STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
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SC INFORMATION LETTER #26-20

SUBJECT: Individual Income Tax Reform
(Income Tax)

DATE: August 31, 2026

AUTHORITY: S.C. Code Ann. § 12-4-320 (2014)
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.

Individual Income Tax Reform

The Governor signed Act 110 of 2026 into law on March 30, 2026. Act 110 makes the following changes to South Carolina's individual income tax structure:

1. Replaces three income tax brackets with two brackets;
2. Reduces the top marginal tax rate;
3. Decouples from certain federal deductions;
4. Creates a new South Carolina Income Adjusted Deduction (SCIAD);
5. Adjusts the South Carolina Earned Income Tax Credit;
6. Updates filing requirements to reflect tax changes; and
7. Adjusts withholding tables to reflect tax changes.

These changes are effective for income tax years beginning after December 31, 2025.

Tax Brackets and Rates

Section 12-6-510(C) is amended to change the previous three income tax brackets to two brackets and to reduce the top marginal individual income tax rates. For tax years beginning after 2025, the tax on the South Carolina taxable income of individuals, estates, trusts, and any other entity that is not taxed at corporate rates or exempted from income tax is computed as follows:

Taxable Income	2026 Tax Computation
$0 - $29,999	1.99% times taxable income
$30,000 or more	(5.21% times taxable income) minus $966

The taxable income amounts in the brackets will be adjusted each year using the Chained Consumer Price Index for All Consumers, as provided in Section 12-6-520 of the South Carolina Code.

Beginning with the 2027 tax year, the top marginal income tax rate of 5.21% will be decreased if the Board of Economic Advisors (BEA) determines individual income tax revenues collected, minus amounts credited to the Trust Fund for Tax Relief, are projected to increase by at least 5% in the fiscal year that begins during the tax year when compared with the current fiscal year amounts. This rate reduction will continue until the top marginal tax rate reaches 1.99%.

If the 5% threshold is met, the rate will be permanently and cumulatively reduced by a percentage that the BEA projects will result in a reduction in individual income tax revenues collected equal to the greater of $200 million or 25% of the recurring income tax revenue surplus for the fiscal year that begins during the tax year. If the 5% threshold is not projected to result in increased collections of $200 million in the fiscal year, the reduction is limited to the projected amount of increased collections. Any reductions in the tax rate are rounded up to the nearest hundredth of a percent.

Once the top marginal rate reaches 1.99%, the two brackets will be reduced to one bracket with a rate that will apply to all South Carolina taxable income. Beginning with the first tax year after the top marginal rate reaches 1.99%, the rate will continue to be decreased in the same manner until the rate equals 0%.

The Executive Director of the Revenue and Fiscal Affairs Office, or his designee, will notify the Department of Revenue (SCDOR) of the projected percentage adjustment upon the issuance of the initial forecast and if subsequent modifications to the forecast change the projected percentage adjustment. The forecast in effect on February 15 of the fiscal year will be the final forecast used to determine the percentage adjustment for the tax year beginning in that fiscal year.

Federal Deductions

Section 12-6-50, which lists the Internal Revenue Code Sections not adopted by South Carolina, is amended to include IRC Section 63(b) through (g). These are the deductions subtracted from federal adjusted gross income (AGI) to arrive at federal taxable income and include the following federal deductions:

1. Standard deduction;
2. Itemized deductions on Schedule A;
3. Senior deduction;
4. Qualified tip deduction;
5. Overtime deduction;
6. Car loan interest deduction;
7. Qualified business income (QBI) deduction; and
8. Charitable contribution for taxpayers who do not itemize.

As a result of decoupling from these federal deductions, the calculation for South Carolina taxable income will begin with federal AGI instead of federal taxable income for tax years beginning after 2025.

South Carolina Income Adjusted Deduction (SCIAD)

Section 12-6-1140 is amended to add a new South Carolina Income Adjusted Deduction (SCIAD). The SCIAD is based on the federal filing status, and may be reduced based on the taxpayer's federal AGI, as follows:

<table>
<tr><th>Filing Status</th><th>AGI</th><th>SCIAD</th></tr>
<tr><td rowspan="3">Single or Married Filing Separately</td><td>$0 to $40,000</td><td>$15,000</td></tr>
<tr><td>$40,001 to $94,999</td><td>$15,000 reduced by fraction:
(AGI – 40,000)/55,000</td></tr>
<tr><td>$95,000 or more</td><td>$0</td></tr>
<tr><td rowspan="3">Head of Household</td><td>$0 to $60,000</td><td>$22,500</td></tr>
<tr><td>$60,001 to $142,499</td><td>$22,500 reduced by fraction:
(AGI – 60,000)/82,500</td></tr>
<tr><td>$142,500 or more</td><td>$0</td></tr>
<tr><td rowspan="3">Married Filing Jointly or Surviving Spouse</td><td>$0 to $80,000</td><td>$30,000</td></tr>
<tr><td>$80,001 to $189,999</td><td>$30,000 reduced by fraction:
(AGI – 80,000)/110,000</td></tr>
<tr><td>$190,000 or more</td><td>$0</td></tr>
</table>

Any reduction amount which is not a multiple of $10 is rounded down to the next lowest $10. The SCDOR will provide an online calculator tool to assist taxpayers in calculating their SCIAD.

Nonresidents will reduce their SCIAD to an amount in the same proportion as South Carolina adjusted gross income is to federal adjusted gross income.

Earned Income Credit

The South Carolina Earned Income Tax Credit is a nonrefundable individual income tax credit calculated at 125% of the federal earned income tax credit allowed under IRC Section 32. Section 12-6-510 is amended to limit the credit allowed in a year to a maximum of $200.

Filing Requirements

The individual income tax filing requirements in Section 12-6-4910(1) are amended to require returns for:

1. Individuals under age 65 who file as Single or Married Filing Separately and have South Carolina gross income over $15,000;

2. Individuals under age 65 who file as Head of Household and have South Carolina gross income over $22,500;

3. Individuals who file as Married Filing Jointly, are both under age 65, and have South Carolina gross income over $30,000;

4. Individuals age 65 and older who file as Single or Married Filing Separately and have South Carolina gross income over $30,000;

5. Individuals age 65 and older who file as Head of Household and have South Carolina gross income over $37,500;

6. Individuals who file as Married Filing Jointly with only one spouse age 65 and older who have South Carolina gross income over $45,000; and

7. Individuals who file as Married Filing Jointly with both spouses age 65 and older who have South Carolina gross income over $60,000.

Withholding Tables

The SCDOR will consult with the Revenue and Fiscal Affairs Office to adjust the income tax withholding tables to reflect the income tax changes. Adjustments to withholding tables must be made in accordance with fiscal responsibility.