TRCG ADVISORS
PUTTING TAX CREDITS TO WORK FOR YOUR BUSINESS

# IC-DISC
## Significant Tax Savings for Exporters

**TRCG Advisors is a market leader in assisting small and middle market companies take advantage of the IC-DISC. Our team of professionals possesses extensive experience with helping clients optimize IC-DISC formation, maximizing the tax benefit through an exhaustive transaction-by-transaction analysis of export sales, and maintaining the IC-DISC benefit going forward. TRCG works with our client's CPAs to integrate the IC-DISC into the client's overall tax strategy.**

## Background

Companies in various industries who sell or lease their products internationally are taking advantage of a powerful incentive to lower their tax liabilities and increase cash flow. The Interest-Charge Domestic International Sales Corporation, or IC-DISC, allows for qualifying companies to defer U.S. income tax on a portion of its export profits by allocating those profits to the IC-DISC. Companies may further realize a permanent tax savings by taking advantage of the 15% tax rate on dividends recently extended by the recent tax compromise signed into law by President Obama.

In recent years, two changes in tax policy have made the IC-DISC one of the most successful tax strategies for exporters – (1) the phase-out of the Extraterritorial Income Exclusion, and (2) the lower rate of tax on dividends.

## Key Concepts

- The IC-DISC strategy primarily involves two entities - the Exporting Company, an existing US-based company exporting products to foreign markets, and the IC-DISC, which the Exporting Company forms in order to facilitate tax savings. The Exporting Company realizes tax savings by paying a commission based upon foreign sales to the IC-DISC. Since the IC-DISC is a tax-exempt entity, the IC-DISC does not incur a tax liability for the commission income.
- Formation - The IC-DISC is a tax-exempt domestic corporation that primarily exists as a "paper" entity – i.e. there is no requirement for corporate substance or form. The IC-DISC must elect to be treated as an IC-DISC for the taxable year and can only have single class of stock with a minimum par value or $2,500.
- 95% Qualified Gross Receipts Test – at least 95% of the IC-DISC's gross receipts must constitute qualified export receipts.
- 95% Qualified Export Asset Test – At least 95% of the assets of the IC-DISC must be qualified export assets, such as accounts receivable, temporary investments, export property, and loans to producers.
- Exporter / Export Property – Three Requirements:
    - Manufacturing Requirement – Export property must be manufactured, produced, grown or extracted in the US by a "person" other than the IC-DISC.
    - Destination Requirement – The export property must be held primarily for sale, lease or rental for direct use, consumption or disposition outside the United States.
    - Minimum of 50% U.S. Content – Property not more than 50% of the fair market value of which is attributable to articles imported into the United States.

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## The Benefits

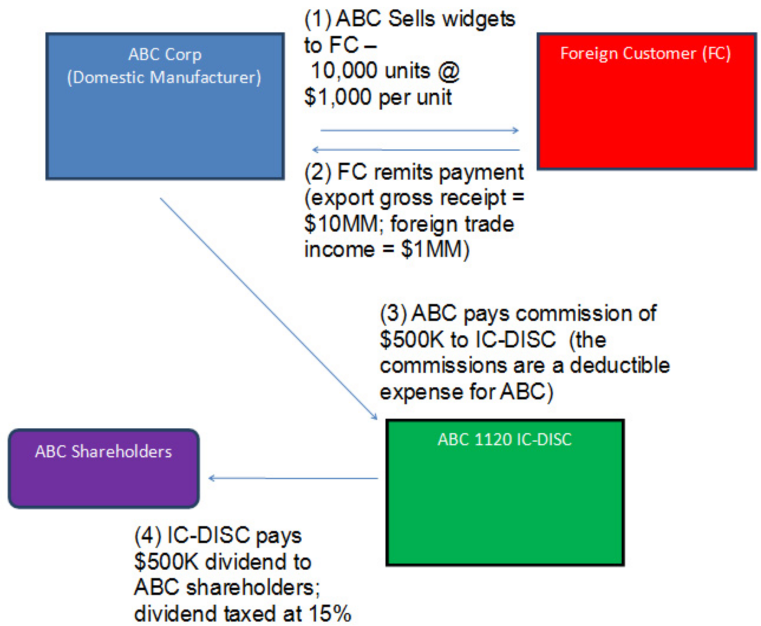
- **Converting Ordinary Income to Dividends** – The main benefit of the IC-DISC for most Exporting Companies is the preferred tax treatment of foreign trade income. Through the IC-DISC, an Exporting Company can convert 50% of its foreign trade income from ordinary income, taxed at up to 35%, to dividends, taxed at a 15%. Taxpayers can realize this permanent, real-time benefit allows exporters to significantly reduce their tax liabilities.

- **Interest-Charge Deferral** – Alternatively, an Export Company may utilize the IC-DISC to defer up to $10,000,000 of qualified export revenue. The Export Company must pay a nominal interest charge for the deferred revenue attributable to the DISC.

- **Ability to Leverage Costs of Capital** – An Export Company who chooses to defer export revenue via the IC-DISC may lend the accumulated IC-DISC earnings back to exporting company in return for a note and interest. The exporting company can deduct the interest expense, and the interest income is considered a dividend to the IC-DISC shareholders. Reinvesting the IC-DISC earnings back into the export company yields additional tax rate savings and diminishes the overall cost of capital.

- **Opportunities for Business Planning** – Ownership in the IC-DISC can be utilized as a means for generating cash in a tax-advantaged manner to pursue a buy-out plan of previous shareholders of the exporting company. Export Companies may also utilize the IC-DISC as a key estate planning tool.

## Mechanics of the IC-DISC




## Benefit Illustration

| | w/o IC-DISC | w/ IC-DISC | |
|---|---|---|---|
| Foreign Trading Gross Receipts | $10,000,000 | $10,000,000 | |
| Costs of Goods Sold | $6,000,000 | $6,000,000 | |
| SG&A | $3,000,000 | $3,000,000 | |
| Export Net Income | $1,000,000 | $1,000,000 | |
| IC-DISC Commission Deduction | | ($500,000) | $500,000 |
| Tax Base After IC-DISC Commission | $1,000,000 | $500,000 | $500,000 |
| Tax Rate | 35% | 35% | 15% |
| Tax Paid | $350,000 | $175,000 | $75,000 |
| **Net Savings via IC-DISC** | **$100,000** | | |

TRCG Advisors is a tax advisory firm specializing in federal and state credits and incentives, including the R&D Tax Credit, IC-DISC, and many state & local incentive programs. TRCG is committed to helping small and middle-market companies grow their businesses through the optimization of these strategic incentives.

To learn more about TRCG Advisors and how we can work together, please visit our website at www.trcgadvisors.com or contact us at info@trcgadvisors.com .