Export Subsidy Services, Ltd.

Tax Planning 2005

A) What should Closely Held Exporters do at this time?

Exporters would be well advised to take ignore the phase out of the ETI provisions and take full advantage of the IC-DISC provisions. The comparison of benefits leaves very little to the imagination. In effect, the average benefit of the repealed ETI provisions of (10.5 x 35%) or 3.675%, was replaced by (20% x 50%) or 10% benefit for Smaller Exporters. Since IC-DISC treatment only applies to shipments made on or after the date of formation, it is imperative to form the IC-DISC as soon as possible. One might also add that since the 15% dividend treatment could very well be an oversight, rather than planned policy, it may represent an opportunity that may not last indefinitely.

B) Tax Planning

From the viewpoint of using a Structured IC-DISC for financial planning at this time, the main impact of the long legislative delay has been an understandable sense of confusion among smaller exporters who could have actually benefited from the current law, without regard to the 2004 legislation. Structured IC-DISC benefits actually became a reality under the 2003 legislation.

General Guidelines:

1) Business Cash flow considerations will generally limit the designation of all C corporation exports as IC-DISC exports. S corporations and non corporate exporters should not have this concern.

2) Whenever Roth IRAs are planned as shareholders, a Holding Company Structure should be formed, if the projected annual income allocable to a Roth shareholder is expected to be less than $175,000. In essence, IC-DISC dividends direct to IRA shareholders are not eligible for the 15% tax rate. Hence, any income allocable to a Roth IRA will first be taxed as ordinary income either to a Corporate Holding Co. or to a trust as UBI. The breakeven point is about $175,000 in annual distributions to any one Roth IRA Shareholder. If less, use a Holding Company, if more, use UBI to the Roth IRA.

   Since one of the overall benefits available under an IC-DISC plan relates to the use of Roth IRAs, the creation of such entities is of primary importance. Year end planning, such as accelerating income into a non-qualifying tax year, can often leave a subsequent tax year available as a qualifying Roth IRA formation year.

3) Although the focus of this site has been Non C- Exporters, traditional C- Exporters may also benefit from the IC-DISC concept if properly planned. While the only structure searching for value is the traditional Parent Subsidiary C- structure, a C- Exporter can easily create a Pass Through Structure simply by using an IC-DISC with Non C- Shareholders. One possibility here could be ownership of the IC-DISC by key Executives.

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The Export Subsidy Company