

Planning for IC-DISC Benefits

The major casualty of the current political battle appears to be the preferential 15% rate of tax on dividends. For most exporters who have taken advantage of IC-DISCs over the last few years, the benefit derived from that 15% rate will end on December 31, 2012.

Two issues arise with respect to the end of the 15% rate:

1. How can you ensure the maximum benefit by December 31, 2012?
2. What should we do with the IC-DISC as of January 1, 2013?

First, we recommend that you pay the maximum commission possible to the IC-DISC with a corresponding cash distribution to its shareholders by December 31, 2012. Doing so will maximize your dividends taxed at the 15% rate. If you cannot determine the commission with precision by December 31, 2012, we recommend that you estimate and, in fact, overestimate the commission. We are preparing documentation for companies to ensure that their overestimation does not result in disqualification of IC-DISC status. Contact us if you are overestimating to maximize benefits and want to ensure continued qualification of your IC-DISC.

Second, the IC-DISC will still result in benefits in 2013. Although their shareholders will not receive the preferential 15% dividend rate in 2013, a deferral of U.S. tax, at a minimum, is achievable. At the same time, exporters can still take advantage of the cash flow from exports to grow their business.

If you have questions regarding planning for IC-DISC benefits, please contact Rob Misey, your Reinhart attorney or any member of the Reinhart Tax Practice team.

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