

is your company

# Manufacturing and Exporting



15% tax rate  
or  
35%

The Domestic International Sales Corporation (DISC) regime was enacted by Congress in 1971 in an attempt to stimulate U.S. exports. The DISC provisions allow U.S. exporters to avoid U.S. tax on a portion of its export profits by allocating those profits to a special type of domestic corporation known as a DISC.

The DISC is usually owned by the same shareholders who own the exporting manufacturing company. The exporter pays a portion of its annual profits to the DISC in the form of a commission. This commission is a deductible expense to the exporter. The DISC does not pay tax on the commission it receives. Subsequently the DISC pays a dividend of the commission income to its shareholders at which time the shareholders pay tax at a 15% rate. In effect, the shareholders are converting a 35% tax on corporate income (the amount of the commission) to a 15% tax.

#### Assumptions (all amounts in \$USD):

Manufacturing Co. Annual Sales	\$20,000,000
Manufacturing Co. Pretax Profit	2,000,000
Qualifying DISC Commission Expense	500,000

#### Tax Savings on DISC commission paid by Manufacturing Company:

	Without DISC	With DISC	Tax Savings
Annual Sales	\$20,000,000	\$20,000,000	
Operational Expenses	(18,000,000)	(18,000,000)	
DISC Commission Expense	N/A	500,000	
Manufacturing Co. Pretax Profit	2,000,000	1,500,000	
Federal Income Tax (35%)	700,000	525,000	175,000

#### Tax Cost of DISC commission / dividend to Shareholders:

	DISC	Shareholders	Tax Cost
Commission Income from Manufacturing Co.	\$500,000		
Dividend from DISC paid to Shareholders	(500,000)	\$500,000	
Taxable Income	0	500,000	
Federal Income Tax on Qualified Dividends (15%)	0	75,000	75,000

#### Net DISC Benefit

Tax savings to Manufacturing Company in excess of Shareholders' Tax Cost (\$175,000 - 75,000)	<u>\$100,000</u>
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