

International Tax

IC-DISC: EXPORT TAX INCENTIVE

IC-DISC Tax Incentives for U.S. Manufacturers that Export

Currently, thousands of small and medium-size exporters are taking advantage of the tax incentives offered by the United States government through a vehicle known commonly as the IC-DISC. The White House and Congress both agree that a key to our nation's continued economic success is to encourage our manufacturing sector to export. This tax incentive allows U.S.-based exporters to better compete in the world economy, especially in light of the World Trade Organization's economic pressure on trade incentives. The tax incentives are created to strengthen an export company and allow them to compete for export sales.

What is an IC-DISC?

An Interest Charge Domestic International Sales Corporation (IC-DISC) is an export incentive provided by the U.S. tax code that allows permanent tax savings opportunities for qualifying U.S. exporters of goods or services. Goods must be manufactured in the U.S. or have substantial U.S. cost embedded, and a separate legal entity is required, but no substantive business operations.

How It Works

The shareholder or operating company (OpCo) establishes a corporation and makes an IC-DISC election. The OpCo pays a commission to an IC-DISC based on their export sales, with the deduction at ordinary income tax rates. An IC-DISC makes a dividend distribution of the commission, paid to the shareholder, who is then taxed at dividend income tax rates. There are also alternative structures that may be used depending upon the form of company used for operations and other tax planning considerations. Interest Charge Domestic International Sales Corporation (IC-DISC) is an export incentive provided by the U.S. tax code that allows permanent tax savings opportunities for qualifying U.S. exporters of goods or services.

The Technicalities

The commission is calculated based on the greater of 50 percent of Export Net Income, or 4 percent of Export Gross Receipts. Transaction-by-transaction analysis allows for the greatest commission calculation. Dividends from an IC-DISC must be made within one year; otherwise, an "Interest Charge" is applied.

We Can Help

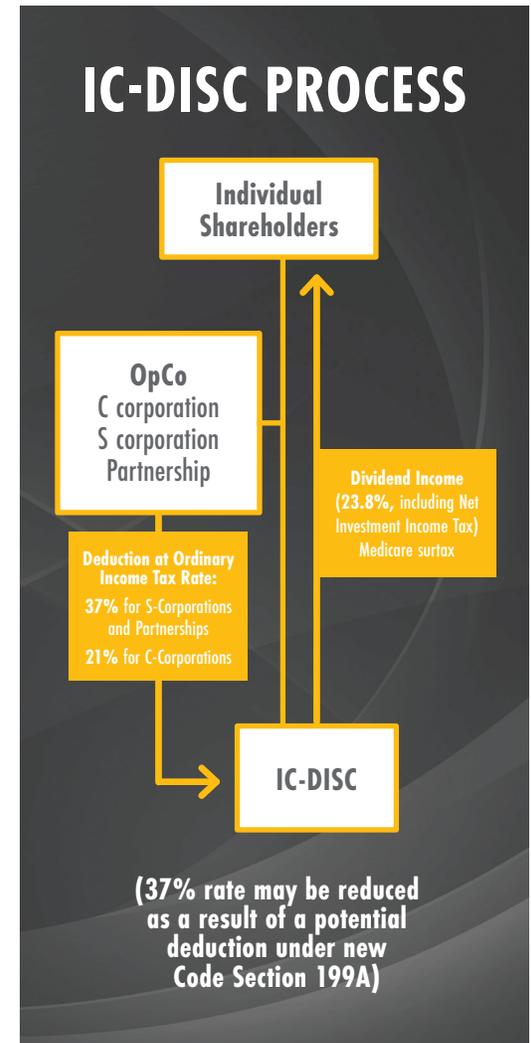
Eide Bailly offers a variety of compliance and advisory services related to the IC-DISC. In addition to our compliance and advisory services, we have helped clients from start to finish in developing the separate legal entity required for IC-DISC.

Our services include:

- Feasibility studies, including entity structure planning
- Coordination with attorneys for entity set-up and legal agreements
- Annual calculation of IC-DISC commission
- Annual tax return preparation

We are an independent member of HLB – the global advisory and accounting network.

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What inspires you, inspires us.

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