYMENT PENALTIES AND INTEREST

If you have calculated failure to file/pay penalties and interest, enter in the appropriate blanks and put the total of both on line 32.

A failure to file penalty is imposed for failing to file a tax return on or before its due date, determined with regard to any extension of time for filing. The penalty is 5% of the tax amount if the failure is for not more than one month, with an additional 5% for each additional month or fraction of the month during which the failure continues, not to exceed 25% in total.

Also, a failure to pay penalty is imposed for failing to pay the amount shown as tax on any return on or before its due date, determined with regard to any extension of time for paying. The penalty is 1/2% of the amount of tax if the failure is for not more than one month, with an additional 1/2% for each additional month or fraction of the month during which the failure continues, not to exceed 25% in total.

Any unpaid portion of the final tax due will incur interest at the prevailing federal rates. This amount is computed from the original due date of the tax return to the date of payment.

Line 33 - UNDERPAYMENT OF ESTIMATED TAX - SC2210

You may owe a penalty for underpayment if you did not pay in **four equal amounts** by the required dates at least the smaller of 90% of your tax liability for 2016; or 100% of your tax liability for 2015.

However, if your adjusted gross income is \$150,000 or more, the 100% rule is modified to be 110% of the tax shown on your 2015 income tax return. **See SC2210 to determine any penalty that may be due.**

Exception to underpayment of estimated tax:

- Enter an "A" in the box if you completed federal Schedule AI-Annualized Income Installment Method for South Carolina purposes in determining the amount to enter on Line 33.
- Enter an "F" in the box if you are a farmer or fisherman. You will not owe interest if you are a farmer or fisherman and pay the tax due by March 1, 2017. You are a farmer or fisherman if you received at least two-thirds of your gross income for the year from farming and fishing.
- Enter a "W" if you are requesting a waiver of your entire penalty. See SC2210 instructions for information on what qualifies for a waiver of penalty.

Figure your penalty for underpayment and put the amount on line 33. If you are due a refund, subtract the penalty amount from the difference on line 24 and line 29 and enter the result on line 30. Attach SC2210 to your tax return when using an exception to waive the penalty.

Line 34 - BALANCE DUE – AMOUNT YOU OWE

Add lines 31 through 33 and enter on line 34. This is the amount you owe.

NOTE: A taxpayer owing fifteen thousand dollars or more in connection with any return to be filed with the department should pay electronically per SC Code Section 12-54-250(A) (1). You may choose to pay electronically at dor.sc.gov. Click on eServices>File & Pay Now>DORePay and pay with VISA or MasterCard or by Electronic Funds Withdrawal (EFW) or attach

your check or money order for the full amount payable to SC Department of Revenue. Write your social security number and "2016 SC1040" on the payment. **File your SC1040 Individual Income Tax Return with payment attached.**

SIGN AND DATE YOUR RETURN

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

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

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

AUTHORIZATION

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

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



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Federal and State Electronic Filing
Locate a local tax practitioner to file electronically.

You may qualify to have your federal and South Carolina returns filed electronically for **FREE. Faster Refunds.**



Electronic Payment Methods
Pay income tax return balances due by EFW/credit card.

See dor.sc.gov for information on all these options.

REMINDERS

REVIEW YOUR RETURN

- Attach a complete copy of your federal return if you filed federal schedules C,D,E and F or filed a SCH NR, SC1040TC, I-319 and or I-335 with your South Carolina return.
- Make sure you have received ALL of your W-2s and other tax documents.
- Verify all social security number(s) on your return.
- Double check your name, address and all math calculations.
- Make a copy of your complete return for your records.

BEFORE YOU FILE YOUR RETURN

- Attach all W-2s and 1099s with South Carolina withholding.
- Mail your SC1040 Individual Income Tax return with payment attached to the proper address.

COUNTY CODES					
COUNTY	CODE	COUNTY	CODE	COUNTY	CODE
Abbeville	01	Dillon	17	McCormick	33
Aiken	02	Dorchester	18	Marion	34
Allendale	03	Edgefield	19	Marlboro	35
Anderson	04	Fairfield	20	Newberry	36
Bamberg	05	Florence	21	Oconee	37
Barnwell	06	Georgetown	22	Orangeburg	38
Beaufort	07	Greenville	23	Pickens	39
Berkeley	08	Greenwood	24	Richland	40
Calhoun	09	Hampton	25	Saluda	41
Charleston	10	Horry	26	Spartanburg	42
Cherokee	11	Jasper	27	Sumter	43
Chester	12	Kershaw	28	Union	44
Chesterfield	13	Lancaster	29	Williamsburg	45
Clarendon	14	Laurens	30	York	46
Colleton	15	Lee	31		
Darlington	16	Lexington	32		
APO/FPO Addresses					99
Outside of South Carolina					99
Outside of United States					88