DISC Highlights

DISC Saves Tax $

- Individuals (directly or through partnerships & S Corporations)
  - Reduces tax rate to 15% or 20% (dividend rate) on export profits
- C Corporations
  - Provides tax deductible dividend (note: shareholders must own DISC)
- Save tax on greater of 50% of net taxable income from exports or 4% of export sales

Who Benefits

- Manufacturers
- Resellers
- Individuals
- C corporations

What Qualifies

- Only applies to profits on export of U.S. made goods
- Foreign content limited to 50% of sales price
- Sale, lease, rental, or other disposition of export property
- Property must be used (or assumed used) outside USA
- Certain architectural and engineering services performed for projects located outside USA
- Plus export finance income

Limits on Benefits

Assumes formula pricing (below)

- If DISC pays full dividend:
  NO LIMIT
- Otherwise DISC may retain commission on best $10 million of qualifying export gross receipts

DISC Requirements

- Domestic corporation
- Minimum capital $2,500
- Elects DISC treatment
- 95% export requirements
- Not a member of a group with a FSC
- Must distribute (or deemed distribution) profits in excess of $10 million receipts limit & 95% export asset requirement
- Limitations on certain financial services and exempt entities

Transfer Pricing

- No risks if formulas in regulations used

Cost

- About $5k to set up
- Minimum $2k+ to maintain: cost of preparing Form 1120DISC and doing calculation
- More benefit often available through more complex calculations

How Long Will It Last?

Congress indefinitely extended DISC on New Year's Day, 2013. It's here to stay.

What is Profit on Export?

- Gross receipts less
- Cost of goods sold and
- Allocated and apportioned expenses
- Rules of §§1.861-8 *et seq*. apply
  - Directly related expenses
    - Selling costs
  - Indirectly related expenses
    - G&A
  - Apportioned overall expenses
    - Interest
    - R&D
    - State taxes
- Simple but not optimum:

export sales / total sales * taxable income

No Loss Rule

- Regulations prohibit including in commission calculation under 50% rule any transaction that produces a loss after allocating and apportioning expenses
- Results in drawing expenses away from qualifying income

Optimize with Transaction by Transaction Analysis

For information, call Steve Fox, CPA at (973) 610-5669