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*"Victory goes to the player who makes the next-to-last mistake."  
- Savielly Grigorievitch Tartakower*



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Billing and Collections**  
Walgreens  
Danville, IL  
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**Director, Finance &  
Operations**  
Families of Spinal  
Muscular Atrophy  
Elk Grove Village, IL  
Salary \$100-150k

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#### UPCOMING EVENTS

- ▶ December 15  
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**The Path to Good  
Governance**  
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### top headlines

- ▶ 2012 Targeted for Record Facebook IPO
- ▶ 7 Signs Your Top Talent is Job-Hunting
- ▶ Employees Open Up to Internal Fraud Hotlines
- ▶ Big Name Brands Ignoring Online Customer Complaints
- ▶ New Insurance Products Guard Company Reputations
- ▶ How to Start a Business in a Stalled Economy
- ▶ US Confidence in Economy Rises in November
- ▶ Little-known Export Incentive Gaining Popularity
- ▶ When Good Acquisition Deals Go Bad
- ▶ Coca-Cola Recognized for its Energy Efficiency

### top headlines

- ▶ **2012 Targeted for Record Facebook IPO**  
"Facebook Inc. is inching closer to an initial public offering that it hopes will value the company at more than \$100 billion."  
[Read more.](#) Wall Street Journal
- ▶ **7 Signs Your Top Talent is Job-Hunting**  
"If you know they're looking, you have a chance to make things better and keep them on board."  
[Read more.](#) Fast Company
- ▶ **Employees Open Up to Internal Fraud Hotlines**  
"A recent study suggests employees are more willing to blab about fraud-related incidents to internal hotlines, even though new whistle-blower rules may encourage them to turn to regulators first."  
[Read more.](#) CFO
- ▶ **Big Name Brands Ignoring Online Customer Complaints**  
"Costco, Kmart and Kroger missed 100% of their consumers' complaints on social networking sites during September 2011, and Wal-Mart ignored 40% of complaints."  
[Read more.](#) Inc.
- ▶ **New Insurance Products Guard Company Reputations**  
"Three new insurance products aim to give companies a hand when their brands take a beating."  
[Read more.](#) Treasury & Risk
- ▶ **How to Start a Business in a Stalled Economy**  
First add "20% to anticipated startup budgets. Then, when factoring income, divide it by two and assume it will take you twice as long to come in as you originally estimated."  
[Read more.](#) INSIGHT  
[Read the INSIGHT 2011 Corporate Financial Leadership Special Issue.](#)
- ▶ **US Confidence in Economy Rises in November**  
"The Conference Board (said) Tuesday (that) its Consumer Confidence Index rose 15 points to 56.0, up from a revised 40.9 in October. The October number was the lowest level since the recession."  
[Read more.](#) Time
- ▶ **Little-known Export Incentive Gaining Popularity**  
The IC-DISC export benefit allows companies to "strengthen their economic position by effectively reducing what they would owe on foreign sales income," from 35% to 15%.  
[Read more.](#) Paradigm Partners
- ▶ **When Good Acquisition Deals Go Bad**  
"Smart companies ensure the union doesn't come apart after the bloom is off the rose by paving the way for success during the courtship phase."  
[Read more.](#) Chief Executive
- ▶ **Coca-Cola Recognized for its Energy Efficiency**  
The company "has earned the highest score ever recorded for carbon reduction efforts," including "installing sophisticated energy monitoring systems" and "long-life LED lighting in 23,000 machines."  
[Read more.](#) GreenBiz.com



## IC-DISC Export Benefit

### What is an IC-DISC?

An Interest Charge - Domestic International Sales Corporation (IC-DISC) is a little known, but increasingly popular, export incentive for U.S. companies. The IC-DISC incentive has been in existence in its current form since 1984. It provides tax savings to qualifying domestic exporters to encourage more U.S. companies to compete in the progressively competitive global market. By taking advantage of this tax incentive and the reduced tax rates from the Bush Era Tax Cuts, companies can strengthen their economic position by effectively reducing what they would owe on foreign sales income under the ordinary income tax rate (typically 35%) to the qualified dividend rate of 15%.

### Do I qualify?

To take advantage of the IC-DISC, domestic exporters do NOT need to be selling products that are “100% American” or even “100% new”. In fact, a domestic exporter’s products only need to meet three specific criteria to qualify as export property for purposes of the IC-DISC. The products must:

1. Be manufactured, produced, grown, or extracted in the United States;
2. Be held primarily for sale, lease, or rental for direct use or consumption outside the United States; and
3. Have 50% or more of its fair market value attributable to content direct from the United States.

While the IC-DISC is primarily for the export of tangible goods, including software, the rules for the IC-DISC do allow for gross receipts generated by certain services to qualify as well. This means that companies engaged in engineering or architectural services for the design of permanent structures (buildings, roads, bridges, etc.) to be built outside the United States can qualify.

### How does it work?

Essentially, an IC-DISC is a separate entity incorporated under the laws of a chosen, tax friendly state that acts as a silent partner with a domestic exporter. The IC-DISC itself does not require the working capital of a traditional brick-and-mortar company – it can exist on paper alone without an office, employees, or supplies. It primarily requires the legal formation of the entity and an election by that entity to be treated as an IC-DISC within 90 days of the beginning of the taxable year.

Once the IC-DISC has been correctly setup, the domestic exporter makes commission payments to the IC-DISC on all foreign sales and deducts this commission from the domestic exporter’s ordinary income. The commission is calculated as 10% of the export promotion expenses by the IC-DISC attributable to the qualified export receipts plus the greater of:

1. 4% of qualified export receipts; or
2. 50% of exporter’s taxable income.

Further savings can be generated by computing commission payments on a transaction by transaction basis. A transaction by transaction analysis allows exporters to use the more advantageous commission calculation based upon the margin of each of the transactions rather than applying the calculation to the entirety of the foreign sales.

The IC-DISC is federally tax exempt, and thus the only time tax is paid is when distributions of the commissions are made to the shareholders. Let’s look at an example of the difference between a domestic exporter operating with and without an IC-DISC:

<b>Domestic Exporter</b>		
Foreign Sales		\$5,000,000
Foreign Cost of Goods Sold		\$2,000,000
Foreign Gross Margin		\$3,000,000
Foreign SG&A Expenses		\$1,000,000
Foreign Net Income		\$2,000,000
	<b>Without IC-DISC</b>	<b>With IC-DISC Applied</b>
Tax Liability (35% of Ordinary Income)	<b>\$700,000</b>	<b>\$700,000</b>
IC-DISC Commission Determination		
4% of Foreign Sales	-	\$200,000
50% of Foreign Taxable Income	-	\$1,000,000
IC-DISC Commission Deduction (50%)	-	\$1,000,000
Reduction in Tax Liability (35% rate)	-	<b>\$350,000</b>
Tax Liability after IC-DISC Commission Deduction	-	\$350,000
IC-DISC Dividend to IC-DISC Shareholders	-	\$1,000,000
Tax Liability (Preferential Dividend Rate of 15%)		\$150,000
Total Tax Liability	<b>\$700,000</b>	<b>\$500,000</b>
<b>Total Tax Savings with IC-DISC</b>		<b>\$200,000</b>

### Should I do it?

While many companies are eligible to take advantage of the IC-DISC tax incentive, few do because they're either unaware of the benefit, they believe setting up the IC-DISC seems too daunting or confusing, or they feel the task of calculating the commissions is burdensome and not worth the benefit. However, by partnering with experienced professionals who understand the process, companies can reduce the time and expense associated with capturing the tax incentives to which they are entitled.

### About the Authors:

Written by Zee Makhani, Director, and Jim Foster, J.D., National Tax Manager, both of Paradigm Partners. Paradigm Partners is a national tax consulting firm specializing in niche tax services such as the R&D Tax Credit, the IC-DISC (U.S. Exporters' Tax Incentive), WOTC (Federal and State Hiring Tax Incentives), Section 199 (Domestic Production Activities Deduction) and Cost Segregation. For comments or to schedule a No-Cost, No-Commitment feasibility study, contact Karim Solanji at [KSolanji@ParadigmLP.com](mailto:KSolanji@ParadigmLP.com) or (281) 558-7100 x-109.