



INTEREST CHARGE - DOMESTIC INTERNATIONAL SALES CORPORATION ("IC-DISC")

The use of an IC-DISC allows a portion of the profits from export sales (50%) that are paid as a commission to the IC-DISC to not be subject to corporate level taxation at the effective corporate tax rate (maximum 35%) and in effect allows a US C-Corporation ("USC") to pay tax deductible dividends. Individual shareholder reports dividend at favorable 15% tax rate as qualified dividend.

Description/Summary

- The shareholders of USC form and become shareholders of an IC-DISC. To avoid gift tax complications the percentage of ownership of the shareholders in each corporation should originally be and remain identical. If desired, use of a limited liability company ("LLC") holding company structure may provide flexibility with respect to planning around this shareholder level risk.
- USC pays a commission to the IC-DISC on the sale of export property, which is included in the income of the IC-DISC.
- USC deducts the commission, reducing its taxable income.
- At least annually, the IC-DISC distributes its income to the LLC holding company or its shareholders as a dividend.
- There is no Federal income tax at the IC-DISC level. Instead, the shareholders are taxed on the IC-DISC profits at the time the IC-DISC makes distributions.
- No interest charge is generated to the shareholders because the distribution results in no accumulated IC-DISC income and no deferred tax liability.

Benefits

- Avoid double taxation (at corporate and at shareholder level) on a portion of income from export sales with a deductible commission at corporate effective rate and taxable to shareholder at favorable 15% tax rate.
- Can provide additional cash to fund dividends and/or ongoing operations
- Use of an LLC holding company
 - Can provide cash management flexibility
 - Can provide control over the actual annual outflow of cash from USC to the shareholders
- Allows a variety of ownership alternatives - e.g., trusts may be shareholders
- Allows shareholders to tax efficiently liquidate some of the value of their USC stock interests
 - Converts some of shareholders' wealth from value in the USC stock to cash
 - Can provide estate planning flexibility by increasing shareholders' overall liquidity