the Reference // IC-DISC

Busting the Myths of IC-DISC

After helping many clients gain clarity and benefits from the Interest Charge Domestic International Sales Corporations (IC-DISCs), we realized the need to dispel some misinformation for the rest of the CPA community. An IC-DISC can be a powerful tax minimization tool for companies exporting to other countries.

The most common problem is that many firms are unaware of the IC-DISC, or lack a working knowledge of how to put it to use for their clients. In many cases, misconceptions about this incentive have led to it being set aside as a tax savings option. We would like to present some of the most common myths about IC-DISC and bust them to pieces.

Myth: IC-DISC is administratively complex and difficult to manage.

Reality: IC-DISCs can be fairly simple and straight-forward. At McGuire Sponsel, we've developed a turnkey approach to handle annual maintenance and filing of the IC-DISC return, along with annual calculations to maximize eligible commissions. We can also perform a preliminary benefit analysis to project the tax savings for your clients.

Myth: Companies that make components that are not sold directly overseas aren't eligible.

Reality: If your business makes a product that is incorporated into a product that another company exports to a foreign country, then it is eligible for the IC-DISC incentive. The only restrictions are that the components can't remain in the U.S. awaiting shipment for more than a year and they also can't be placed into service. (Testing the product is ok.)

Myth: Only products are eligible for IC-DISCs.

Reality: The tax benefit is not just for physical products. Certain services - engineering and architectural services - may also be qualified exports.

Myth: Leases of products overseas are not counted toward the tax credit.

Reality: IC-DISCs don't just cover export sales in foreign countries. Cross-border leases of products may also qualify.

Myth: Exportable products that are not 100 percent American made do not qualify for IC-DISCs.

Reality: At least 50 percent of the fair market value export property must be manufactured or produced within the U.S. The remaining portion can be attributable to imported content.

Myth: You must be the producer or grower of the commodity sold in order to receive the benefits of an IC-DISC.

Reality: A company can purchase US-sourced commodities from the original producer or grower and then re-sell and export the commodities to another country. The exporter qualifies for an IC-DISC and can be paid a commission for those sales as long as the exporter takes title to the commodities prior to selling them internationally.

> **"An IC-DISC can deliver substantial tax savings to U.S. companies that regularly export products or services. It enhances U.S. exporters' ability to compete globally by reducing their U.S. tax burden."**
>
> – TJ Sponsel
> Managing Director
> McGuire Sponsel

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Myth: You don't need to establish an IC-DISC before shipping products.

Reality: A key limitation on the IC-DISC incentive is that claims cannot be post-dated prior to the creation of the IC-DISC entity. Anything that goes out the door before the IC-DISC is established is not eligible. This is why it is essential to explore the tax credit as early as possible in the production cycle.

Myth: Keeping track of transactions year-round is too much of a hassle.

Reality: Although an IC-DISC needs to have separate books and records, once the IC-DISC is established, calculating the tax benefit becomes a once-a-year accounting function based on sales data routinely booked by your controller.

Myth: Our parent company is not headquartered in the U.S., so our products don't qualify.

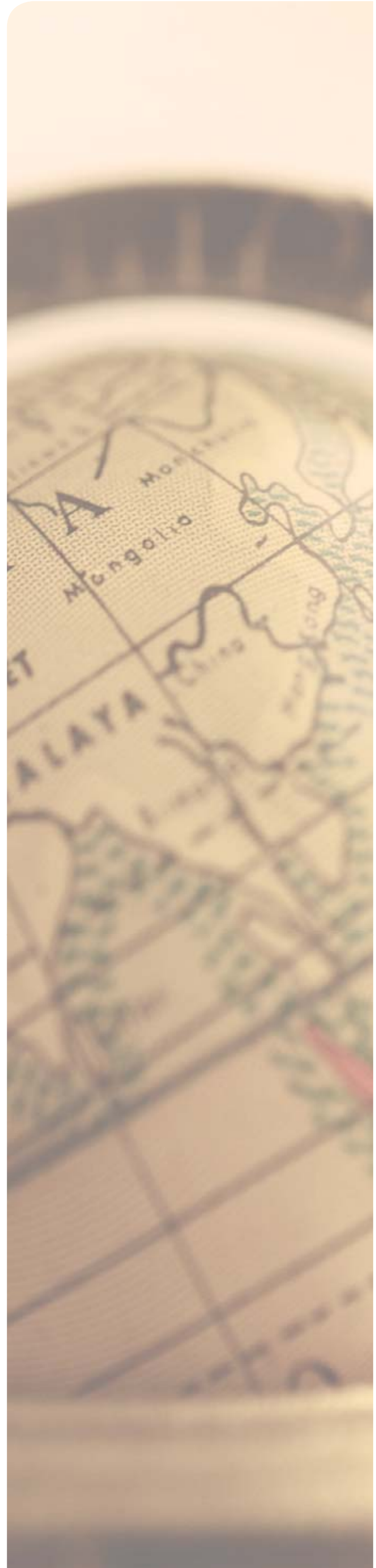
Reality: IC-DISC is not just reserved for American-owned companies. Many international tax treaties allow foreign ownership of an IC-DISC. As long as the product is made in the U.S. and sold overseas, the company may be able to receive benefits from an IC-DISC.

Myth: Ownership structures are limited under IC-DISC.

Reality: The tax incentive actually allows for a great deal of flexibility in terms of how the IC-DISC is owned. It doesn't matter whether you're talking about S-Corporations, LLCs, C-Corporations, individual ownership or trusts – an IC-DISC can be a valuable tool for tax planning.

Myth: Exports to NAFTA countries aren't included in IC-DISC calculations.

Reality: Exports to Mexico and Canada, two of America's biggest trading partners, absolutely can be included in IC-DISC calculations. The incentive was created for export sales in foreign nations – meaning ANY non-U.S. country.



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