



IC-DISC

Interest Charge-
Domestic International
Sales Corporations

Permanent tax savings for qualifying exporters



mcguire sponsel

■ Introduction

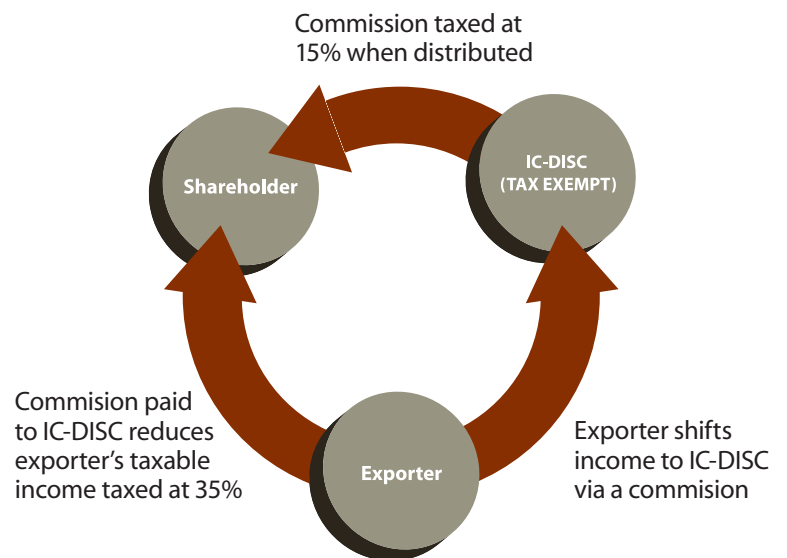
An Interest Charge Domestic International Sales Corporation, or IC-DISC, provides a permanent tax savings opportunity for qualifying U.S. exporters. Many owner-managed exporting businesses can realize substantial tax savings by forming an IC-DISC. If your company is based in the U.S. and regularly exports products or qualifying services, an IC-DISC could provide substantial benefit.

■ What is an IC-DISC?

An IC-DISC is not a tax shelter. It's an incentive specifically provided by the tax code that allows U.S. exporters to increase their ability to compete globally by reducing U.S. tax liabilities. An IC-DISC is a "statutory" entity created for the sole purpose of generating tax savings. It does not require a physical presence or trade activities.

■ How does an IC-DISC work?

1. Exporter creates federal tax-exempt IC-DISC
2. Exporter continues to sell products directly to customers
3. Exporter pays sales commission to the IC-DISC
4. Exporter deducts commission from ordinary income
5. Income tax liability reduced by 35% of commission (assumes highest tax bracket)
6. IC-DISC shareholders pay 15% qualified dividends tax
7. Permanent 20% tax savings is created on commission amount



RESULT: EXPORTER REDUCES NET TAX ON COMMISSION PAID TO IC-DISC FROM 35% to 15%

■ Benefits of an IC-DISC

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 35% (or the marginal tax rate) of the commission amount. IC-DISC commissions are taxed at the 15% qualified dividends rate only when distributed to shareholders as dividends. The transfer of income to the IC-DISC creates a permanent 20% tax rate arbitrage (35% less 15%) on the export sales commission. Beyond the simple tax reduction, an IC-DISC can be used to:

- Increase liquidity for shareholders or businesses.
- Supply ongoing financing to reduce cost of capital. An IC-DISC is not required to distribute all commission income to shareholders. In some cases, income can be loaned back to the exporter creating tax deferral and working capital.
- Create management and employee incentives for IC-DISC shareholders.
- Create a tax-advantaged vehicle for succession or estate planning. Income can be transferred to the IC-DISC tax free and then distributed in a tax-advantaged manner to shareholders. The distribution can provide funding for buyouts, or create a vehicle to transfer wealth at reduced effective tax rates.
- Eliminate double taxation for C-Corps and defer taxes.

■ Maximizing the value of an IC-DISC

Once the IC-DISC is set up, the ultimate value realized is directly related to the allowable commission payment. Most taxpayers compute the commission based on an overall method utilizing either 4% of export gross receipts or 50% of export net income. We maximize the allowable commission by utilizing a transaction-by-transaction approach. Choosing the optimal methodology and performing a detailed annual analysis will ensure maximum savings.

■ IC-DISC illustration comparing commission calculation methods

| | | | |
|--|-------------|----------------|--------------------|
| Export trading gross receipts | | \$30,000,000 | |
| COGS | | \$(22,500,000) | |
| Gross Margin | | \$7,500,000 | |
| Selling, general and administrative expenses | | \$(4,000,000) | |
| Export sales net income | | \$3,500,000 | |
| IC-DISC commission alternatives | | | |
| 50% of export net income | \$1,750,000 | | |
| 4% of export gross receipts | \$1,200,000 | | |
| Transaction-by-Transaction commission | \$3,150,000 | | |
| IC-DISC commission | | \$3,150,000 | |
| Federal Tax Savings @ 35% tax rates | | | \$1,102,500 |
| IC-DISC dividend to Shareholders | | \$3,150,000 | |
| Federal tax cost @ 15% capital gains tax rate | | | \$(472,500) |
| Maximized IC-DISC net tax savings | | | \$630,000* |

*Transaction-by-Transaction analysis yielded an additional \$280,000 in tax savings over traditional calculations

■ How McGuire Sponsel can help

Requirements must be met in order to retain IC-DISC status on an ongoing basis, including maintenance of corporate minutes and annual income tax filings.

At McGuire Sponsel, our approach is designed to minimize the filing and maintenance burdens for our clients while maximizing commissions and tax savings. We evaluate all commission alternatives on an annual basis, including performing a detailed transaction-by-transaction analysis. The result is a simple, straightforward process for our clients that minimizes headaches and maximizes value.

We provide:

- Upfront value analysis
- Fixed fee pricing
- Personal attention
- Annual maintenance and filing of IC-DISC return
- Annual calculations to maximize IC-DISC commission
- Detailed transaction-by-transaction analysis

Call us today at 317. 564. 5000 to learn more about what an IC-DISC can do for you.