

IC-DISC's: Permanent Tax Savings for Exporters

By Howard M. Flitt, CPA

As a result of the repeal of the extraterritorial income (ETI) exclusion and the current 15% tax rate for individuals on corporate dividends, the IC-DISC has become the most favorable tax structure for closely held exporters.

An IC-DISC must be a domestic corporation with a single class of stock that has a minimum par value of \$2,500. The IC-DISC is not subject to federal income tax; however, the shareholders may be taxed on the IC-DISC income that is actually or constructively received by them. To qualify as an IC-DISC, the domestic corporation must meet both a gross receipts and export assets test. These qualifications are generally easy to meet for most U.S. exporters.

The IC-DISC strategy is as follows: The exporter (an S Corporation, an LLC, a partnership, or a closely-held C Corporation) will pay a commission to the IC-DISC, which is owned by the owners of the exporting entity. The commissions are deductible (generally at a 35% tax rate) by the exporter for federal tax purposes and the IC-DISC is not subject to tax. The income, which is distributed (actually or constructively), will be paid out to the IC-DISC shareholders as dividends and be taxed at 15%. This spread in tax rates creates a permanent tax savings. In addition, IC-DISC regulations provide for tax deferral opportunities on all income attributable to \$10 million or less of qualified export receipts.

At PFC, we can determine if this tax structure makes sense for your business. The implementation will have no impact on your customers or your operations, yet it has the potential to save you significant tax dollars. Call us today for a free consultation.