Dust Off Your DISC

By Robert Verzi

Few people know of the tax rule that could be saving your manufacturing or distribution company millions of dollars each year. Despite it being the oldest tax benefit available for exporters, many companies are missing out. **"What is this tax benefit," you ask?** It is the use of Domestic International Sales Corporations, or DISC.

The use of a DISC has the potential to reduce your company's tax rate on exports between 50 and 100 percent, meaning huge savings for you and your shareholders. How? A DISC avoids C corporation tax on export profits, are tax-exempt entities and any dividend paid to a shareholder is taxed at only 15 percent, compared to the typical rate of 35 percent.

WHAT IS A DISC? A DISC is a tax-exempt entity that has little or no business activities, yet receives tax benefits that allow companies in certain industries to re-categorize some of their ordinary income into qualified dividend income within the DISC on qualifying export property.

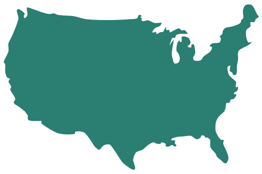
Overall, the benefits of using a DISC exist around the percent of tax paid by shareholders on their dividends. For example, a company with a net export profit of $1 million can save $100,000 in Federal income tax per year, just by setting up a DISC. Moreover, State income taxes can be saved by using the DISC structure. The savings is unlimited and the more your business exports, the more the potential savings.

HOW IT WORKS A DISC acts as a separate, legal, tax-exempt entity from its parent company, that doesn't pay tax on commission income. Therefore, using a DISC, a U.S. company pays "commission" to DISC based on its profits from the sale of qualifying export products (explained below). This commission is deductible by the parent company. In return, the DISC pays a dividend to its shareholders. That dividend that is paid is treated as a qualifying dividend under the law and is taxed at 15 percent, under current law.

There are, however, certain requirements that must be met before a company can qualify to use a DISC. These include being a U.S. manufacturer or distributer that exports U.S. manufacturing goods, or architectural and engineering firms that oversee non-U.S. construction projects.

QUALIFYING EXPORT PROPERTY:

Export property must be:



Manufactured, produced, grown or extracted in the U.S., but not by the DISC

Used, consumed or disposed of outside the U.S.

No more than 50 percent of the value related to imported components

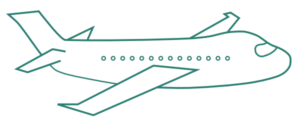
However, they **CANNOT** fall into any of the categories below:

Property leased or rented to related person

Income from intangibles

Certain oil, gas, coal and uranium products

Unprocessed softwood timber



Export controlled products

Products in short supply

Robert is an International Tax Partner with more than 27 years of experience providing international tax solutions to publicly and privately held corporations on an array of international tax matters, such as foreign tax credit management and utilization, structuring foreign and domestic operations, international mergers and acquisitions, and export tax incentives. He also has many years of experience serving foreign-owned U.S. businesses.

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To Learn more about how using a DISC can save you or your company money, contact Robert Verzi at **Robert.verzi@hawcpa.com** or call him at 404-898-8486.