SOUTH CAROLINA
DEPARTMENT OF REVENUE

2026 STATE TAX GUIDE TO OBBBA'S IMPACT ON SOUTH CAROLINA

South Carolina Department of Revenue /
Tax Policy Services

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PURPOSE

As of publication of this guide, South Carolina has not conformed to the Internal Revenue Code (IRC) changes contained in the One Big Beautiful Bill Act (OBBBA) adopted by the United States Congress in 2025. OBBBA made significant changes to the IRC. Several of these changes became effective in 2025, while others take effect in 2026 and beyond. This guide aims to provide concise and understandable information regarding OBBBA's impact on South Carolina taxpayers and adjustments they may be required to make on their 2026 income tax returns to account for differences in federal and state law.

This guide begins with an overview of the conformity process in South Carolina and a review of the 2026 South Carolina legislative session. The guide then addresses changes to the IRC pursuant to OBBBA and explains how these changes impact South Carolina taxpayers breaking the OBBBA provisions into three categories: (1) IRC provisions followed by South Carolina that were amended by OBBBA, (2) OBBBA provisions no longer followed by South Carolina due to state tax reform adopted in 2026, and (3) a reference list of other IRC provisions amended by OBBBA that South Carolina does not follow.

I. Introduction

A. Overview of the South Carolina Internal Revenue Code Conformity Process and Legislation

South Carolina began adopting provisions of the IRC in 1985. Since then, South Carolina's adoption of changes to the IRC have not been automatic or all inclusive. Each year, the General Assembly reviews changes to the IRC and adopts, by statute, the IRC as of a specific, fixed date, usually December 31st of the prior year and decouples from specific IRC provisions it chooses not to adopt. This type of conformity is often referred to as "static conformity."

IRC conformity is normally accomplished by amending Section 12-6-40 of the South Carolina Code, "Application of federal Internal Revenue Code to State tax laws" and Section 12-6-50 of the South Carolina Code, "Internal Revenue Code sections specifically not adopted by State."

B. The 2026 South Carolina Legislative Session

In the 2026 session, the General Assembly did not amend Section 12-6-40 to conform to the changes made to the IRC in 2025. Thus, South Carolina currently conforms to the IRC as amended through December 31, 2024, prior to the OBBBA changes. The absence of conformity left many taxpayers wondering how South Carolina will treat the differences

between the IRC currently adopted in South Carolina and the amended provisions pursuant to OBBBA.

Section 12-6-40(A)(1)(c) of the South Carolina Code states: "If Internal Revenue Code sections adopted by this State which expired or portions thereof expired on December 31, 2024, are extended, but otherwise not amended, by congressional enactment during 2025, these sections or portions thereof also are extended for South Carolina income tax purposes in the same manner that they are extended for federal income tax purposes." While OBBBA added several new provisions, it also extended many previously enacted provisions or made certain temporary provisions permanent, particularly regarding provisions enacted as part of the 2017 Tax Cuts and Jobs Act (TCJA). However, many of these extensions were set to expire at the end of 2025, not December 31, 2024. Therefore, these provisions cannot be treated as extended and the amendments to these provisions pursuant to OBBBA are not currently recognized in South Carolina.

During the 2026 legislative session, the General Assembly did amend Section 12-6-50 as part of its 2026 tax reform bill. This legislation decoupled from Sections 63(b) through (g) of the IRC pertaining to standard and itemized deductions for individuals beginning with the 2026 tax year. As a result, individual income taxpayers will start with their federal Adjusted Gross Income (AGI) when computing their 2026 South Carolina individual income tax.

II. Federal Changes to the IRC Pursuant to OBBBA

A. OBBBA Provisions Impacting South Carolina Individual Taxpayers

OBBBA added or amended many IRC provisions impacting individual taxpayers. Some of these provisions pertain to individual income tax deductions, which South Carolina no longer recognizes pursuant to state tax reform.[1] However, OBBBA also made changes to several IRC provisions South Carolina adopts. South Carolina taxpayers affected by these changes must account for them in computing their South Carolina taxable income and will need to report them as "Other Additions" or "Other Subtractions" on their South Carolina Income Tax Return (SC1040).

Below is a list of the IRC provisions currently adopted by South Carolina but amended by OBBBA. For each provision, the Department provides a brief discussion of the law prior to OBBBA changes (representing the current law in South Carolina), the OBBBA change, and the impact of the change on South Carolina taxable income.

[1] See section D below, OBBBA Changes to Deductions No Longer Recognized Pursuant to State Tax Reform.

1. IRC § 108(f)(5) Discharge of Student Loan Indebtedness (effective for discharges after 12/31/25)

The American Rescue Plan Act of 2021 temporarily excluded student loan discharges from gross income for discharges occurring in 2021 through 2025. OBBBA permanently allows discharged student loans to be excluded from gross income, but only in cases of death or disability. Because South Carolina has not adopted the extension of the temporary exclusion, student loans discharged after December 31, 2025, including in cases of death or disability, must be included in South Carolina income. However, student loans discharged under Section 108(f)(1) of the IRC (pertaining to discharges due to work performed in certain professions and for particular employers) and Section108(f)(4) of the IRC (pertaining to payments under National Health Service Corps loan repayment program and certain state loan repayment programs) continue to be excludable from gross income in South Carolina.

2. IRC § 112 Exclusion of Combat Pay from Gross Income (effective 1/1/26)

Section 112 of the IRC excludes combat pay received for active service by members (not commissioned officers) of the Armed Forces of the United States. TCJA temporarily (through 2025) treated service in the Sinai Peninsula as a combat zone. OBBBA made this treatment permanent for the Sinai Peninsula and added service in Kenya, Mali, Burkina Faso, and Chad as combat zones allowing the exclusion of pay for service in these areas from gross income of active service members. Because South Carolina has not conformed to the extension of the temporary provision or the additional service areas, pay received due to serving in the Sinai Peninsula, Kenya, Mali, Burkina Faso, and Chad are not considered combat pay excludable from South Carolina income and must be added back in computing South Carolina taxable income.

3. IRC § 127 Employer Payments of Student Loans (effective for payments after 12/31/25)

Prior to OBBBA, employer payments of student loans pursuant to education assistance programs were temporarily excluded from gross income through 2025. OBBBA made this exclusion permanent and indexed the exclusion amount of $5,250 to inflation beginning in 2026. Because South Carolina has not conformed to the OBBBA changes, the temporary exclusion expired at the end of 2025. Therefore, employer payments of student loans under educational assistance programs are includable in South Carolina income and must be added back to South Carolina taxable income.

4. IRC § 129(a) Dependent Care Assistance Program (effective for tax years after 12/31/25)

OBBBA increased the exclusion amount for Dependent Care Services provided by an employer under a qualified program from $5,000 ($2,500 for married filing separate) to $7,500 ($3,750 for married filing separate). South Carolina will continue to recognize the pre-OBBBA exclusion amounts. The increased exclusion amounts must be added back to South Carolina taxable income.

5. IRC § 132(g)(2) Moving Expense Exclusion and IRC § 217(k) Moving Expense Deduction (effective for tax years after 12/31/25)

The exclusion for moving expenses reimbursed by an employer from income and the deduction for unreimbursed moving expenses were temporary suspended by TCJA for tax years 2018 to 2025 except for active-duty military who move pursuant to military orders. OBBBA made this suspension permanent but added employees or new appointees of the intelligence community as exceptions to this suspension. South Carolina has not conformed to OBBBA, and the pre-OBBBA temporary suspension expired at the end of 2025. Therefore, reimbursed moving expenses are excludable from South Carolina income and unreimbursed moving expenses are deductible in South Carolina beginning in 2026 and should be deducted from South Carolina taxable income.

6. IRC § 132(f)(8) Bicycle Commuting Reimbursement (effective for tax years after 12/31/25)

OBBBA eliminated the exclusion for qualified bicycle commuting reimbursements from employers. Previously, TCJA temporarily suspended this exclusion from 2018 through 2025. Because South Carolina has not adopted the OBBBA elimination of the exclusion and the temporary suspension under TCJA expired at the end of 2025, qualified bicycle commuting reimbursements are excludable from South Carolina income starting in 2026. These reimbursements should be deducted from South Carolina taxable income.

7. IRC § 139K Exclusion of Scholarships Received from Granting Organizations (applies to amounts received after 12/31/26)

OBBBA added a provision to exclude scholarships received from a Qualified Scholarship Granting Organization from income. Because this is a new provision, South Carolina does not recognize this exclusion. However, part or all these scholarships could be excludable under Section 117 of the IRC, which South Carolina adopts, if the scholarship meets the requirements of Section 117.

8. IRC § 142 Exempt Facility Bonds (applies to obligations issued after 7/4/25)

OBBBA added spaceports to the list of exempt facilities for which exempt facility bonds may be issued. The interest on such bonds is exempt from federal tax. Because South Carolina has not adopted this amendment to Section 142 of the IRC, interest on exempt facility bonds issued for spaceports would not be exempt from South Carolina income. Therefore, any interest received on such bonds should be added back to South Carolina taxable income.

9. IRC § 223 Safe Harbor for Absence of Deductible for Telehealth Services (applies to plan years beginning after 12/31/24)

Before OBBBA, a temporary safe harbor allowed high-deductible health plans to cover telehealth and remote care prior to the subscriber meeting their deductible without disqualifying the subscriber from contributing to a health savings account (HSA). OBBBA permanently extended this safe harbor. South Carolina does not recognize this extension and therefore a plan that otherwise meets the requirements of a high-deductible health plan but allows telehealth and remote care without a deductible could be viewed as a nonqualifying plan in South Carolina jeopardizing a subscriber's ability to contribute to an HSA.

10. IRC § 529 Account Disbursements for Schooling Expenses (applies to distributions made after 7/4/25)

Prior to OBBBA, certain primary and secondary education expenses were treated as "qualified higher education expenses." OBBBA amended the definition of "qualified higher education expenses" to include expenses incurred in connection with attending a public, private or religious elementary or secondary school and increased the aggregate per-beneficiary distribution limitation from $10,000 to $20,000. While South Carolina has not conformed to these changes via a conformity bill, South Carolina recognizes these amended definitions pursuant to Section 59-2-30 of the South Carolina Code. Therefore, expenditures meeting the new definition of "qualified higher education expenses" for federal tax purposes, would be treated the same for state tax purposes.

11. IRC § 529(c)(3) Rollovers from Qualified Tuition Accounts to ABLE Accounts (applies to tax years beginning after 12/31/25)

Prior to OBBBA, a temporary provision allowed taxpayers to roll a Section 529 plan distribution to an ABLE account through 2025. OBBBA permanently extended the allowance of these rollovers. Because South Carolina has not adopted the permanent extension and the temporary provision allowing rollovers expired at the end of 2025, rollovers from a Section 529 plan to an ABLE account after December 31, 2025, will be treated as a taxable withdrawal in South Carolina. The earnings portion of the taxable withdrawal should be

added to South Carolina taxable income. In addition, any principal amount of the contribution previously deducted from South Carolina taxable income must be recaptured into South Carolina income and subject to tax. However, taxpayers may claim a deduction for the full contribution to the ABLE Account regardless of if it is funded by a withdrawal from a Section 529 plan.

12. IRC § 529A Limitation on Contributions to ABLE Accounts (applies to contributions made after 12/31/25)

Prior to OBBBA, a temporary provision allowed contributions to ABLE accounts for a qualified beneficiary beyond the annual gift exclusion amount through 2025. OBBBA made this temporary provision permanent and adjusted the contribution limit based on inflation. South Carolina does not have a gift tax or a tax on excess contributions. Therefore, while South Carolina has not adopted the changes to Section 529A, these changes do not impact South Carolina.

13. IRC § 530A Trump Accounts (applies to taxable years beginning after 12/31/25)

This is a new provision that provides for tax-exempt "Trump Accounts" for qualifying children. Accounts are treated like IRAs under Section 408(a) of the IRC. Contributions to these accounts are limited to $5,000 per year indexed for inflation. Employers can contribute up to $2,500 and the contributions are excluded from the employee's gross income. All contributions are excluded from the beneficiary's income. The United States Treasury will also contribute $1,000 for children born after December 31, 2024, and before January 1, 2029. Distributions are allowed at age 18 and are subject to capital gains tax. Because South Carolina has not adopted this provision, Trump Accounts are not treated as tax deferred for South Carolina. Therefore, income generated from these accounts is included in the beneficiary's South Carolina income and must be added back to the beneficiary's South Carolina taxable income. Moreover, employer contributions to a Trump Account on the behalf of an employee are included in the employee's gross income in South Carolina and should be added back to South Carolina taxable income.

14. IRC § 1062 Treatment of Capital Gains from the Sale of Certain Farmland (applies to sales or exchanges in taxable years beginning after 7/4/25)

Section 1062 of the IRC is a new provision allowing qualified farmers to elect pay capital gains on the sale of qualified farmland in four annual installments starting with sales or exchanges after July 4, 2025. Because South Carolina does not adopt this provision, this election does not apply in South Carolina. Therefore, taxpayers making this election must recognize the full capital gain from the sale in the year of the sale.

B. OBBBA Provisions Impacting South Carolina Businesses Taxpayers

Like the provisions impacting South Carolina individual income taxpayers, OBBBA also contains many provisions that impact South Carolina businesses. Below is a list of provisions currently adopted by South Carolina but amended by OBBBA. For each provision, the Department provides a brief discussion of the law prior to OBBBA changes (representing the current law in South Carolina), the OBBBA change, and the impact of the change on South Carolina taxpayers.

1. IRC § 139L Interest on Loans for Rural or Agricultural Real Property (applies to loans made after 7/4/25)

OBBBA added a new provision excluding 25% of the interest on qualified loans secured by rural or agricultural real estate from lenders' income for loans made after July 4, 2025. South Carolina does not conform to this new provision. As such, lenders cannot exclude the interest provided for under this provision for purposes of determining South Carolina income. Banks engaged in business in South Carolina are subject to a bank tax, rather than a corporate income tax. Thus, this exclusion does not impact lenders subject to the bank tax.

2. IRC § 162(m) Excessive Employee Renumeration (applies to taxable years beginning after 12/31/25)

This is a new provision requiring entity aggregation when applying the $1 million business expense deduction limitation for certain covered employees who act as principal executive officers of publicly held companies that are part of a controlled group. This new aggregation rule would not apply for purposes of the deduction for employee renumeration in South Carolina and may allow each entity in a controlled group to deduct the full $1 million whereas that amount must be allocated among the members of the controlled group for federal tax purposes.

3. IRC § 168(e)(3)(B) Cost Recovery for Qualified Clean Energy Property (applies to property beginning construction after 12/31/24)

Prior to OBBBA, solar and wind energy property was classified as 5-year property. OBBBA removed solar and wind energy property from the definition of 5-year property. Solar and wind energy property would continue to be classified as 5-year property for purposes of calculating depreciation deductions for South Carolina. Because property formally classified as qualified clean energy property may depreciate over a longer period for federal tax purposes, South Carolina taxpayers may need to adjust their depreciation deduction to reflect the differences in the depreciation calculations.

4. IRC § 170(b)(2)(A) Corporate Charitable Deduction Floor (applies to tax years beginning after 12/31/25)

Prior to OBBBA, corporate charitable deductions were limited to 10% of taxable income. OBBBA further limits corporate charitable deductions by only allowing a deduction for charitable deductions exceeding 1% of taxable income while leaving the 10% limit in place. Corporate charitable deductions for South Carolina are not subject to the 1% floor. Therefore, corporations can deduct the full amount of their charitable contributions up to 10% of taxable income.

5. IRC §§ 174 and 174A Amortization of Research and Experimental Expenditures (applies to amounts paid or incurred in tax years beginning after 12/31/24)

Prior to OBBBA, research and experimental expenses were required to be capitalized and amortized over 5 years (15 years for expenditures related to foreign research). OBBBA allows immediate expensing of domestic research and experimental expenditures with an election to amortize certain expenditures. OBBBA also allows certain qualifying businesses to elect retroactive application of this change for years beginning after December 21, 2021. Because South Carolina has not adopted Section 174A or the changes to Section 174, domestic research and experimental expenditures must continue to be amortized over 5 years for South Carolina.

6. IRC § 179(b) Asset Expensing (applies to property placed in service in tax years beginning after 12/31/24)

Prior to OBBBA, taxpayers could expense up to $1 million of assets purchased per year (adjusted for inflation beginning in 2018) reduced by the amount by which the cost exceeds $2.5 million. OBBBA increased the amount a taxpayer can expense to $2.5 million reduced by the amount by which the cost exceeds $4 million. In South Carolina, taxpayers can only expense up to $1 million of assets (adjusted for inflation) reduced by the amount by which the cost exceeds $2.5 million in accordance with the pre-OBBBA law. Therefore, expenses in excess of this amount must be capitalized and amortized or depreciated for South Carolina.

7. IRC § 179D(i) Energy Efficient Commercial Buildings Deduction (applies to property beginning construction after 6/30/26)

Prior to OBBBA, taxpayers could deduct up to an amount equal to the cost of an energy efficient building property placed in service during the taxable year. OBBBA eliminated this deduction for property beginning construction after June 30, 2026. For South Carolina, taxpayers can continue deducting the cost of energy efficient building property after June 30, 2026. However, claiming this deduction requires a certification process for which federal guidance may not be maintained.

8. IRC § 181 Qualified Sound Recording Productions (applies to qualified sound recordings commencing in taxable years ending after 7/4/25)

OBBBA expanded the deduction for qualified film, television, or live theatrical productions to include qualified sound recording production cost of $150,000 per taxable year (to be included in the aggregated deduction of up to $15 million for production cost incurred in the United States or $20 million for expenses incurred in a low-income community or distressed county). Prior to OBBBA, this deduction was set to end for productions commencing after December 31, 2025. Because South Carolina has not adopted the redesignation of this provision (including the expansion for sound recording productions), this deduction expired for productions commencing after December 31, 2025 and is no longer recognized in South Carolina.

9. IRC § 274(o) Business Meals Deduction Exception (applies to amounts paid or incurred after 12/31/25)

Prior to OBBBA, meal expenses paid or incurred for the convenience of the employer, including employer-operated eating facilities and the cost of food and beverages, were deductible expenses and employees could exclude the cost of those meals from their income under Section 119(a) of the IRC. Pursuant to TCJA, this deduction was scheduled to be phased out starting on January 1, 2026. OBBBA also mandated that these meals are no longer deductible but provided a few exceptions for the disallowance including meals provided on certain fishing boats and fish processing facilities, and meals provided to crew members on commercial vessels or those working on oil and gas platforms and drilling rigs. Because South Carolina has not adopted revised Section 274(o) of the IRC, beginning on January 1, 2026 business meals provided at the convenience of the employer are not deductible for purposes of computing South Carolina taxable income. Therefore, meals falling under the exemptions allowing them to be deducted under the IRC must be added back to South Carolina taxable income.

10. IRC § 460(e) Percentage of Completion Method of Accounting Exception for Residential Construction Contracts (applies to contracts entered into in tax years beginning after 7/4/25)

Prior to OBBBA, this provision required the percentage of completion accounting method for all construction contracts other than "home construction contracts" and provided a special rule for residential construction contracts that are not home construction contracts. OBBBA changed the exception from "home construction contracts" to "residential construction contracts" and requires a three-year instead of a two-year completion period if the residential construction contract is not for a home. South Carolina will continue under the

pre-OBBBA authority that requires the percentage of completion accounting method to be used unless it is a "home construction contract" as defined under pre-OBBBA law.

11. IRC § 461(l) Limitation on Excess Business Losses of Noncorporate Taxpayers (loss disallowance applies to tax years beginning after 12/31/26)

Prior to OBBBA, the limitations on excess farm losses pursuant to Section 461(j) of the IRC were suspended for noncorporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2029. In addition, Section 461(l) of the IRC temporarily disallowed excess business losses for noncorporate taxpayers for tax years beginning after December 31, 2020 and before January 1, 2029. This disallowed portion was required to be carried forward and treated as part of the net operating loss carryover. OBBBA made both the suspension of the farm loss limitations and the disallowance of the excess business losses permanent; indexed the aggregate business income amount used in calculating "excess business losses" for inflation starting in tax years after December 31, 2025; and retained the net operating loss treatment for excess business losses. South Carolina has not adopted the amendments to Section 461(l). Therefore, South Carolina will follow the pre-OBBBA version of the law, resulting in the expiration of both the suspension of the limitations on farm losses and the disallowed excess loss limitations for tax years ending after December 31, 2028. Disallowed losses will continue to be carried forward and treated as part of the South Carolina net operating loss carryover.

12. IRC § 707(a)(2) Payments from Partnerships to Partners for Property or Services (applies to services performed and property transferred after 7/4/25)

Prior to OBBBA, the Secretary of the Treasury had authority to issue regulations to treat certain transactions as payments for property or services or a sale or exchange of property between the partnership and a non-partner, rather than an allocation or distribution. OBBBA removed the language requiring a regulation and allows allocations and distributions that are in substance payments for property or services to be treated as disguised sales rather than allocations or distributions. As South Carolina has not adopted this change, only those transactions provided pursuant to regulation may be treated as disguised sales in South Carolina.

13. IRC § 856(c)(4)(B)(ii) Taxable REIT Subsidiary Asset Test (applies to taxable years beginning after 12/31/25)

Prior to OBBBA, an entity's total asset value in one or more taxable real estate investment trust (REIT) subsidiaries was limited to 20% at the close of each quarter of the taxable year. OBBBA increased the limit to 25%. Because South Carolina has not adopted the increased limit for REIT subsidiaries, if the total asset value of a REIT subsidiary exceeds 20%, the entity

may no longer be classified as a REIT for South Carolina purposes and may be required to file a corporate return in South Carolina.

14. IRC § 1202 Small Business Stock Gain Exclusion (various effective dates)

Prior to OBBBA, this provision allowed for an exclusion of gain from the sale or exchange of qualified small business stock (QSBS) held for more than 5 years by non-corporate taxpayers. The exclusion was 100% for stock acquired after September 27, 2010 and between 50% and 75% for stock acquired before September 27, 2010. The per issuer limitation was $10 million and the gross asset limitation for the qualified small business was $50 million. OBBBA expanded this exclusion. Pursuant to OBBBA, for QSBS acquired after July 4, 2025, the per issuer limitation increased to $15 million and is adjusted for inflation beginning in 2026 and the gross asset limitation increased to $75 million. The exclusion amount is 50% for a 3-year holding period, 75% for a 4-year holding period, and 100% for a 5-year holding period. Because South Carolina has not adopted these changes, taxpayers must calculate the exclusion based on pre-OBBBA law.

15. IRC § 1400Z Qualified Opportunity Zone Program (various effective dates)

The TCJA created opportunity zones in economically distressed areas allowing investors to defer or reduce capital gains by reinvesting in Qualified Opportunity Funds, which invest in opportunity zones. Under TCJA, investors could defer gains until the end of 2026, receive a step-up in basis for investments held for a certain period of time, and permanently exclude appreciation after 10 years. Effective January 1, 2027, OBBBA permanently renewed the opportunity zone program, but modified both the eligibility and reporting requirements. Under the renewed program, new qualified opportunity zones will be designated for a period of ten years at which time new qualified opportunity zones will be chosen.

Although OBBBA renewed the Qualified Opportunity Zone Program, it did not provide an extension for the recognition of gains for investments made prior to December 31, 2026. South Carolina will continue to allow the deferred recognition of gains for investments made prior to December 31, 2026, but will not follow the renewed program, resulting in investments under the new program not being treated as tax deferred for South Carolina.

16. IRC § 7704(d)(1)(E) Hydrogen Storage & Carbon Capture Income for Publicly Traded Partnerships (applies to taxable years beginning after 12/31/25)

Section 7704 of the IRC requires publicly traded partnerships to be treated as corporations. However, this provision provides an exception for partnerships with passive-type income as long as 90% or more of the partnership's gross income consists of "qualifying income." Prior to OBBBA, the definition of "qualifying income" included income or gains from the exploration, development, mining, production, processing, refining, transportation, and

marketing of specified natural resources. OBBBA amended this provision to include transportation or storage of aviation fuel, liquified hydrogen, or compressed hydrogen; electricity generation, electricity storage, or carbon dioxide capture at a qualified carbon capture facility; electricity production from an advanced nuclear facility; electricity or thermal energy production using a geothermal or hydropower energy resource; and the operation of geothermal or ground water energy property. South Carolina has not adopted the expanded definition of "qualifying income" and therefore only those items in the previous definition are considered "qualifying income" for determining whether a publicly traded partnership must be treated as a corporation for South Carolina.

C. Miscellaneous OBBBA Provisions

1. Nonprofit Community Development Activities in Remote Native Villages

This is a new provision that allows certain activities relating to participating in or investing in fisheries in the Bering Sea or Aleutian Islands to meet the exempt purposes of Section 501(a) entities. Because South Carolina has not adopted this change, such activities would not be substantially related to these entities' exemption under Section 501(a) of the IRC.

D. OBBBA Changes to Deductions No Longer Recognized Pursuant to State Tax Reform

Several provisions in OBBBA either added or amended deductions for individual taxpayers. These deductions are specified under various provisions of the IRC. Sections 63(b) through (g) of the IRC provide the mechanism by which individuals may take deductions from AGI to compute federal taxable income. As noted above, South Carolina decoupled from Sections 63(b) through (g) as part of its 2026 tax reform bill. Therefore, many of the changes to deductions for individuals in OBBBA are no longer applicable for South Carolina individual taxpayers.

Starting in 2026, South Carolina individual income taxpayers will compute South Carolina taxable income by starting with the taxpayer's federal AGI, which is computed before these deductions. As such, taxpayers do not need to add these deductions back on their South Carolina individual income tax return. For reference, these provisions are as follows:

1. IRC § 63 (c)(7) Standard Deduction (applies to tax years beginning after 12/31/24)

OBBBA permanently increased the standard deduction from $12,000 to $15,750 for single or married filing separately, from $18,000 to $23,625 for head of household, and from $24,000 to $31,500 for married filing jointly or qualifying surviving spouses with a provision for adjustments based on inflation.

2. IRC § 67(g) Miscellaneous Itemized Deductions (effective for tax years after 12/31/25)

TCJA temporarily suspended miscellaneous itemized deductions through 2025. OBBBA made the suspension permanent but allows an itemized deduction for unreimbursed educator expenses. This provision takes effect for tax years after December 31, 2025.

3. IRC § 224 Deduction for Tip Income (applies to tax years beginning after 12/31/24 and before 1/1/29)

OBBBA added a temporary deduction for qualified tips up to $25,000 for individuals in customarily tipped industries. The amount of the deduction is reduced based on the taxpayer's AGI.

4. IRC § 225 Deduction for Overtime Pay (applies to tax years beginning after 12/31/24 and before 1/1/29)

OBBBA added a temporary deduction for qualified overtime compensation of up to $12,500 for individual taxpayers and up to $25,000 for married taxpayers filing jointly. The amount of the deduction may be reduced based on the taxpayer's AGI.

5. IRC § 151(c) and (d)(5) Personal Exemption Deduction (applies to tax years beginning after 12/31/24 and before 1/1/29)

TCJA temporarily set the personal exemption deduction to zero through 2025. OBBBA made this change permanent.[2]

6. IRC § 151(d)(5) Senior Deduction (applies to tax years beginning after 12/31/24 and before 1/1/29)

OBBBA added a new temporary provision allowing a $6,000 deduction for taxpayers aged 65 and over. The amount of the deduction may be reduced based on the taxpayer's AGI.

7. IRC § 163(h)(4) Auto Loan Interest Deduction (applies to indebtedness incurred after 12/31/24 for taxable years beginning after 12/31/24 and before 1/1/29)

OBBBA added a new temporary provision allowing taxpayers to deduct up to $10,000 for interest on certain new car loans. The amount of the deduction may be reduced based on the taxpayer's AGI.

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[2] Although South Carolina no longer recognizes the deduction for personal exemptions provided in IRC § 151, several provisions of the South Carolina Code refer to this amount particularly in reference to South Carolina withholding requirements. See e.g., S.C. Code Ann. § 12-8-520(D)(3). As such, South Carolina will calculate the personal exemption amount based on Section 151 of the IRC as it would have been calculated had this amount not been set to zero pursuant to OBBBA. For 2026, this amount is $5,300.

8. IRC § 163(h)(3)(F) Mortgage Interest Deduction (applies to tax years beginning after 12/31/25)

Prior to OBBBA, the mortgage interest deduction for taxpayers who itemize was temporary and limited to acquisition indebtedness up to $750,000 ($375,000 for married filing separate). OBBBA made this limitation permanent and disallows the mortgage interest deduction for home equity indebtedness.

9. IRC § 164(b)(6) State and Local Tax Deduction (applies to tax years beginning after 12/31/24)

OBBBA increased the limit for the state and local tax deduction for taxpayers who itemize from $10,000 to $40,000 for 2025 and provides for an increase of this amount for 2026, 2027, 2028, and 2029. After 2029 the limit returns to $10,000.

10. IRC § 165(d) Wagering Losses (applies to tax years beginning after 12/31/25)

Prior to OBBBA, expenses incurred due to gambling activities were temporarily deductible through 2025 for taxpayers who itemize as wagering losses. OBBBA made this treatment permanent but limited the deduction to the lesser of 90% of the losses or the gains from wagering transactions during the tax year.

11. IRC § 165(h)(5) Casualty Loss Deduction (applies to tax years beginning after 12/31/25)

For taxpayers who itemize, OBBBA made permanent a temporary provision that limits personal casualty losses to the extent of personal casualty gains for federally declared disasters. OBBBA also applied this limitation to state declared disasters.

12. IRC § 170(b)(1) Individual Charitable Deduction Floor (applies to tax years beginning after 12/31/25)

OBBBA created a 0.5% floor before charitable contributions become deductible for taxpayers who itemize.

13. IRC § 170(p) Charitable Contribution Deduction for Non-Itemizers (applies to tax years beginning after 12/31/25)

Prior to OBBBA, a temporary provision allowed non-itemizers to deduct $300 in charitable contributions ($600 for joint filers) for 2021. OBBBA reinstated this deduction and increased it to $1,000 ($2,000 for joint filers).

E. OBBBA Provisions Not Adopted in South Carolina

OBBBA also contains amendments to many other IRC provisions South Carolina does not adopt. Below is a list of those provisions for reference only. The OBBBA changes to these provisions do not impact South Carolina taxpayers.

1. IRC § 63(c)(7) Standard Deduction
2. IRC § 68 Overall Limitation on Itemized Deductions
3. IRC § 163(j) Business Interest Deduction Limitation
4. IRC § 168(k) Bonus Depreciation
5. IRC § 168(n) Depreciation for Qualified Production Property
6. IRC § 199A Qualified Business Income Deduction
7. IRC § 250 Foreign-Derived Intangible Income
8. IRC § 898(c) Tax Year for foreign Corporations
9. IRC § 904 Foreign Tax Credits
10. IRC § 951 Pro Rata Share Rules
11. IRC § 951B GILTI
12. IRC § 954 Controlled Foreign Corporations
13. IRC § 958(b) Constructive Ownership Definition-Downward Attribution Rule
14. IRC § 960 GILTI Deemed Paid Foreign Tax Credits
15. IRC § 2010(c)(3) Estate tax Exemption
16. IRC § 4475 Excise Tax on Remittance Transfers
17. IRC § 4960 Excise tax on Excessive Compensation of Tax-Exempt Organization Executive's Pay
18. IRC § 4968 Excise Tax on Net Investment Income of Private Colleges and Universities
19. IRC § 5811(a) & IRC § 5821(a) Excise Tax on Firearms and Silencers
20. IRC § 6041(a) Information Reporting Threshold for Certain Payees
21. IRC § 6050W(e) De Minimis Rules for Third Party Network Transactions
22. IRC § 6435 Payments for Dyed Fuel
23. IRC § 7652 Excise Tax Covered Over into Puerto Rico and the U.S. Virgina Islands
24. § 304(b) of the Taxpayer Certainty and Disaster Relief Act of 2020-Disaster Related Personal Casualty Losses
25. Federal Credit Provisions