



CPAs shouldn't underestimate the full benefit of establishing a "short tax year" IC-DISC now.

– TJ Sponsel
Managing Director
McGuire Sponsel



Is it Too Late to Establish an IC-DISC?

When exploring the benefits of establishing an IC-DISC with our clients, a common misconception is that an IC-DISC should be established at year-end or the first of the fiscal year. However, CPAs shouldn't underestimate the full benefit of establishing a "short tax year" IC-DISC now.

"IC-DISCs are not reserved for certain times of year. A partial year IC-DISC commission can produce significant commissions and tax savings that far outweigh engagement fees and opportunity costs," states TJ Sponsel, Managing Director of McGuire Sponsel.

An IC-DISC creates permanent tax savings by transferring income from the exporter to the tax exempt IC-DISC through an export sales commission. The commission payment reduces the exporter's taxable income, thus reducing tax liability by the marginal tax rate of the commission amount. For most of our clients, the effective tax benefit is 16% to 18% of the final commission amount.

Both the previous year's financial performance and the upcoming tax year's expectant sales are reviewed when projecting short-year IC-DISC tax savings. This thereby ensures the IC-DISC's financial performance has been evaluated, set up and established for the succeeding first full year study. "Conducting a short-year study sets efficiencies in place so the first full year has an optimized commission number," states Mark O'Dell, Director of the IC-DISC Practice.

McGuire Sponsel's experience can illustrate the benefit of setting up an IC-DISC for short tax year clients. An opportunity was identified for a Midwest-based chemical company that had approximately \$98 million in total sales, including \$25 million in international sales. In order to help the client realize immediate benefit, McGuire Sponsel helped setup the IC-DISC for the initial short-year. The client had a \$5.1 million commission that generated over \$800,000 in first year tax benefits.

Another short tax year IC-DISC success involved a client that refurbishes, recycles, and exports old equipment. With about \$14.7 million in total sales, \$10.9 million of the sales consisted of foreign exports. Establishing an IC-DISC mid-stream for the short year resulted in a \$590,000 commission.

A heavy equipment design-build company with approximately \$74 million in total sales and \$4.5 million in international sales is another example of ours that demonstrates the benefit of conducting a short tax year IC-DISC study. Utilizing our TxT methodology, McGuire Sponsel calculated a commission of \$383,000.

Don't hesitate to let us know if you have any questions regarding setting up a short tax year IC-DISC today. Clients can still realize significant benefit mid-year. McGuire Sponsel's approach is to minimize the filing burdens for our clients while maximizing commissions and tax savings.

