

MOVING TO SOUTH CAROLINA?

A Tax Guide for New Residents

A publication of the
South Carolina Department of Revenue

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If you are considering a move to South Carolina or have been a resident here for years, you may have many questions about the tax structure in this state. This brochure explains the major state and local taxes, such as income, property and sales taxes, and a few other taxes with which you should be aware. For more specific information, call or visit one of the South Carolina Department of Revenue offices listed in this publication or visit the agency's website at www.sctax.org.

Income Tax

South Carolina has a simplified income tax structure which follows the federal income tax laws. South Carolina accepts the adjustments, exemptions and deductions allowed on your federal return with few modifications. Your federal taxable income is the starting point in determining your state income tax liability.

Deductions

- You do not pay a capital gains tax in this state on property sold in another state. Federal rules governing the exclusion of capital gains realized on the sale of a personal residence also apply in South Carolina.
- A deduction is allowed for net capital gains held for two years or longer. The deduction is 44%, making the effective tax rate 3.9% as compared to the top rate of 7% on all other income. For tax years beginning after 2000, the South Carolina holding period is the same as the federal.
- Beginning with the first year you receive qualified retirement income and until you turn 65, you may take an annual deduction of up to \$3,000. You may take this deduction for income received from any qualified retirement plan, such as IRAs, government pension plans, Keough plans and private sector pensions. If both spouses receive retirement income, each spouse is entitled to an individual deduction. At age 65, retirees may take a deduction of up to \$10,000 from retirement income.

All residents at age 65 are eligible for a deduction of up to \$15,000 from income, regardless of the source. The \$15,000 deduction must be offset by any other retirement deduction that is claimed. Each spouse may claim the retirement deduction if each is receiving income from a qualified retirement plan.

- Income received from National Guard or armed forces reserve pay for the customary annual training period and weekend drill is exempt from tax.
- Disability income from a permanent and total disability is deductible.
- Social Security benefits are not taxed in South Carolina.
- A deduction is allowed for each child under the age of 6. The deduction is 100% of the federal personal exemption, which is adjusted each year for inflation.
- A deduction is allowed for a special needs adopted child.
- Interest you receive from federal obligations is deductible.

Credits

Income tax credits which may lower your South Carolina tax liability are:

- A tuition tax credit allows a 25% credit for tuition paid to South Carolina public and private colleges. The maximum credit is \$850 per year for four-year schools and \$350 per year for two-year schools. The person who pays the tuition may take the credit. You must take at least 30 credit hours per year to qualify for the tuition tax credit.

- A two-wage earner credit allows married couples to take a maximum credit of \$210 if both spouses work.
- You are allowed a maximum credit of \$300 for payments made for nursing home care or intermediate nursing care provided in the home for yourself or another individual.
- A credit is allowed for income taxes paid to another state on income which is taxable in both states.
- A child and dependent care credit allows you to claim 7% of your federal allowable expenses for the care of a child or elderly person.

Additions to Income

- Certain items of income must be added back to your federal taxable income for South Carolina purposes.
- Any out-of-state losses and interest income from obligations other than those in South Carolina, if these items were subtracted on your federal return, must be added back to your taxable income on the state income tax return.
- The deduction on your federal income tax return for state income tax paid must be added back to your taxable income on your state income tax return, but it is offset by your state refund amount if you claimed it as income on your federal return.

Tax Rates

Individual income tax rates range from 2.5% to a top rate of 7% on taxable income. Tax brackets are adjusted annually for inflation. Beginning in tax year 2006, the tax rate on active trade on business income received by the owner of a pass-through business is 6.5%. This rate will be lowered by .5% each year until it reaches 5% for tax years beginning after 2008.

Part-Year Residents

If you moved into South Carolina during the year, you are a part-year resident. As a part-year resident, you may consider yourself a full-year resident or a nonresident. If you choose to be a full-year resident, you claim all your income as though you were a resident for the entire year and take a credit for taxes you paid in another state. If you choose to be a nonresident, report only the income you earned in South Carolina. Your deductions and exemptions will be prorated by the same percentage as your South Carolina income compares to your total income. You may choose the method which benefits you best. You may need to complete the return both ways to determine which is best.

Estimated Tax

Estimated tax is the method you use to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rent, capital gains and prizes. You also may have to pay estimated tax if enough tax is not being withheld from your salary, pension or other income. Estimated tax is paid in quarterly installments on April 15, June 15, September 15 and January 15.

Filing Returns

Generally, you are required to file a South Carolina income tax return if you are required to file a federal return or if you have South Carolina tax withheld from your wages. Individual income tax returns are due April 15 of each year, but if you file your state return electronically, you have until **May 1** to file without incurring a penalty. The May 1 deadline **does not apply** to federal income tax returns.

You may file your South Carolina tax return in several ways:

- Electronic filing using a professional tax preparer
- On-line filing over the Internet using available commercial software
- SCNetFile using the DOR website
- Paper returns.

Property Tax

Counties, cities and school districts are authorized to impose ad valorem taxes on real and personal property. The local government assesses and collects the property tax under the direction and assistance of the Department of Revenue. Property tax dollars support public schools and the services local governments provide.

Residential Property

The market value of a legal residence and up to five acres of surrounding land is assessed at 4% of fair market value. The millage rate of the local government is then applied to the assessed value resulting in the tax liability. The millage rate is set by local governments and varies widely throughout the state.

The first \$100,000 in fair market value of a primary residence is exempt from school operating taxes.

(Generally speaking, school operating taxes comprise about 70% of the total tax bill. Contact your county tax assessor for help in determining your property tax liability based on the exemption from school operating taxes.)

If you have established a one-year residency and you are 65 or older, legally blind or permanently and totally disabled, you are eligible for a homestead exemption of \$50,000 from the value of your home.

The assessment ratio on a second home or vacation home is 6%. The property tax relief does not apply to a second home.

To find out more about the tax on real estate, call the assessor in the county where you live or plan to relocate.

Vehicle Property Taxes

Personal property tax is collected annually on cars, recreational vehicles, boats and airplanes, based on values set forth in Department of Revenue publications.

For tax year 2007, passenger motor vehicles and pickup trucks are assessed at 6%. The local millage rate is applied to the assessed value to determine the tax due.

For information about personal property tax on cars, trucks, boats, RVs and airplanes, call the auditor's office in the county where you plan to live.

Sales and Use Tax

South Carolina's sales and use tax rate increases to 6%, June 1, 2007. In certain counties, a local option sales and use tax of 1% is imposed in addition to the 6% state rate. Counties and cities also may impose local sales taxes for road improvements, capital projects and other purposes. Most local taxes require voter approval. The sales tax rate on unprepared food is 3%.

Prescriptions, dental prosthetics and hearing aids are exempt from the sales tax. Those over 85 years of age are exempt from 1% of the sales tax.

A maximum sales tax of \$300 is imposed on the purchase of motor vehicles, including recreational vehicles, boats, motorcycles and airplanes.

The Department of Revenue strongly enforces the use tax on purchases made out-of-state when no sales tax has been paid. If you purchase goods from the internet, mail-order catalogs, television shopping networks or other out-of-state businesses and did not pay sales tax, you must report and pay 5% use tax (6% or 7% if you live in a local option county) in South Carolina. The use

tax can be reported on your SC1040 income tax return. All 45 states which have a sales tax also have and enforce the use tax in much the same way.

Motor Fuel Tax

Each gallon of gasoline and diesel fuel purchased in South Carolina is taxed at 16 cents. This tax is included in the price per gallon of gasoline at the pump.

Vehicle Registration

You have 45 days after moving to South Carolina to register your vehicle in this state. If you live in this state only part of the year and consider another state your home residence, you are still required to register your car in this state if you will be living in South Carolina for 180 days or more. The title fee is \$15 and the registration fee is \$24 every two years for a passenger vehicle. Drivers 65 years old or older pay a reduced registration fee of \$20 every two years. The fee is \$22 every two years for 64-year-olds. Contact the nearest office of the Department of Motor Vehicles for more information.

Opening a New Business

If you plan to open a new business in South Carolina, check out South Carolina Business One Stop (DORBOS) at the Department of Revenue website for business registration, licensing and renewals. DORBOS allows online registration and renewals with DOR and the South Carolina Employment Security Commission. From DOR's website, you can also link to the state website, mySCgov.com, and obtain information, forms and contacts from federal, state and local agencies which you will need to start your new business.

Driver's License

If you move to South Carolina, your driver's license from your former state is valid in South Carolina for 90 days. Before the 90-day period expires, new residents must visit one of the Department of Motor Vehicles branch offices to obtain a South Carolina driver's license.

A driver's license is \$25 and is renewable every ten years on your birthday. Beginner permit applicants must be 15 years old and must pass a vision test and a written test on driving skills. The fee is \$2 for the written test. The beginner's permit is \$2.50 and is valid for one year. Applicants must hold a beginner's permit for 180 days before they can apply for a driver's license.

Estate Tax

South Carolina follows federal rules regarding the taxation of estates. The tax due is the amount claimed as a state credit on the federal estate return. An estate left to the deceased person's spouse is not subject to tax.

Let us hear from you. Send your comments and suggestions to:

Public Affairs Office
SC Department of Revenue
PO Box 125
Columbia SC 29214

or www.sctax.org

Important Telephone Numbers

Business Registration..... (803) 898-5872
Estimated Tax (803) 898-5709
Forms 1-800 768-3676
Individual Income Tax..... (803) 898-5709
Motor Vehicles..... (803) 896-8623
Sales Tax..... (803) 898-5788
Withholding..... (803) 898-5383

Taxpayer Service Centers

Charleston 3 Southpark Circle, Suite 202
 Charleston, S.C. 29407
 (843) 852-3600
 (843) 556-1780 (FAX)

Columbia Columbia Mill Building
 301 Gervais Street
 Columbia, S.C. 29201
 (803) 898-5000

Florence 1452 W. Evans Street
 PO Box 5418
 Florence, S.C. 29502
 (843) 661-4850
 (843) 662-4876 (FAX)

Greenville 211 Century Drive, Suite 210-B
 Greenville, S.C. 29607
 (864) 241-1200
 (864) 232-5008 (FAX)

Myrtle Beach South Park Village
 1330 Howard Parkway
 Myrtle Beach, SC 29577

Rock Hill Business and Technology Center
 454 S. Anderson Rd., Suite 202
 PO Box 12099
 Rock Hill, S.C. 29731
 (803) 324-7641
 (803) 324-8289 (FAX)