HLB GRAVIER, LLP

DISC Extension Provides Tax Incentives for Companies with Profitable Export Sales

On December 17 President Obama signed into law the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which, among other things, extends for two years several provisions in the tax code that would have expired on December 31, 2010, pursuant to sunset rules found in prior legislation.

One result of the new legislation is the extension of current rules governing Interest-Charge Domestic International Sales Corporations (DISCS), which continue to provide unique tax planning opportunities for US manufacturers and distributors who have profitable export sales. These opportunities include:

- Deferral of tax on export profits (with payment of an interest charge on the deferred federal tax)
- Reduction of the tax rate on export profits from the taxpayer's ordinary tax rate to a 15 percent qualified dividend rate
- Ability to channel the reduced tax rate benefit to selected owners or management team members as part of compensation planning.

A 24 – Month Extension

Prior to the signing of the new legislation, the 15 percent qualified dividend rate was scheduled to end on December 31, 2010. Taxpayers would have lost the opportunity to reduce the tax rate applicable to export profits. The extension of the 2010 tax rates for two years restores the viability of the planning opportunity.

The additional 24 months is an unexpected bonus for taxpayers already implementing the DISC strategy. For those taxpayers who haven't yet used the DISC, now is the time to consider this export incentive. Benefits can be realized as soon as the DISC is created..

We're Here to Help.

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