

## Summary of IC-DISC Tax Benefits

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Interest-Charge Domestic International Sales Corporations (“IC-DISCs”) offer significant potential tax benefits for U.S. companies that export U.S. manufactured products or certain engineering or architectural services with respect to foreign projects. IC-DISCs can provide tax benefits to all types of U.S. exporters, including C- and S-corporations, LLCs and partnerships.

### What is an IC-DISC?

An IC-DISC is a C-corporation that elects IC-DISC treatment under U.S. tax law. An IC-DISC does not have to own any tangible assets or have a business location. An IC-DISC must have a minimal equity capitalization of \$2,500 and must meet strict asset and income tests, which require that 95 percent of its income and assets be related to qualified export property. An IC-DISC’s primary income results from commissions paid by the exporting company on export sales. Thus, because of these minimal statutory requirements, IC-DISCs are relatively inexpensive to establish and maintain.

### Tax Benefits of IC DISC

The tax benefits of an IC-DISC result from converting sales income that would otherwise be taxed at ordinary income rates to qualified dividend income which is generally taxed at substantially lower rates. This occurs by the exporting company paying the IC-DISC a commission equal to the greater of 4 percent of qualified export gross receipts or 50 percent of net income from qualified exports. This commission payment reduces the exporting company’s taxable ordinary income and the IC-DISC is exempt from tax on such income. This commission income is generally not taxed until the IC-DISC distributes the income to its shareholders. At such time, it is taxed at qualified dividend rates which are roughly 15-20 percent lower than ordinary income rates, resulting in substantial tax savings. The following is an example that illustrates the potential tax savings from an IC-DISC for an exporter that is an S-corporation that has \$10 million in export gross receipts and \$1.5 million in net export income.

### Potential Additional Benefits of IC-DISCs

An IC-DISC can generally retain commission income (subject to certain limitations), which allows for tax deferral. In exchange for this deferral, the shareholders must pay an annual deferral charge, which presently is below 1 percent.

Ownership of the IC-DISC is not required to mirror the ownership of the exported company. Accordingly, it is possible to shift income away from higher income taxpayers who own the exporter by having lower taxed employees/relatives own the IC-DISC. However, there may be income/gift tax consequences associated with such arrangement that must be considered.

An IC-DISC’s income can be increased (for further tax benefits) by providing marketing services to the exporter and factoring arrangements where the IC-DISC actually purchases the export related receivables at a discount. In such case, the discount shifts additional income from the exporter to the IC-DISC.

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Richard Walawender  
walawender@millercanfield.com  
1.313.496.7628