

# IC-DISCs

## Tax Savings for Exporters: IC-DISCs

### What is an IC-DISC?

The Interest Charge-Domestic International Sales Corporation (IC-DISC) is a tax saving vehicle for U.S. exporters. Eligible U.S. companies can recoup or exceed their tax savings on exported product (and in some cases services) revenue by creating an IC-DISC. IC-DISC dates back to the 1970's and is the last remaining tax incentive for exporters.

The IC-DISC tax benefit is tied to the differential between qualified dividend rates and the ordinary income tax rates. U.S. exporters that operate their business as a sole proprietorship or as a pass-through entity (i.e., limited liability company (LLC), S corporation, or limited partnership [LP]) are often eligible to take advantage of these tax savings. Companies operating as a C corporation can use the IC-DISC to eliminate double taxation on a significant portion of their export income.

Qualified exporters can receive a permanent tax savings of 20 percent or more on Federal income tax from export profits by utilizing an IC-DISC. The IC-DISC has enabled many exporting companies to achieve significant tax savings.

An IC-DISC is not a tax shelter, but instead began as a tax deferral vehicle. It was revamped under the Jobs and Growth Tax Relief Reconciliation Act of 2003 as a permanent tax savings vehicle, and was renewed again and made permanent under the Obama administration in 2013 as a job creation strategy during the economic downturn.

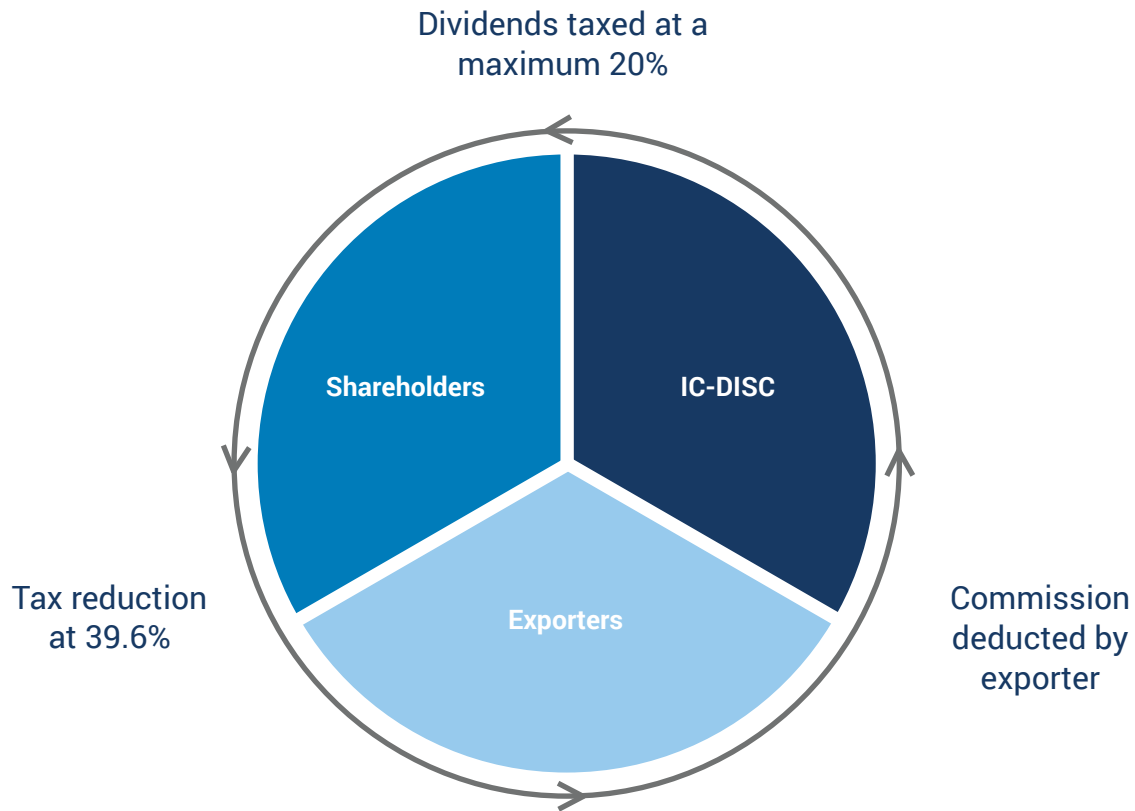
(Source: "IC DISC: Offering Continued Tax Savings for Exporters," David M. Chase, Wall, Einhorn & Chernitzer P.C.)

### IC-DISCs in Virginia

In 2014, the Virginia General Assembly enacted legislation that conforms state income tax treatment of IC-DISCs to follow federal income tax treatment. Until S.B. 515, H.B. 280 was approved on March 5, 2014 by the Virginia General Assembly, Virginia did not provide IC-DISCs with tax exemptions at the state level. For taxable years beginning on or after January 1, 2014, IC-DISCs in Virginia are exempt from the Virginia corporate income tax.

(Source: "[More States Conform to Beneficial Federal Tax Treatment ...](#)" Baker Donelson Bearman Caldwell & Berkowitz PC)

# How does an IC-DISC function?



An IC-DISC is a “paper” entity that is used as a tax savings vehicle. IC-DISCs do not require corporate substance, employees, or assets – instead it serves as a conduit for export tax savings.

## How an IC-DISC works:

An eligible U.S. exporting company forms a special U.S. corporation that elects to be an IC-DISC. The election is made on Form 4876-A. Elections must be made within 90 days after the formation of the corporation.

- The exporting company pays the IC-DISC a commission
- The exporting company deducts commission from ordinary income taxed at up to 37 percent (beginning on January 1, 2026, the percentage will change to 39.6 percent)
- The IC-DISC pays no tax on the commission as long as qualification standards are met (see “Who is Eligible?”); export receipts in excess of US \$10 million are not eligible for deferral of tax
- Shareholders of an IC-DISC are generally not taxed until the earnings are distributed as dividends; shareholders must pay annual interest on the tax deferred, which is currently around .20 percent

The result of forming an IC-DISC can be a **20 percent or more tax savings** on commission.

(Source: “IC DISC: Offering Continued Tax Savings for Exporters,” David M. Chase, Wall, Einhorn & Chernitzer P.C.)

## Who is eligible to establish an IC-DISC?

U.S. exporters who operate their business via a sole proprietorship, pass-through entity (LLC, S corporation, LP, etc.), or C corporation may be eligible to form an IC-DISC. To take advantage of the tax savings an IC-DISC provides from which a commission is computed, it must meet the following qualifications:

- 95% or more of an IC-DISC's gross receipts must be qualified export receipts
- 95% of an IC-DISC's assets must be qualified export assets
- The IC-DISC must have capital of at least \$2,500 and only one class of stock on each taxable year
- The IC-DISC must make a valid election to be treated as an IC-DISC

*Qualified Export Receipts* can include sales and leases of export property, export-related services (including engineering, design, architectural, and managerial services), and interest from loans and export accounts receivable.

*Qualified Export Assets* can include export property, receivables, producer loans, and working capital. Qualified export property must be manufactured or produced in the United States and cannot have more than 50% foreign content.

(Source: "IC DISC: Offering Continued Tax Savings for Exporters," David M. Chase, Wall, Einhorn & Chernitzer P.C.)

## Next Steps: How to Set up an IC-DISC

If you are unsure if your company is eligible to set up an IC-DISC to take advantage of tax savings, ask the following questions:

- Do you have any transactions outside of the United States?
- Do you use overseas distribution?
- Does your product cross any borders?
- Are you generating operating income?

If the answer to any of these questions is yes, an IC-DISC may be a valuable tax savings option for your business.

It is important to talk to a qualified accountant with experience in setting up IC-DISCs to fully understand the benefits and costs of creating an IC-DISC. For help finding an experienced accountant, contact your local [VEDP Trade Manager](#).

Virginia Economic Development Partnership - International Trade offers a number of export-related services to Virginia businesses, including trade missions and market research by our Global Network of in-country consultants. These services are available to all Virginia exporters.

For more information, please visit our website, [ExportVirginia.org](https://ExportVirginia.org).

## Additional Resources

**Ryan Losi, CPA**

[Piascik Certified Public Accountants](#)

**"IC-DISC: The Big Tax-Break for Exporters"**

[Forbes.com](https://Forbes.com)

**IRS Form 4876-A (sample)**

[IRS.gov](https://IRS.gov)

**"IC-DISC Can Lead to Federal Tax Savings for U.S. Exporters"**

[Trade.gov](https://Trade.gov)

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