

Domestic International Sales Corporation (DISC)

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What is a DISC?

- **U.S. Corporation with the sole purpose of providing tax saving & tax deferral benefits to exporters**
- Pays no income tax
- Provides no services
- Has no employees
- Minimal record keeping
- Receives “commission” income = % of exporter’s foreign sales
- **Commission is the foundation for tax savings**

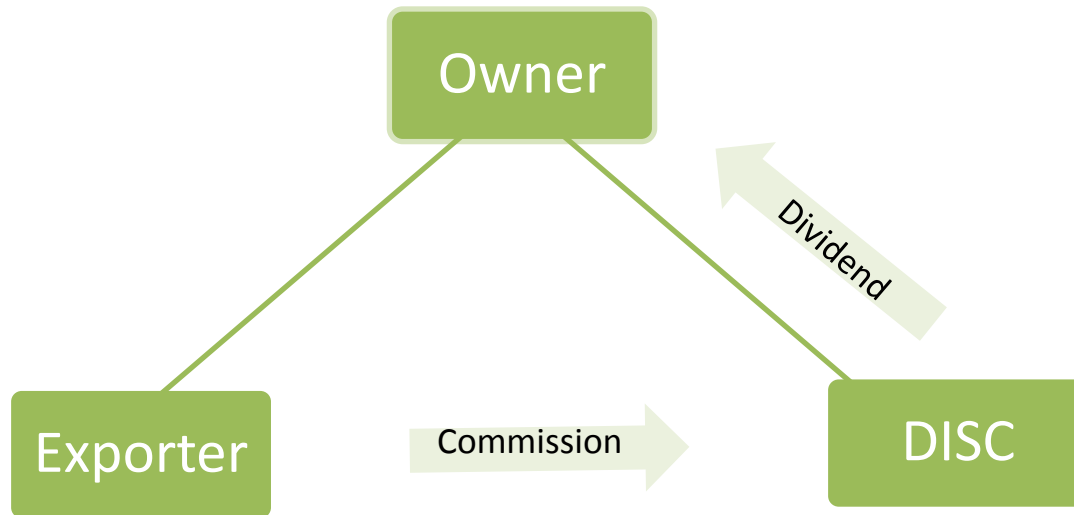
History of the DISC

- Domestic International Sales Corporation (DISC) regime was enacted by Congress in 1971 to stimulate U.S. Exports
- Available to **manufacturers, distributors or retailers** who export
- Don't overlook sales to Canada and Mexico
- **Underutilized...** less than 4,000 DISC's

Tax Benefits of a DISC

- **Commission paid to the DISC generates immediate tax deduction to exporter**
 - Approximately a 40% tax savings to the exporter
- Commission received by DISC not subject to income tax
- **DISC pays dividend to shareholders**
 - Taxed to its shareholders at 24% dividend tax rate
 - Result is net tax saving of 16% on the commission expense (40% - 24%)
- **OR**
- **DISC loans \$ back to related exporter**
 - No current tax paid
 - Result is a net tax deferral of 40% on the commission expense
 - Commission cash is back in the exporter's bank account

Dividend to Shareholder



Note: No tax effect to DISC

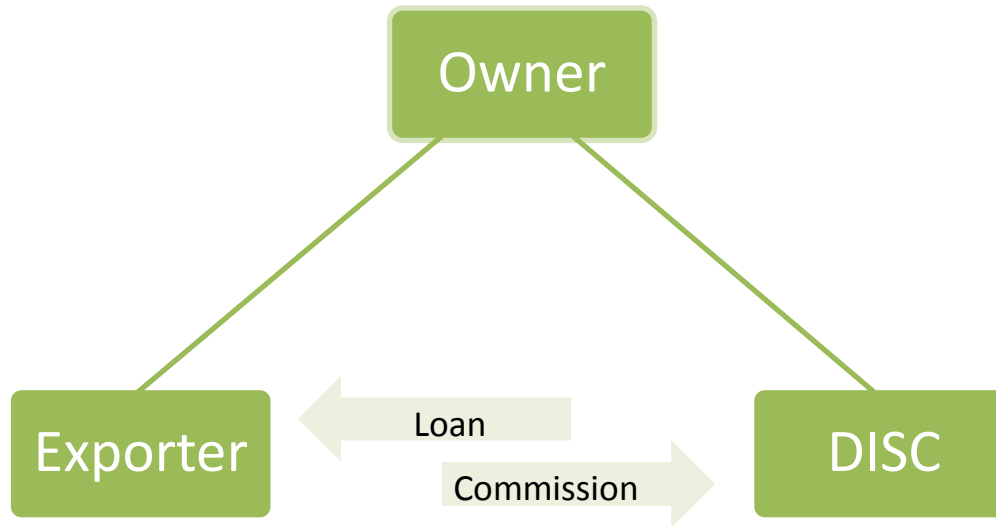
Tax Effects

<u>Exporter</u>	
Commission Expense	\$200,000
Max tax rate	40%
Tax savings to exporter	\$80,000

<u>Owner</u>	
Dividend Income from DISC	\$200,000
Max dividend rate	24%
Tax cost to owner	\$48,000

Net tax savings \$32,000

Loan to Exporter



Tax Effects

<u>Exporter</u>	
Commission Expense	\$200,000
Max tax rate	40%
Tax savings to exporter	\$80,000

<u>Owner</u>
-0- tax until dividend remitted in future

Net tax savings \$80,000 & Cash back in exporter's account

DISC Qualification Requirements

A. Manufacturing Test

- Export property **manufactured, produced, grown or extracted** in U.S.
 - Includes substantial transformation

B. Destination Test

- Export property must be used or consumed outside of U.S.
 - **Direct sales** to foreign customers by the exporter
 - Sold to **distributor** for shipment abroad
 - Sales to **U.S. customer** for shipment **abroad**
 - **Sales to foreign subsidiary**

DISC Qualification Requirements

C. Foreign Content Test

- Not > 50% of FMV consists of imported property

Selling Price	\$200
Imported raw materials	\$80
Imported cost ÷ FMV	<hr/> 40% = OK

DISC Commission Calculation

- 2 primary methods:

(1) 4% Method

(\$2,000,000 export sales x 4% = \$80,000 commission)

(2) 50% of Taxable Income Method

Exporter federal taxable income	\$1,000,000
Export Sales (\$2,000,000) ÷ Total Sales (\$10,000,000)	20%
Export sales Taxable Income	<hr/> \$200,000
	50%
Commission	<hr/> \$100,000 <hr/>

Forming and Maintaining a DISC

- C corporation
- Capital stock of \$3,000
- Owned as a subsidiary
 - Exporter is an S Corporation
- OR**
- Owned directly by exporter's shareholders
 - Exporter is a C or S Corporation
- Paper corp only
 - No EE's
 - No services
 - No tangible assets
 - No liabilities

Examples of Companies Utilizing DISCs

- Online retailers selling US products to foreign customers
 - Recycling business selling plastics/metals to recycler in China
 - Box distributors selling to customers in Mexico
 - Metal wire recycler selling to recycler in Canada
 - Farming corporation selling crops to Mexico and Canada
 - Aerospace manufacturer selling to GE as a component on jet engines sold to Airbus
 - Leather treatment manufacturer selling to US distributors, reselling to foreign customers
 - Sublimation printing company contracted to print artwork on garments sold to customers in Europe
- Can be a manufacturer, distributor or retailer
 - Don't forget INDIRECT foreign sales

Conclusion

- Tax savings & tax deferral benefits for exporters
- DISC legislation supported by Congress since 1970's
- Utilized by manufacturers, distributors & retailers
- Supplemental income to shareholders
- Offer key employee retention

Thank You

If you have any further questions please contact
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