

## *Think Ahead – The IC-DISC and Year-End Tax Planning*



As the fourth quarter approaches, year-end tax planning is just around the corner. It's also the time of year for prospective tax planning to minimize next year's tax bill as well. One of the most potent strategies for minimizing taxes is to take advantage of lower capital gain tax rates by converting ordinary income to qualified dividend income subject to preferred capital gain rates. For companies with export sales, this can be accomplished by establishing an IC-DISC.

The Interest Charge-Domestic International Sales Corporation (IC-DISC) is a widely available IRS-approved export incentive that provides permanent tax savings to companies exporting goods made in the USA.

The IC-DISC is the last surviving export incentive for US businesses. Unlike other export incentives that have been repealed due to economic sanctions by the World Trade Organization (WTO), the IC-DISC remains intact and is now more attractive than ever due to currently low dividend tax rates. The IC-DISC has been in existence since 1984 and has never been challenged by the WTO.

The IC-DISC provides U.S. exporters and their shareholders permanent tax savings. The basic operation of an IC-DISC can be demonstrated as follows:

- A U.S. exporter or shareholder(s) forms an IC-DISC corporation (owned by the shareholders of the corporation).
- The U.S. exporter pays a tax deductible commission (at an estimated regular tax rate of 39.6% for the highest tax bracket).
- The qualifying IC-DISC entity pays no U.S. income tax on the commission income.
- The commission income is accumulated in the IC-DISC and remains untaxed until the IC-DISC decides to pay a dividend to its shareholder(s), at the lower preferred qualified dividend tax rate of 20% (need to consider the 3.8% tax on net investment income).
- This translates into nearly 40% tax savings on ½ of the export net income.

Please consider Think, LLP to assist you in determining potential tax savings by having our specialists perform a no-cost preliminary analysis. Give us a call or email us with your questions. We look forward to hearing from you.

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