mcguire sponsel

IC-DISC

What is an IC-DISC?

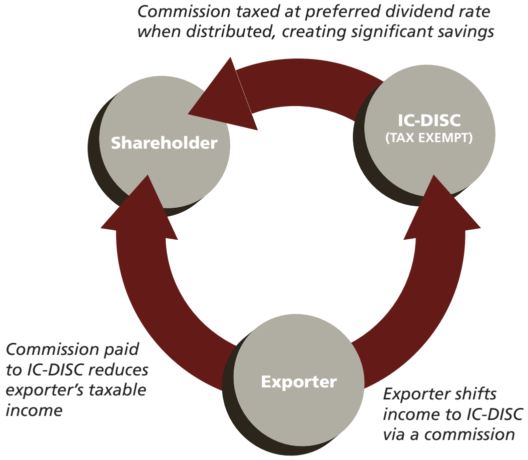
An Interest Charge – Domestic International Sales Corporation "IC-DISC" provides a permanent tax savings opportunity for qualifying exporters.

- An IC-DISC is a statutory entity created by the tax code to incentivize export of U.S. manufactured product through federal tax savings
- By definition a C-Corporation that elects IC-DISC (tax exempt) status
- Enable indviduals to transform income from ordinary tax rates into qualified dividend tax rates

The Three Tests for Qualified Export Sales

- Manufacture Test
  - Export property must be manufactured, produced, grown or extracted in the U.S.
- Foreign Content Test
  - Up to 50% of the fair market value of the export property can be attributable to imported content.
- Destination Test
  - The export property must be held primarily for sale/lease/ultimate consumption permanently outside the U.S.

How Does an IC-DISC Work?



- 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 IC-DISC commission payment reduces the exporter's taxable income, thus reducing tax liability by the marginal tax rate of the commission amount.
- An IC-DISC commission is taxed at the qualified dividend rate when distributed to shareholders as dividends.
- The transfer of income to the IC-DISC creates a permanent tax rate arbitrage on the export sales commission

mcguire sponsel

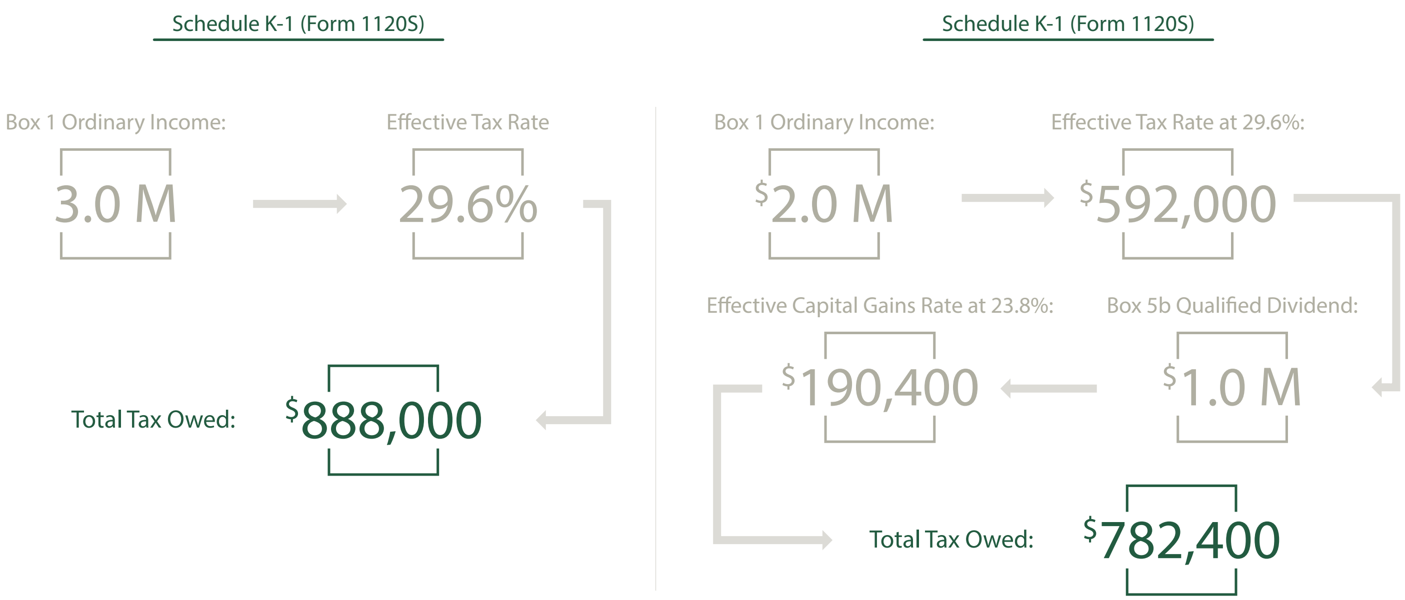
317.564.5000 | mcguiresponsel.com | 201 N. Illinois Street, Suite 1000 Indianapolis, IN 46204

Illustration of IC-DISC Impact

For illustration purposes, assume a $30M manufacturer generates total net income of $3M. Without an IC-DISC in place, the company would pay approximately $888K in federal taxes. Assuming that a portion of its annual sales were comprised of direct and/or indirect exports that generates a $1M IC-DISC Commission. The commission would result in a $1M tax deduction at the effective pass-thru tax rates. This $1M commission would then be taxed at capital gains rates generating an annual tax savings of approximately $58K.

Tax Scenario with no IC-DISC

Tax Scenario with IC-DISC



Benefits of IC-DISC

- Creates permanent tax savings on the export sales commission
- Increases liquidity for shareholders or businesses
- Supplies ongoing financing to reduce cost of capital
- Creates a tax-advantaged vehicle for succession or estate planning
- Eliminates double taxation for C-Corporations and defers taxes

How Can McGuire Sponsel Help?

Companies based in the U.S. that regularly export products can realize substantial tax savings by forming an IC-DISC. McGuire Sponsel's approach is designed to minimize the filing and maintenance burdens for our clients while maximizing tax savings. We evaluate all commission alternatives on an annual basis, including performing a detailed transaction-by-transaction analysis. Choosing the optimal methodology and performing a detailed annual analysis will ensure maximum savings.

mcguire sponsel

317.564.5000 | mcguiresponsel.com | 201 N. Illinois Street, Suite 1000 Indianapolis, IN 46204