



STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

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P.O. Box 125, Columbia, South Carolina 29214-0575

SC INFORMATION LETTER #20-15

SUBJECT: Unemployment Compensation
(Income and Withholding Taxes)

DATE: June 12, 2020

AUTHORITY: S.C. Code Ann. Section 12-4-320 (2014)
S.C. Code Ann. Section 1-23-10(4) (2005)
SC Revenue Procedure #09-3

SCOPE: An Information Letter is a written statement issued to the public to announce general information useful in complying with the laws administered by the Department. An Information Letter has no precedential value.

PURPOSE

Due to unprecedented closings of businesses during the Coronavirus (COVID-19) pandemic, the number of individuals applying for unemployment benefits has significantly increased since March 2020. The purpose of this Information Letter is to remind individuals of the taxability of unemployment compensation and the option to elect withholding or make estimated tax payments to reduce any potential tax payment due when filing next year's South Carolina individual income tax return.

OVERVIEW OF EXPANDED UNEMPLOYMENT BENEFITS

The federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act)¹ significantly expanded unemployment benefits for workers impacted by the Coronavirus (COVID-19) outbreak. The Act provides for three new federal programs to supplement existing state unemployment compensation plans.

1. The Pandemic Emergency Unemployment Compensation (PEUC) program² provides up to 13 additional weeks of benefits to individuals who have exhausted their regular state provided unemployment compensation.

¹ Public Law 116-136, March 27, 2020.

² Section 2107 of the CARES Act.

2. The Federal Pandemic Unemployment Compensation (FPUC) program³ provides individuals receiving unemployment compensation an additional \$600 weekly benefit.
3. The Pandemic Unemployment Assistance (PUA) program⁴ allows for unemployment benefits for those who ordinarily may not be eligible for unemployment benefits, such as independent contractors, self-employed individuals, business owners, and those with limited work histories, who would be able to work in the absence of COVID-19. In addition, employees who quit their job for COVID-19 reasons may qualify for unemployment benefits.

OVERVIEW OF INCOME TAX AND WITHHOLDING ON UNEMPLOYMENT BENEFITS

Taxation of Unemployment Compensation: Under Internal Revenue Code Section 85(a), unemployment compensation is included in gross income and is subject to federal income tax. South Carolina has adopted Internal Revenue Code Section 85.⁵ Accordingly, to the extent that unemployment compensation is taxable for federal income tax purposes (including the expanded benefits provided in the CARES Act), unemployment compensation is also taxable for South Carolina income tax purposes. See also Code Section 41-39-40(A).⁶

Income Tax Withholding on Unemployment Compensation - Voluntary: An individual receiving unemployment compensation may elect to have South Carolina income tax deducted and withheld from unemployment payments at the rate of 7% or may choose to make estimated tax payments.⁷ Code Section 41-39-40(A)(5) provides that an individual is permitted to change a previously elected withholding of income at least once.

QUESTIONS

For questions about unemployment benefits, including qualification, application, benefit period, and benefit amount, or electing withholding on unemployment compensation, see the South Carolina Department of Employment and Workforce (DEW) website at www.scdew.gov.

For income tax questions, contact the Department of Revenue at 1-844-898-8542 (toll free).

³ Section 2104 of the CARES Act.

⁴ Section 2102 of the CARES Act.

⁵ SC Code Section 12-6-50 lists specific Internal Revenue Code (IRC) sections not adopted by South Carolina. Item (4) provides that IRC Section 85(c), relating to unemployment compensation, is specifically not adopted in South Carolina. IRC Section 85(c) formally provided that \$2,400 of unemployment compensation was excluded from gross income. Subsection (c) was repealed effective December 19, 2014.

⁶ Title 41, Labor and Employment, Chapter 39, Employment and Workforce – Protection of Rights and Benefits.

⁷ SC Code Section 12-6-3910.