MRPR
CPAs & Advisors
Opportunity in Numbers

IC-DISC

Interest Charge Domestic International Sales Corporation

Why do I care about IC-DISCs?

If your manufacturing company exports to a foreign country you should consider an IC-DISC to permanently save tax on the profit related to the foreign sales. The savings can be substantial…and they're permanent.

What is an IC-DISC?

IC-DISCs are created to facilitate export sales of the manufacturer. IC-DISCs do not pay federal income tax and they reduce the exporter's tax liability by effectively converting a portion of net export income, which is taxable at ordinary income rates as high as 35 percent, into qualified dividends generally taxed at 15 percent.

IC-DISCs are domestic C corporations that have elected to be treated as an IC-DISC for federal tax purposes. The entity must maintain its own bank account, keep separate accounting records, and file a US tax return. However it does not need an office, employees, or tangible assets, nor is it required to perform any invoicing or provide services.

How do they work?

IC-DISCs are allowed to charge a commission on export sales of the manufacturer. This commission is deductible by the operating entity and not taxable to the IC-DISC. Cash distributed to the shareholders of the IC-DISC is taxable at the qualified dividend rate of 15 – 20% depending on the individual's taxable income.

Commissions are calculated based on the greater of:

1 4% of your company's gross receipts from qualified exports, or
2 50% of your company's net income generated from qualified exports.

For example, if a company has $2 million in export sales that generate net income of $250,000, the commission payable to the IC-DISC would be the greater of:

1 $80,000, which is 4% of export sales of $2 million, or
2 $125,000, 50% of net income from exports of $250,000.

When the operating entity pays the commission of $125,000 to the IC-DISC, an ordinary deduction is taken which saves $43,750 in tax at an assumed rate of 35%. When the IC-DISC pays a dividend to its shareholders , the dividend is taxed as a qualified dividend at an assumed rate of 15%, generating tax of $18,750. The net tax savings of $25,000 are permanent tax savings.

For more information on IC-DISC, or how MRPR can assist you, please contact:

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