DOES YOUR BUSINESS EXPORT GOODS OR SERVICES?

The globalization of the marketplace over the past several years has ushered in many changes for businesses and has guided U.S. tax policy to incentivize exportation of goods and services by U.S. companies. The Interest Charge Domestic International Sales Corporation (IC-DISC) was originally created by Congress to facilitate export sales by providing a tax deferral mechanism. The IC-DISC now provides a permanent tax savings for closely-held pass-through entities because of the 23.8 percent qualified dividend rate.

WHAT IS AN IC-DISC?

The IC-DISC is a vehicle that provides an opportunity for small-to-medium-size companies to have up to 85 percent of their export profits excluded from U.S. taxation. Profits are taxed at the current dividend rate of 23.8 percent as opposed to the ordinary income rate of up to 39.6 percent. The significant savings afforded by the IC-DISC are meant to increase the competitiveness of a U.S.-based company with export sales and to help it compete in the global market. If the IC-DISC is owned by foreign owner(s) in a treaty country, the U.S. tax rate on the dividend could be as low as zero.

WHO QUALIFIES?

Small-to-medium-size companies with annual gross revenues of generally $1 million or more on export property manufactured or produced in U.S. are considered to be qualified businesses for the tax incentive.

Qualified business entities include manufacturers, producers, farmers, wholesalers, distributors, architectural and engineering firms, and software developers.

Other goods and/or services businesses transactions that qualify include direct sales to a foreign purchaser and sales to a U.S. purchaser if the goods are destined for use in a foreign country.

Exclude up to 85% of your export profits from U.S. taxation

THE BASIC OPERATIONS OF AN IC-DISC:

- The U.S. exporter pays a tax deductible commission to the IC-DISC.
- The IC-DISC pays no U.S. income tax on the commission income.
- The IC-DISC pays a dividend to its shareholders who are taxed at the current preferred qualified dividend tax rate of 23.8 percent.
- This results in a 15.8 percentage point federal tax savings, 39.6 percent regular tax rate minus a 23.8 percent dividend tax rate.

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HOW CAN AN IC-DISC HELP YOU?

Like many tax incentives, IC-DISC can be complex, but it essentially does one thing—rewards innovation and sales of U.S. goods and services overseas. This opportunity should be examined for any closely-held U.S. company if even a portion of their products or services are suspected to be used outside of the U.S. If companies are already using the IC-DISC, they should be considered for the maximizing of allowable benefits using a "transaction by transaction" calculation.

EXAMPLE: BASIC BENEFIT OF IC-DISC FOR CLOSELY-HELD S CORPORATION

	Without IC-DISC	With IC-DISC	Net Savings
Export Sales	$5,000,000	$5,000,000	
Net Margin	20%	20%	
Net Profit	$1,000,000	$1,000,000	
IC-DISC Commission (50%)		- $500,000	
Taxable Income	$1,000,000	$500,000	
Tax Rate	39.6%	39.6%	
Shareholder Level Taxation on Flow Through Income	$396,000	$198,000	$198,000
Dividend to Shareholder		$500,000	
Tax Rate		23.8%	
Shareholder Level Taxation		$119,000	- $119,000
Total Taxation	**$396,000**	**$317,000**	**$79,000**

For more information on how Warren Averett can help your business minimize worldwide tax costs, visit www.warrenaverett.com/international or call 800.759.7857.

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