



# The IC-DISC Export Tax Incentive

California Wine Export Program  
Member Meeting

July 20, 2023

# What is the “IC-DISC” Export Tax Incentive?

- IC-DISC: “Interest Charge – Domestic International Sales Corporation”
- A tax incentive to export U.S.-sourced products, in the IRC since 1984
- Provides an immediate U.S. tax benefit on export-related income
- Can either be a permanent tax savings or an indefinite deferral of tax
- Applies to at least 50% and as much as 100% of export-related income

# What are the Basic IC-DISC Requirements?

- A separate IC-DISC entity must be established before benefits can accrue
- The IC-DISC must be a separate Subchapter C corporation
- Must have a single class of stock and \$2,500 minimum capitalization
- IC-DISC election must be filed with IRS within 90 days of incorporation
- IC-DISC must maintain separate books and records

# How Does the IC-DISC Work?

- IC-DISC is a “paper” company invisible to employees and customers
  - IC-DISC operates solely through agreements and accounting entries
  - IRS rules expressly suspend normal corporate substance for IC-DISC
- No cash is transferred to the IC-DISC – transactions can be recorded through journal entries
- IC-DISC increases after-tax profits, cash flow, and working capital



# How Does the IC-DISC Work? (continued)

- Company (Related Supplier) sells “qualified export property”
  - U.S. Goods destined for ultimate use or consumption outside the U.S.
- Determine taxable income attributable to exports
- Calculate IC-DISC Commission (% of export income)
- Related Supplier deducts commission as expense and pays commission to IC-DISC
- IC-DISC pays dividend to shareholders of the DISC (Related Supplier)

# What are the IC-DISC Tax Benefits?

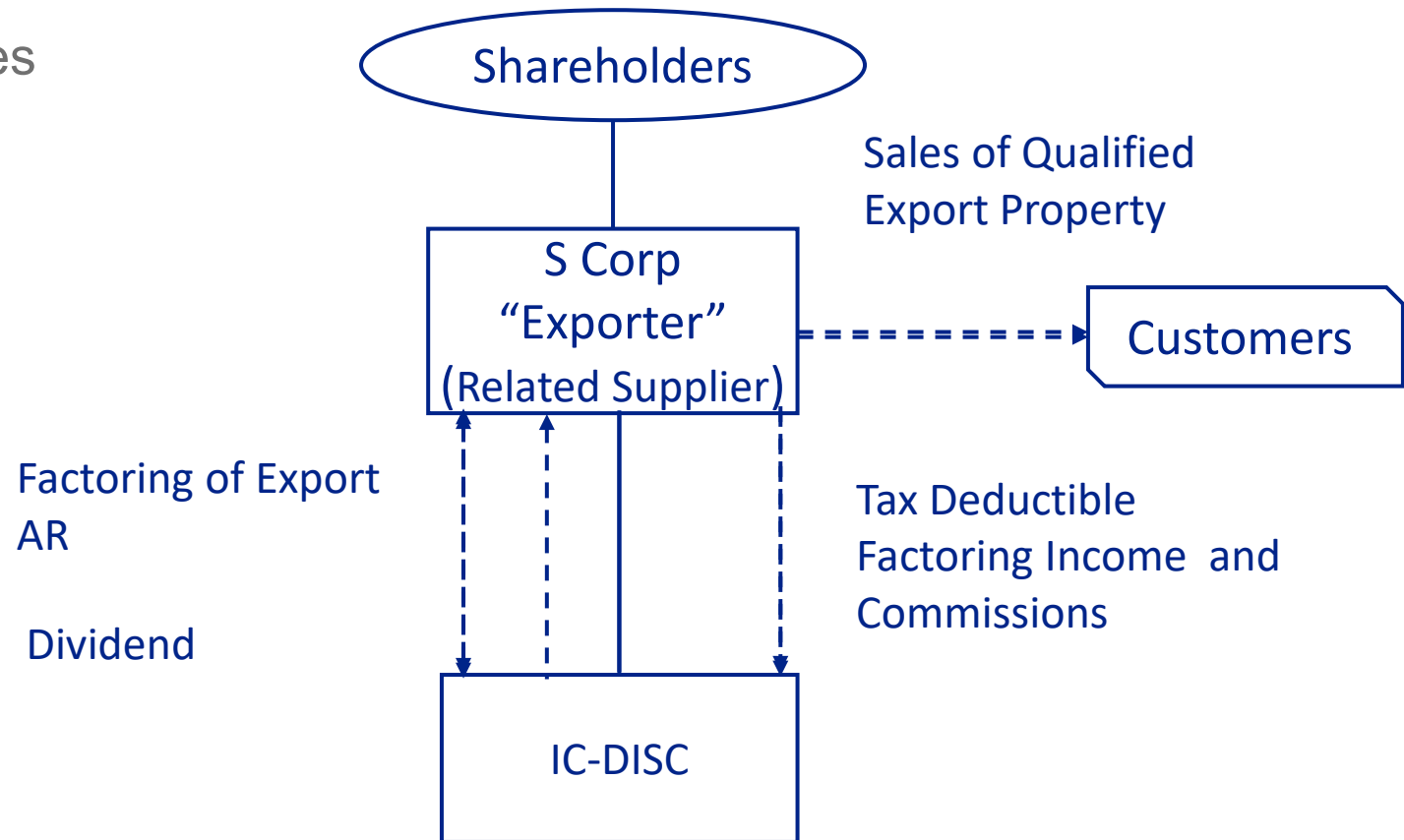
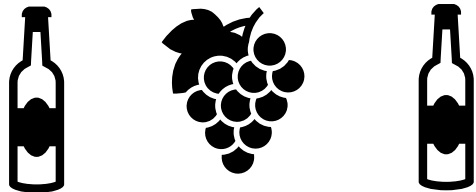
- IC-DISC commission/factoring expense deductible by Related Supplier
  - Related Supplier's tax deduction results in current cash savings
  - IC-DISC is a non-taxable entity for Federal tax purposes
- Can also be an indefinite tax deferral benefit if IC-DISC retains earnings
  - Shareholder(s) pay an interest charge on the deferred tax liability
    - Calculated using T-Bill rate
- Permanent tax savings if IC-DISC pays dividends
  - Shareholder(s) pay tax on IC-DISC dividends at preferential tax rate versus ordinary income rates.

# IC-DISC Misconceptions

- A U.S. company or person using an IC-DISC:
  - Does not need to be the manufacturer/processor of the exported goods
    - Can be a mere buy-sell distributor of the exported goods
  - Does not have to be the exporter of the goods, sell to the exporter, or sell to a non-U.S. party
    - Goods merely need to be sold “for ultimate use or consumption outside the U.S.”
  - Does not have to be highly profitable on its qualified export sales
    - IC-DISC “pricing” rules allow use of minimum and overall profit margins

# IC-DISC Example

- **Example:** US exporting entity (S corp) produces and sells wines. All of the wines are exported and sold to foreign wholesalers & distributors.
- Gross Receipts from sale of wines - \$3,000,000
- COGS and Expenses - \$2,000,000
- Net Taxable Income - \$1,000,000
- IC-DISC Factoring Rate – 7%





# IC-DISC Example – tax savings

- **Fed Tax without IC-DISC**
  - 37% Shareholders' Tax liability without IC-DISC (Net taxable income \* 37%)
  - Taxable income \$1,500,000 \* 37% = \$555,000
- **Fed Tax with IC-DISC**
- Factoring Deductions = \$210,000
- Commission = \$645,000
- Total DISC Expense = \$855,000
- Net Taxable Income after DISC Expense = \$645,000 (\$1,500,000 - \$855,000)
- Tax liability \$203,490 (23.8% \* \$855,000) + \$238,650 (37% \* \$645,000) = \$442,140
- **Permanent current tax savings = \$112,860**

# More about BPM

- BPM is a full service accounting, tax and advisory firm, and we have the leading IC-DISC practice in the U.S.
- Our IC-DISC practice has clients across the U.S. representing a wide range of industries including:
  - Manufacturers, wineries, farmers, processors, engineers, wholesalers, distributors, and retailers
- We implement, manage, and optimize IC-DISC
  - Proprietary software tools for IC-DISC calculations
  - Maximization of DISC benefits with factoring
  - Management of IC-DISC and tax compliance services
  - IC-DISC tax planning



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