

Income/Franchise:

South Carolina: Draft Ruling Addresses Pass-through Entity Tax and Credit for Taxes Paid to Other States

SC Revenue Ruling #22- DRAFT, S.C. Dept. of Rev. (5/19/22). The South Carolina Department of Revenue released a draft revenue ruling involving state law that provides an annual election for some qualifying pass-through entities to pay South Carolina income tax on active trade or business income at the entity level [see previously issued Multistate Tax Alert for more details on South Carolina's new elective pass-through entity tax], specifically addressing South Carolina's credit for resident individuals for income taxes paid to other states on personal service income provided in South Carolina Code section 12-6-3400 and the taxation of other business income when a pass-through entity is operating in more than one state. The draft revenue ruling discusses some example scenarios when an entity level tax election is or is not made in South Carolina and whether a South Carolina credit for taxes paid to other states is or is not applicable, including:

URL: [https://dor.sc.gov/resources-](https://dor.sc.gov/resources-site/lawandpolicy/Advisory%20Opinions/RR%202022%20entity%20elections%20public%20DRAFT.pdf)

[site/lawandpolicy/Advisory%20Opinions/RR%202022%20entity%20elections%20public%20DRAFT.pdf](https://dor.sc.gov/resources-site/lawandpolicy/Advisory%20Opinions/RR%202022%20entity%20elections%20public%20DRAFT.pdf)

URL: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-mta-south-carolina-enacts-a-pass-through-entity-level-tax-election-and-updates-irc-conformity.pdf>

- Credits for resident partners or shareholders for the entity level tax paid directly by a pass-through entity on its return of another state for personal service income taxed in the other state, and
- Credits for resident partners or shareholders for entity level tax paid directly by a pass-through entity on its return of another state for the entity's non-personal service business income.

Comments on the draft revenue ruling are due on June 1, 2022. Please contact us with any questions.

— Art Tilley (Charlotte)
Managing Director
Deloitte Tax LLP
atilley@deloitte.com

Meredith Morgan (Charlotte)
Senior Manager
Deloitte Tax LLP
mmorgan@deloitte.com

Gregory Bergmann (Chicago)
Partner
Deloitte Tax LLP
gbergmann@deloitte.com

Robert Waldow (Minneapolis)
Principal
Deloitte Tax LLP
rwaldow@deloitte.com

Shirley Wei (Los Angeles)
Senior Manager
Deloitte Tax LLP
shiwei@deloitte.com

Olivia Schulte (Washington, DC)
Manager
Deloitte Tax LLP
oschulte@deloitte.com

This document contains general information only and Deloitte is not, by means of this document, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this document.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.