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ALERT: Companies with \$2 Million+ in Export Sales Should Consider Tax-Saving Benefit of an "IC-DISC" in 2008 While Benefit Still Applies

Shareholders of companies generating at least \$2 million of export sales annually may be able to lower their tax significantly through the formation of an "IC-DISC": an Interest Charge Domestic International Sales Corporation.

How it works: the exporter company forms an IC-DISC. The IC-DISC is a C corporation owned by the same shareholders as the exporter, or by the exporter itself. The savings comes from a shift in tax rates:

- The exporter pays the IC-DISC a commission on export sales which is the greater of 4% of export sales or 50% of net taxable export income. The exporter receives a tax deduction on the commission expense.
- The IC-DISC is generally exempt from federal taxes. Income from the DISC is taxed when paid to the shareholders – but at the 15% dividend rate, rather than at the highest approximately 35% rate on ordinary income, resulting in a tax savings of up to 20% on the income. **This is not a tax deferral, but a permanent tax savings.**

The exporter can only pay commissions on export sales **after** formation of the IC-DISC. If the 15% capital gains tax rate, currently set to expire at the end of 2010, does in fact expire, the benefit of forming an IC-DISC disappears. But by acting now, shareholders and their companies could potentially benefit for at least two more tax years, and Congress may extend the 15% rate beyond 2010 – especially to boost investment in light of current economic conditions.

Forming an IC-DISC

Naturally, there are some requirements to formation of an IC-DISC, as follows:

- The IC-DISC must have economic substance – for example, it must have \$2,500 of capital at all times.
- Forming an IC-DISC generates administrative and start-up costs, as well as ongoing compliance and accounting costs.

The tax benefit to a company with significant export sales would typically outweigh the administrative and start-up costs, but each situation should be considered on its own merits. If you'd like to have a review of the potential benefits for your organization, please contact your AGH tax advisor at (316) 267-7231.

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