



A Tax Benefit for Your Exports

How Specialty-Equipment Companies Can Save Big on Their Taxes Through the IC-DISC

BY **DAVID JI**, alliantgroup Senior Managing Director

Automakers and parts suppliers that are looking to put some additional cash back into their pockets should take a second look at their exports. Thanks to one often-overlooked export tax incentive, those exports may be more valuable than some companies realize.

In the past, the creation of an Interest-Charge Domestic International Sales Corporation (IC-DISC) has allowed U.S. manufacturers from a number of industries to greatly reduce the amount of tax paid on their exports—and the automotive industry has been no exception.

For example, tax specialist **alliantgroup recently helped one company that produces LED lights for a variety of motor vehicles receive \$235,600 in tax savings** on their exports. **Another company that creates fabrics and composites for automotive applications was eligible to receive \$539,000 in tax dollars for its IC-DISC.**

Let's take an expanded look at this proven tax strategy that offers so much potential value for automakers and parts suppliers.

IC-DISC: How it Works

In short, an IC-DISC is a separate entity that a manufacturer creates for its exports. Under this tax strategy, the exporter pays commissions to its IC-DISC (receiving a 39.6% deduction in the process) while being taxed only to the exporter's shareholders or partners at a favorable 20% rate. The bottom line is a permanent tax savings for U.S. exporters and shareholders of nearly 8% of net export income.

Who Qualifies

To qualify for IC-DISC, automakers and parts suppliers must meet three general requirements with respect to their exports:

1. Are Your Exports Manufactured?

The commissions from an IC-DISC must deal with export property that is manufactured or produced in the

United States. For automakers and parts suppliers, the big takeaway here is that your company more than likely meets this requirement if your business produces or manufactures automotive parts for export.

The LED lights producer for motor vehicles that we discussed earlier met this standard due to a number of manufacturing activities, including the casting of metal for parts, the assembly of printed circuit boards with the other fabricated components and the inspection of all assembled products to ensure that their seals were watertight. If any of these activities sound familiar, chances are your company can benefit from IC-DISC.

2. Can You Prove That Your Exports Are Shipped to a Foreign Destination?

Simply put, you must prove that your products are indeed exports to qualify for IC-DISC, as the sale or lease of property or services in question must ultimately be for use outside of the United States. An eligible company can directly export the goods it manufactures or give the goods to a freight forwarder or distributor, as long as the ultimate destination is outside of the United States.

3. Do They Meet the U.S. Content Requirement?

For IC-DISC purposes, any goods that you export must contain at least 50% American-made content—meaning that no more than 50% of fair market value of the export property may be attributed to imported articles. Of particular interest to those in the automotive industry, this rule applies to a company that manufactures a single part in a larger export. For example, if a company manufactures only the tires (with at least 50% of the material in the tires being American made) for a model of cars shipped to China, the tires could still make the company eligible for IC-DISC.

Relating back to a real-world example, the automotive company we discussed earlier that produced fabrics and composites qualified for IC-DISC through a number of individual parts created here in the United States with American-made materials. These export parts included armrests, headrests, door bolsters, sunshades, visors and much more. Once again, if your company performs these or similar manufacturing activities, your business could very well be eligible for lucrative tax savings under IC-DISC.

IC-DISC: It's Here to Stay

In addition to providing a substantial return on your exports, IC-DISC will also be around for a while, with both Congress and the White House having repeatedly expressed the need to strengthen American manufacturing and increase U.S. exports. With the future of IC-DISC secure and the potential for valuable tax savings, automakers and manufacturers would be wise to explore their options.



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Prior to joining alliantgroup, David worked on cutting-edge research in the arenas of developmental biology and gene therapy as a Research and Bioanalytical Scientist at Introgen Therapeutics and Rice University's Department of Biochemistry. In addition, David served as a Senior Analyst for the corporate development/strategy group of a regional firm. David's research and technical background, combined with his business analyst training, gives him a unique combination of skills that allows him to identify and capitalize on tax incentives for a wide variety of business enterprises.

SOURCE: [http://www.sema.org/sema-news/2014/10/a-tax-benefit-for-your-exports?_utma=95790915.2083815-533.1412789605.1412789605.1412789605.1&_utmb=95790915.0.10.1412789605&_utmc=95790915&_utmz=-&_utmz=95790915.1412789605.1.1.utmcsr=google%7Cutmccn=\(organic\)%7Cutmcmd=organic%7Cutmctr=\(not%2-Oprovided\)&_utmv=-&_utmk=67378393](http://www.sema.org/sema-news/2014/10/a-tax-benefit-for-your-exports?_utma=95790915.2083815-533.1412789605.1412789605.1412789605.1&_utmb=95790915.0.10.1412789605&_utmc=95790915&_utmz=-&_utmz=95790915.1412789605.1.1.utmcsr=google%7Cutmccn=(organic)%7Cutmcmd=organic%7Cutmctr=(not%2-Oprovided)&_utmv=-&_utmk=67378393)





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