THE EXPORT INCENTIVE

An Added Tax Saving Strategy

Presentation By:
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WHAT IS IT

The “Export Incentive” (IC-DISC) is a tax strategy employed to separately identify qualified foreign revenues and profits and enable a portion of them to be taxed at a reduced tax rate.

WHAT QUALIFIES

- Product must be manufactured in the U. S.
  - U.S. corporation
  - Subsidiary of a foreign owned company operating in the U.S. and maintaining a U.S. payroll

- 50% Content Rule

- Shipments destined for foreign locations
  - U.S. Distributers selling to foreign locations can qualify “if” they meet this proof of “Content” rule

HOW IS IT MANAGED

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- Must be registered
  - Establish Margin Models
  - Can establish tracking (Distributor problem)

- Paper Entity Set Up
  - Paper Entity is “Commission Agent”
  - Agent processes foreign sales for calculation
    - ½ qualified sales = subject to special tax consideration
  - Transaction moved from Paper Entity to Regular Entity
    - Amount transferred is also a commission expense

HOW IS IT MANAGED

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- Processing Quarterly or Annually
  - Quarterly processing enables application against estimated tax payments
  - Includes all backup supporting work-papers and forms required for CPA to complete filing
  - Full Audit defense included

- Rate Structure
  - One Time Set Up - $3,500
  - 18% of benefit (minimum of $10,000) – divided quarterly

HOW IS IT CALCULATED

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- Qualified Foreign Sales Moved To Paper Entity
- Select The Higher of 50% Of Net Revenues or 4% Of Gross Sales
- Whichever Selected – Divide In Half
- The Resulting Number Is Subject To Treatment At Dividend Rate (20% Tax) – ½ The Going Tax Rate

SAMPLE CALCULATIONS

- Foreign Revenue = $3,000,000
- Margin = 20%
- Entity Transfer = $600,000
- ½ = $300,000
- 20% Tax Reduction = $60,000 Savings

- $300,000 Transfer – Reg. Income
- $300,000 Transfer as Dividend

- Initial Transfer as Commission Expense

- Foreign Revenue = $6,000,000
- Margin = 20%
- Entity Transfer = $1,200,000
- ½ = $600,000
- 20% Tax Reduction = $120,000 Savings

- $600,000 Transfer – Reg. Income
- $600,000 Transfer as Dividend

- Initial Transfer as Commission Expense

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Q & A

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