

IC-DISC EXPORT INCENTIVES REFERENCE GUIDE



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IC-DISC — WHAT IS IT?

Domestic companies earning income from exporting U.S. produced products can benefit from Interest Charge-Domestic International Sales Corporation (IC-DISC). **An IC-DISC offers a permanent tax savings as well as tax deferral opportunities** to U.S. companies manufacturing and distributing products or services for export. The permanent tax rate benefit is available to flow through entities such as partnerships, limited liability companies, and S-corporations.

QUALIFYING FOR THE TAX BENEFIT

To qualify, goods must be manufactured, produced, grown, or extracted in the United States and exported internationally. Producers include manufacturing and distribution companies. Additionally, professional engineering or architectural services for construction projects located outside the U.S. can qualify for the tax benefit. Leased U.S. manufactured property used outside the U.S. is also eligible for this tax benefit.

HOW OUR INTERNATIONAL TAX TEAM CAN DETERMINE ELIGIBILITY AND MAXIMIZE THE IC-DISC BENEFITS FOR WEAVER'S CLIENTS

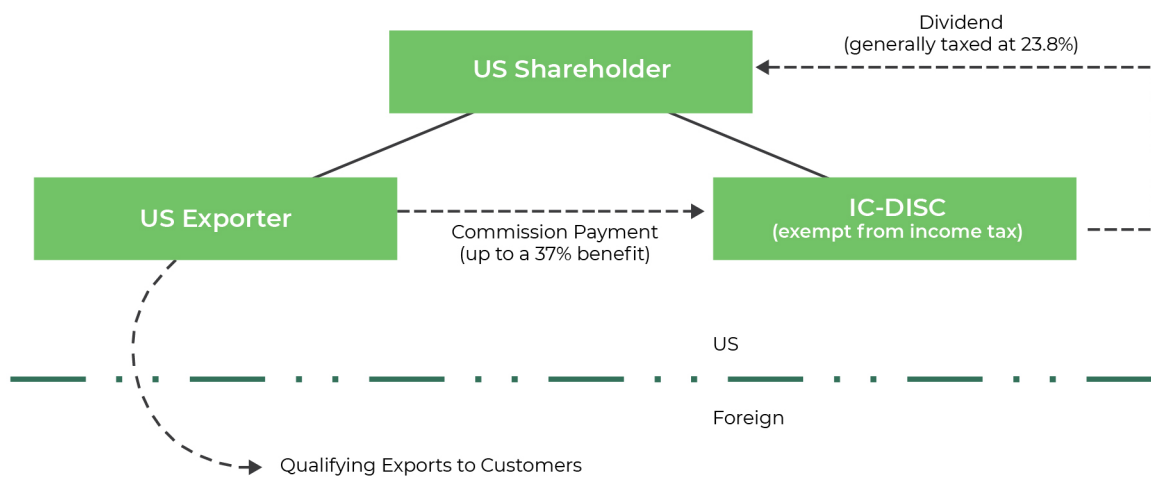
Companies can realize considerable tax benefits through an IC-DISC from Weaver's experience. We generally assist clients on the following:

- ▶ Consult and confirm the existence of qualified export receipts and qualified export property and services
- ▶ Prepare preliminary estimates of the IC-DISC benefit
- ▶ Review intercompany activities to assess production level of qualifying export receipts and property
- ▶ Structure legal entities involved in export activities to maximize IC-DISC tax benefits
- ▶ Evaluate alternative commission deduction options to realize highest tax savings
- ▶ Enhance operating cash management by loaning funds from the IC-DISC to the US exporting company
- ▶ Manage the risk related to annual tax compliance including verifying eligibility of a valid IC-DISC election

HOW DOES AN IC-DISC WORK?

An IC-DISC is a U.S. corporation that meets certain requirements and elects to be an IC-DISC. Once formed, the IC-DISC is not subject to federal income tax on the commission income it receives for working as a sales agent for the U.S. exporting company. The IC-DISC typically distributes the cash it receives from the commission to its shareholders generally taxed at the more favorable qualified dividend tax rates.

The operating exporting company pays a tax-deductible commission to the IC-DISC generally equal to either 4% of the operating company's qualified export receipts or 50% of the company's net income from qualified exports. In turn, the IC-DISC reduces shareholders' tax liability **by converting ordinary income from sales to foreign customers, taxed as high as 37%, into qualified dividend income which has a preferential tax rate of up to 20% plus 3.8% net investment income tax.** Additionally, there is a **tax deferral opportunity** to defer the first \$10M of gross receipts from tax, though an interest charge applies on those amounts determined based on the U.S. Treasury rates.



The IC-DISC has strict operational considerations including the requirement to maintain its own accounting records bank account and have only one class of stock. Additionally, the IC-DISC files a separate U.S. tax return. Otherwise, there are no changes to an existing operating company's business functions.

Contact us if you have questions about establishing an IC-DISC, including the review of qualifications.

