

## A Valuable Export Incentive Still Exists

### Does Your Business Qualify for a DISC?

If your closely held business exports property manufactured in the United States, or performs engineering or architectural services for projects located outside the United States, you may be able to significantly reduce your income tax bill.

### For more information on our services, contact:

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**Domestic International Sales  
Corporation (DISC)**



## DISC

### What are the Benefits of Forming a DISC?

Under DISC rules, the exporter pays commissions to the DISC. The commission the exporter pays to the DISC is deductible and is computed under special pricing rules. The DISC, however, is a tax-exempt entity, and thus pays no tax on the commissions it receives. The exporter receives a deduction of 35% on the commission payments they make to the DISC, and the DISC shareholders pay a 15% tax rate on the income distributed from the DISC. This results in a permanent tax saving for US exporters with respect to the export sales. See illustration on the benefits of a DISC.

### Background of a DISC

DISCs have been around since the seventies but had fallen out of favor with the passage of the Foreign Sales Corporation (FSC) and Extraterritorial Income Exclusion (EIE). In light of the repeal of both the FSC and the EIE provision, and the passage of the favorable 15% rate on dividends, the concept of DISC has come back into favor. A DISC is a separate domestic corporation which must elect to be treated as a DISC and is required to maintain a separate bank account and set of accounting books. A DISC is also required to file an annual US income tax return even though it pays no US income taxes.

## HA&W's DISC Services

HA&W provides customized services ranging from an initial benefit assessment to a full-scale DISC outsourcing service.

### Pricing Assessment and Feasibility Study

- A basic assessment of the potential benefits of using a DISC with readily available data.
- A feasibility study given the company's available data and circumstances.

### Data Analysis and Documentation

- Analysis of the company's self-prepared data and identification of the grouping and intercompany pricing rules that will maximize tax savings.

### DISC Outsourcing Service

For companies wishing to outsource the preparation of the DISC calculations and supporting documentation, HA&W will work with your company's accounting and information systems personnel to develop each requisite piece of information including the final transactional database. Once the transactional database and supporting schedules have been prepared, we will perform the same steps outlined above for the data analysis and documentation. With renewed emphasis on internal controls and documentation under Sarbanes-Oxley, companies may benefit from our outsourcing service procedures, schedules, and final calculations required by the IRS for DISC tax benefits.

## Tax Benefit Illustration

