TO: Vicki Jinnette  
Public Information Officer  

FROM: Jerry B. Knight, Manager  
Tax Policy and Procedures Department  

DATE: July 5, 1989  

SUBJECT: Substantial Understatement of Tax Disclosure Statements  
Code Section 12-54-155  


AUTHORITY: S.C. Code Ann. Section 12-3-140 (1976)  
SC Revenue Procedure #87-3  

SCOPE: An Information Letter is a temporary document issued for the purpose of disseminating general tax information and to respond to technical questions from within the Commission which are not related to a specific set of facts.  

Facts:  

Code Section 12-54-155 imposes a penalty for a substantial understatement of tax, and reads, in part:  

(a) If there is a substantial understatement of tax for any taxable period, there must be added to the tax an amount equal to twenty-five percent of the amount of any underpayment attributable to the understatement.  

(b)(1)(A) For purposes of this section, there is a substantial understatement of tax for any taxable period if the amount of the understatement for the taxable period exceeds the greater of ten percent of the tax required to be shown on the return for the taxable period or five thousand dollars.  

(B) In the case of a corporation other than an S corporation or a personal holding company (as defined in IRC Section 542), paragraph (1) must be applied by substituting "ten thousand dollars" for "five thousand dollars".
(2)(A) For purposes of paragraph (1), "Understatement" means the excess of the amount of the tax required to be shown on the return for the taxable period over the amount of the tax imposed which is shown on the return.

(B) The amount of the understatement under subparagraph (A) must be reduced by that portion of the understatement which is attributable to (i) the tax treatment of any item by the taxpayer if there is or was substantial authority for such treatment or (ii) any item with respect to which the relevant facts affecting the item's tax treatment are adequately disclosed in the return or in a statement attached to the return.

The statute provides in subsection (b)(2)(B) that the understatement "must be reduced by that portion of the understatement which is attributable to (ii) any item with respect to which the relevant facts affecting the item's tax treatment are adequately disclosed in the return or in a statement attached to the return" (emphasis added).

Certain tax returns, due to their design, size or the method by which they are processed, do not allow items to be "adequately disclosed in the return or in a statement attached to the return". Such returns include the following:

1) Sales Tax (Form ST-3 only)
2) Soft Drink Tax (Form L-2028)
3) Admissions Tax (Form L-511)
4) Highway Use Tax (Form L-320)
5) Withholding Tax (Form WH-1605)

The following procedure has been established for filing the "Disclosure Statement" with respect to the above referenced tax returns, as provided in Code Section 12-54-155.

PROCEDURE:

The above returns should be filed as they have been filed in the past. If the taxpayer determines that a Disclosure Statement should be filed, then such a statement should be filed, prior to the due date of the return (with regard to extensions), in a separate mailing to the following address:

Disclosure Statement
South Carolina Tax Commission
Director - Office Services Division
P.O. Box 125
Columbia, South Carolina 29214

Furthermore, the taxpayer must retain a copy of the disclosure statement, with a copy of the return to which the statement refers.

The statement should be captioned - "Disclosure Statement", and contain the following information:
1. Taxpayer's name and address
2. Taxpayer's file number
3. Type of tax
4. Tax return (Period and Year)
5. Description of item being disclosed
6. Amount of disclosed item described
7. Detailed explanation of item and tax treatment thereof

The statement should be signed and dated by the person who signed the return to which the statement applies.

NOTE: A DISCLOSURE STATEMENT WILL NOT BE ACCEPTED IN THE ABOVE MANNER

FOR RETURNS NOT LISTED IN THIS INFORMATION LETTER. STATEMENTS FOR RETURNS NOT LISTED MUST BE A PART OF THE RETURN OR ATTACHED TO SUCH RETURNS.