

# IC-DISC FOR S-CORPORATIONS

## IC-DISC Overview for S-Corporations

The use of an IC-DISC allows a portion of the profits from export sales (50%) that are paid as a commission to the IC-DISC to not be subject to tax on ordinary income at the effective corporate tax rate (maximum 35%). This, in effect, allows a U.S. Corporation to pay tax deductible distributions. Individual shareholders report these distributions at a more favorable tax rate (currently 15%) as qualified dividends. Other intricacies are involved and each company's specific fact-pattern must be analyzed before an IC-DISC can be recommended.

## Benefits of an IC-DISC include:

- Payment of the commission gives rise to a deduction which reduces income subject to tax at a rate of 35% while the dividend income, upon repatriation, will be taxed at a rate of only 15%. The result is a net federal income tax savings of 20%.
- Can provide additional cash to fund dividends, on-going operations and/or expansions
- Allows a variety of ownership alternatives – for example, trusts may be IC-DISC shareholders
- Allows shareholders to tax efficiently liquidate some of the value of their stock in the corporate entity
  - Converts some of the shareholders' wealth from value in the corporate entity stock to cash
  - Can provide estate planning flexibility by increasing shareholders' overall liquidity



Director, **Julie Hagen**, draws on her extensive international tax and business services experience when assisting clients faced with complex international tax and business issues. As noted in other sections of this document, she has served foreign-based multi-national companies as well as U.S. based entities exporting and/or expanding abroad. In addition, through our network of PKF affiliates additional resources can be tapped for assistance with unique or unusual challenges.

We have access to extensive IC-DISC (Interest Charge-Domestic International Sales Corporation) and international tax resources and knowledge. Julie, in concert with PKF professionals, if needed, is available to consult with your company on all facets of international taxation. The in-house resources and those of PKF provide an extra measure of assurance to our clients that their international tax and business needs will be handled by knowledgeable professionals who employ the most innovative methodologies in the field.



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