
TAX SAVINGS FOR EXPORTERS: IC-DISC

The IC-DISC (Interest Charge Domestic International Sales Corporation) is a powerful tax-saving opportunity for U.S. exporters. IC-DISC offers exporters permanent tax savings primarily resulting from a reduction in the tax rate on qualified dividends. It is available to manufacturers and distributors, and to all forms of business organizations, including C corporations, S corporations, partnerships, LLCs, and sole proprietors. There are several variations to the IC-DISC structures to accommodate different objectives, but each structure offers the ability to defer recognizing the commission income until it is distributed to the shareholders.

An IC-DISC is the only current U.S. government sponsored tax benefit program for exporters.

In its simplest terms, an IC-DISC is a “paper” entity used as a tax-savings vehicle for exporters. It does not require office space, employees, payroll or tangible assets; rather it is a shell company that serves as a conduit for export tax savings. All business activities take place in your existing operating company and none of your customers will know you have an IC-DISC. The benefits obtained from an IC-DISC are on a go-forward basis only; no retroactive benefits exist, so delaying the start of your IC-DISC only reduces your benefits now. The tax benefits are based on the differential between the qualified dividend rates of 15% – 23.8% and the ordinary income tax rates of up to 39.6% on that money. The amount of money that can be moved to an IC-DISC, which will ultimately determine your tax savings, is based on the export sales revenue and pretax export sales profit that take place within your operating company.

The U.S. Government agrees that a key to our nation’s economic future is strengthening our manufacturing sector and encouraging exports. The IC-DISC is tailor-made to encourage exactly such activity – providing a tremendous tax incentive for small and medium business owners who manufacture and export. The door is open for significant tax savings for these businesses – you just have to walk through. As it is a part of the U.S. tax code, entities like law firms and tax advisory firms are most familiar with how they work and can be structured.

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