Think of the IC-DISC as a tax-saving machine

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How many times have you turned over a product you've recently purchased only to discover it was "Made in China" or "Made in (insert here any country other than the United States)?" Have you ever wondered how often people in China, Japan, the United Kingdom, Germany, or other countries turn over their recently purchased products and read "Made in the USA?" Not often enough.

People on both sides of the political dividing line generally support the exportation of goods manufactured here in the U.S. Why? Because U.S. exports are the key to a better economy. Increased U.S. exports means a greater demand on U.S. goods and services, and a greater demand translates to higher production and the need for skilled employees.

Throughout history, our government has recognized the importance of exports to the U.S. economy. In an effort to stimulate U.S. exporting and encourage companies to maintain their manufacturing operations in the U.S., the federal government introduced the first export tax incentive in 1971. That export tax incentive evolved over time and is now known as the "Interest Charge – Domestic International Sales Corporation" (IC-DISC).

Think of the IC-DISC as a tax-saving machine that converts ordinary income taxed at regular tax rates as high as 39.6 percent to income taxed at the qualified dividend rate of 15 percent or 20 percent (depending on income level). On $10,000 of income, an IC-DISC could save you almost $2,460 or almost 25 percent of your profit margin.

Although IC-DISCs must meet strict requirements imposed by the Internal Revenue Code, ICDISCs are not required to perform substantial functions. No office space, employees, or other tangible assets are required. Because IC-DISCs cost very little to maintain and operate, the tax savings stated above go directly into the pockets of the IC-DISC owner.

The structure or relationship between the business with the goods and the IC-DISC is simple. The business grants a sales franchise to the IC-DISC and agrees to pay the IC-DISC a commission based on the "qualified export gross receipts" (more to come on this later). The ICDISC "earns" the commission, but the business continues to solicit its own customers, invoice or bill customers, collect on the sales, and maintain all the records and accounts related to those sales. The IC-DISC has no duties under the agreement other than to receive commissions (and the IC-DISC should keep its own books and records on those commissions). The complicated part is qualifying a corporation to be an IC-DISC.

To qualify as an IC-DISC, a corporation must be incorporated under the laws of any state (I recommend the great State of Wisconsin) and must satisfy the following requirements:

1. The corporation must have capital of at least $2,500 and only one class of stock.
2. The corporation must make an election to be treated as an IC-DISC.
3. 95 percent or more of the corporation's gross receipts must be qualified export receipts.
4. 95 percent of the assets of the corporation must be qualified export assets.

Requirements 1 and 2 are easy. An IC-DISC can be started with a small capital contribution of $2,500 into a bank account, and that $2,500 can never be withdrawn while the IC-DISC is in existence. (Remember, an IC-DISC will save you almost $2,500 on the first $10,000 of income).

One class of stock simply means all the owners of the IC-DISC must be treated the same — meaning, every share is worth the same, but same doesn't mean equal. Ownership can be 50/50, 90/10, or any other variation. Also, a corporation elects to be treated as an IC-DISC by filing a one page form (Form 4876-A) with the IRS. Basic information is needed to complete the form — name and address of the corporation and names and addresses of shareholders.

Requirements 3 and 4 are too complicated to discuss here in detail, but they certainly aren't difficult to achieve. Qualified export receipts are simply the gross receipts from the sale, lease, exchange, or other disposition of qualified export property. The key is to ensure the property exported is "qualified export property."

To qualify as export property, the property must meet all of the following: (1) It must be manufactured, produced, grown, or extracted in the U.S.; (2) It must be sold, leased or rented in the ordinary course of business for use or consumption outside the U.S.; and (3) Not more than 50 percent of the value of the property may be attributable to components or materials imported into the U.S.

Thus, if a business manufactures, produces, grows, or extracts a product here in the U.S. and most of that product's parts are also made in the U.S., that product is likely eligible for exportation through the IC-DISC machine. Exportation through the IC-DISC machine means greater profit percentage by decreasing the tax due on the sale of that product by almost 25 percent.

Moral of the story – Made in the USA is good for our economy and good for your bottom line.

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