

Why You Should be Taking Advantage of the IC-DISC Tax Savings Opportunity

Interest-Charge Domestic International Sales Corporation (IC-DISC) is quite a mouthful, which may be a reason why most people don't know about this tax incentive. Thousands of businesses are not taking advantage of this tax savings opportunity mainly because they aren't aware of its benefits.

In simple terminology, an IC-DISC is a separate legal entity from the operating entity.

This is how it works:

- The operating company pays a deductible commission to the IC-DISC.
- IC-DISC is not taxed on the commission income.
- IC-DISC pays dividends to its shareholders taxed as qualified dividends.

Result – a shareholder/partner pays at a 20% qualified dividend tax rate as opposed to a 39.6% tax rate (assuming highest tax rates and operating entity is a flow-thru). So, on a \$500,000 commission, tax savings would be \$98,000. Probably worth looking into.

So, who qualifies?

- A company that exports products it manufactures.
- A company that manufactures a product that is included in a good that is exported.
- A company that provides engineering or architectural services conducted in the US for foreign construction projects.

Of course, with all complicated tax incentives comes a long list of rules.

- An entity separate from the operating entity must be created.
- Any kind of entity or individual can own an IC-DISC.
- For the greatest benefit, an individual or flow-through entity (S corporation, partnership, LLC) should consider forming an IC-DISC.

The calculations have specific rules as well.

There are two traditional methods in determining the maximum allowable IC-DISC commission:

- The first is calculated on 4% of overall export gross receipts.
- The second method is calculated on a maximum of 50% of net income from qualified exports.

Interested in learning more about IC-DISC and seeing if you or your entity qualifies for this often-missed tax savings opportunity? Here at KROST, we have a dedicated team of experts that are ready to assist you. Not only can we determine if IC-DISC is right for you, we can also discover what other tax incentives may be available to you. Let's get started today, contact us.

Author: Evelyn Fernandez, CPA, MST