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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

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International Taxes, Credits and Deductions

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IN CONJUNCTION WITH**

S B D C
PENNSYLVANIA

**Small Business Development Center
Duquesne University**

Helping businesses start, grow, and prosper.

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Interest Charge Domestic International Sales Corporation IC-DISC

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- Interest Charge International Sales Corporation (IC-DISC)

- Purpose

- Provides tax savings for qualifying U.S. exporters

- Can be used to shelter up to \$10 million of export receipts from shareholder-level tax indefinitely at a small interest charge and to convert ordinary income into taxable dividends

- What is it?

- A corporation with one class of stock that makes an election to be treated as an IC-DISC and 95% of its yearly gross receipts are qualified export receipts

- The adjusted basis of the corporation's qualified exports assets at the end of the year must equal 95% of the basis of all the corporation's assets

- Who can benefit?

- A company that directly exports goods it manufactures

- A company that provides architectural or engineering services that are conducted in the U.S. for a certain structures built outside of the U.S.

- A company that manufactures goods that are included in a product that is exported

- A manufacturer that provides a component to a distributor that sells the final product overseas

Interest Charge Domestic International Sales Corporation IC-DISC

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- Interest Charge International Sales Corporation (IC-DISC)
 - Taxation
 - IC-DISC is not subject to federal income tax
 - Shareholders of IC-DISC are subject to tax on their pro-rata share of the IC-DISC income (dividend income)
 - IC-DISC's taxable income related to first \$10 million of its qualified export receipts can be retained by the company tax-free until distributions must be made
 - Company pays an interest charge against the accumulated untaxed income
 - Qualified Export Receipts
 - Generally includes all receipts from the sale or lease of export property and related services and investment income such as certain interest and dividend income
 - Qualified Export Assets
 - Includes inventory, facilities and accounts receivable, certain investments, stock, and bank deposits
 - When to Elect
 - Within 90 days after the beginning of the corporation's first tax year
 - For any other year, during the 90 day period just before the first day of the year the election is to apply
 - How to Elect
 - Form 4876-A

Interest Charge Domestic International Sales Corporation IC-DISC

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- **Transfer Pricing Rules**

- **IRC § 482**

Transfer pricing refers to the pricing of transactions between controlled entities.

For example, when a US parent sells a product to its controlled foreign corporation, the US parent must sell that product at an arm's length price to its controlled foreign corporation

Controlled entities should price transactions in the same way that uncontrolled entities would under similar circumstances. This is the “arm's length standard

If the transfer price is not arm's length, the IRS has the authority under IRC 482 to make adjustments by reallocating items of gross income, deductions, credits, or allowances in order to properly reflect income between the entities.

- **Treaty Website**

- <https://www.irs.gov/businesses/international-businesses/united-states-income-tax-treaties-a-to-z>

Foreign Title Passage

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- Sourcing rules of Sections 862 and 863(b).
- Sales of products purchased in the U.S. (with title passing outside our borders) are treated as 100 percent foreign sourced income, while sales of products manufactured in the U.S. (with title also passing outside the country) are generally treated as 50 percent foreign sourced income.

Research and Development (R&D) Tax Credit

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- **The federal R&D Tax Credit**
 - Companies may take dollar-for-dollar reduction of federal and state income taxes for qualified expenditures associated with the development of or improvement of a product, process, formula, invention or software.
- **R&D tax credits are available by increasing qualified research spending for new products and services**
 - New companies
 - Existing companies embarking on R&D for the first time
 - Established companies expanding their R&D budget
 - Carry forward on any unused R&D tax credits is for up to 20 years

Research and Development (R&D) Tax Credit

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- **Starting in 2018**
 - **Benefits of the credit have been exhausted**
 - Lower taxes
 - Modified NOL Limitation
 - Ability to use the credit to offset International tax implications that flow from tax reform.

Thank You!

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Please contact our office for more information or a personal consultation.



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