

IC-DISC Federal Export Tax Incentive

The Interest Charge Domestic International Sales Corporation (IC-DISC) offers significant Federal income tax savings for making or distributing US products for export. The IC-DISC was originally created by Congress to promote export sales by allowing companies to defer income, with interest charged on the deferred tax. Now, the IC-DISC provides significant and permanent tax savings for producers and distributors of U.S. made products used abroad.

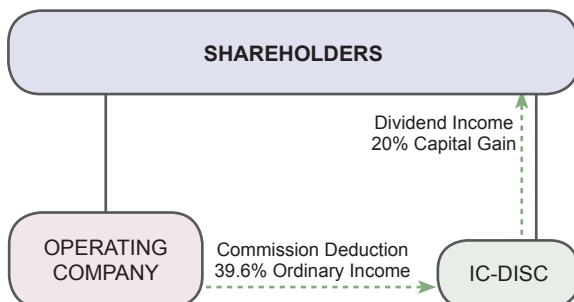
Who Can Benefit?

IC-DISC benefits are available to qualified producers or distributors that are either directly involved in exporting, or selling products to distributors or wholesalers who resell for use outside of the U.S. This includes traditional manufacturers as well as those who grow agriculture products, extract minerals, distribute U.S. made goods, and develop software. Engineering and architectural services related to foreign construction projects are also included.

How does it work?

The owner of the operating company forms a tax-exempt IC-DISC. The IC-DISC must maintain its own bank account, accounting records and file U.S. tax returns, but otherwise there are no changes to business operations.

- The operating company pays a tax deductible commission to the IC-DISC equal to at least the greater of 4% of operating company's gross receipts from qualified exports or 50% of the operating company's net income from qualified exports.
- The operating company expenses the commission and reduces ordinary income taxed at a maximum 39.6% rate.
- The IC-DISC is tax exempt and is not taxed on the commission income it receives from the operating company.
- The IC-DISC pays dividends to its shareholders, which are taxed at a 20% rate.
- The result yields a 19.6% permanent tax rate arbitrage (3.8% net investment income tax may yield different results).



Net Effect: 19.6% Rate Reduction



Case Study

ABC Co. has \$2M in gross export sales and \$500,000 in net income from those exports. It will pay a commission of at least \$250,000 to the IC-DISC (50% of export net income).

Results:

- ABC Co. pays \$250,000 in deductible IC-DISC commissions, saving its shareholders \$99,000 in tax (at a 39.6% tax rate).
- The IC-DISC pays dividends to its shareholders who pay only \$50,000 in tax (using a 20% dividend rate). The net result is an annual \$49,000 permanent tax reduction!

Summary:

An IC-DISC offers a permanent annual decrease in tax rate on at least half of export profits. The benefits of an IC-DISC can be dramatically higher by performing a transaction-by-transaction analysis.

Getting More Information

KBKG can quickly conduct a complimentary analysis to determine if an IC-DISC can benefit your company, or if a transaction-by-transaction analysis will yield increased savings for an existing IC-DISC. Call us today or visit our website at www.KBKG.com for more information.