Interest Charge DISC – IC-DISC

In the current tax environment, an IC-DISC provides the owner with a permanent tax benefit on a portion of the company's profits from export sales.

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See reverse for charts explaining the IC-DISC structure in:

- S Corp or LLC, and
- C Corporation.

What is IC-DISC?

A domestic (U.S.) corporation that elects to be treated as an Interest Charge Domestic International Sales Corporation ***(IC-DISC),*** and, as such, is not subject to federal income tax. If domiciled correctly, the entity will not be subject to state income tax.

How Does the IC-DISC Work?

US Manufacturing Company (USCO) calculates an annual "commission" payable to the IC-DISC for export-related services. USCO claims commission as an ordinary deduction (at 35% if USCO is a C Corporation).

IC-DISC commission is not subject to income tax. The ***immediate benefit*** is derived by the distribution of the IC-DISC income to the shareholders as a dividend. Under current law, dividends are subject to a 15% rate at the individual shareholder level.

USCO must have the IC-DISC in place at the time of the export sale in order to allocate a portion of the net income, in the form of a commission, to the IC-DISC.

Is My Company a Candidate?

- US exporter that sells or leases export property
- Property produced, manufactured, grown or extracted in the US
- Held primarily for sales, lease or rental for direct use, consumption or disposition outside the US
- Closely held company

Safe Harbor Commission:

- IC-DISC acts as a commission agent on export sales of its parent/affiliate
- Calculation based on the greater of 50% of taxable export income or 4% foreign trading gross receipts
- Commission can be taken as ***either dividend or deferral***

As a Deferral

- Allows US exporters to defer taxes on up to $10M of annual commission income and other export services
- Low cost pre-tax working capital
- Low cost financing of exports
- Interest paid to IRS on deferral at a minimal rate

IC-DISC Ownership – As a Dividend

- *S Corporation or LLC*: dividends pass through the corporation to the shareholders (15% tax rate)
- *C Corporation- Private*: if IC-DISC is owned directly by the C Corporation's shareholders they can receive the dividends at the lower 15% tax rate instead of the 35% tax rate

Implementation

- IC-DISC is a C Corporation with one class of stock
- File Form 4876-A with the IRS
- Install the IC-DISC accounting system and maintain separate books and records
- Open a corporate bank account and set up an office facility for the IC-DISC

Annual Monitoring

Annual monitoring of income and asset levels required:

- 95% or more qualified export
- receipts
- 95% or more qualified export assets at year end

Annual Management

- Provide export-related figures at agreed upon intervals to calculate IC-DISC commission
- File IRS Form 1120 IC-DISC and help with populating form available from Urish Popeck

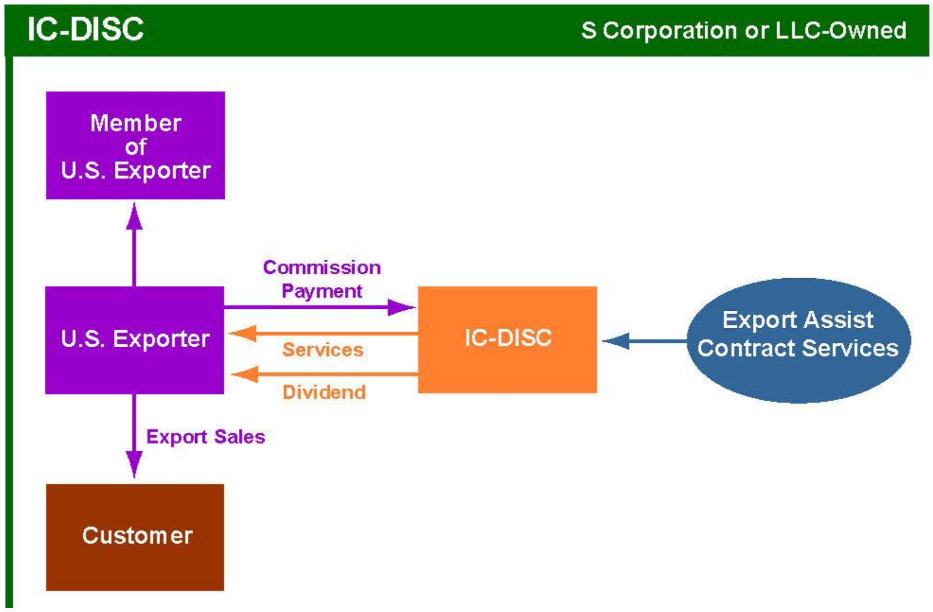
(Continued on reverse)

AN INDEPENDENT MEMBER OF BDO ALLIANCE USA

URISH POPECK & CO., LLC
Accountants and Consultants

IC-DISC Owned by S Corp or LLC

When the IC-DISC is owned by the S Corp or the LLC, the dividends pass through the corporation to the shareholders and are taxed at the 15% rate:



IC-DISC Owned by the Privately-Held C Corp

When the IC-DISC is owned by the privately-held C Corp, the dividends are subject to corporate tax at approximately 35%. Because of this, we suggest that the IC-DISC be owned directly by the shareholders of the C Corp so they can receive dividends at the lower tax rate of 15% and avoid a double tax: