
Exporter Tax Savings NewsLetter
2006IC-DISC >Interest Charge Domestic International Sales Corporation

Alert**Alert****Alert****Tax Technical Corrections Act of 2006**
H.R. 6264

**Sec. 7. Amendment Related To The Jobs and Growth Act
Tax Reconciliation Act of 2003.**

The above Bill would amend the 2003 Tax Act which provided for lower Capital Gains Tax Rates (15%) to apply to Qualified Dividends received by Taxpayers other than Corporations.

Such rates will not apply to Dividends received from a DISC or Former DISC to the extent the Dividend is paid out of Accumulated DISC Income or is a Deemed Distribution under Section 995(b)(1).

Such change will apply to Dividends received on or after September 29, 2006.

Brief Explanation:

- 1) Accumulated IC-DISC income is, in fact, current year income since we have been advising clients to pay Commissions and Dividends during February and March following year end, to avoid accumulation and deferrals.
- 2) Deemed Dividends, in most situations, refers to Commissions applicable to qualified exports receipts in excess of \$10 million. Shareholders are treated as having received a distribution taxable as a dividend equal to their pro rata share of current year income applicable to exports in excess of \$10 million.

Rationale:

- 1) The spirit of the 2003 Act was that taxpayers were paying taxes twice on the same income, hence qualified Dividends were meant to be from after tax profits. Since the IC-DISC was tax exempt their dividends did not qualify.
- 2) Apparently abuse was found in the form of highly profitable DISCs owned by entities taxed as individuals.

Passage Process:

- 1) Identical Bills from the Senate and House were processed on 9/29/06 then Congress Recessed for the elections on 11/7/06. They will be in session the weeks of 11/13 and 11/27 and hope to pass legislation, depending upon election results.
- 2) Written comments were e-mailed to Chairman B. Thomas (R-CA) on 10/31/06.

Future:

- 1) Will explore post election commentary and planning in Part 2.
- 2) There will still be options available for IC-DISCs.