

# FREDERICKSBURG REGIONAL EXPORT SUMMIT

JANUARY 22, 2015  
8 AM - 12 PM

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**Thursday, January 22, 2015**

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- 8:00**            **Registration and Networking**
- 8:45**            **Welcome & Opening Remarks**  
**Keynote Presentation**  
George Judd, Director, Cask Technologies LLC
- 9:00**            **VALET, Virginia Leaders in Export Trade**  
Ellen Meinhart, International Trade Manager, Northern Virginia  
Virginia Economic Development Partnership
- 9:20**            **Trade CPA**  
Ryan Losi, Executive Vice President of PIASCIK
- 9:40**            **Patent and Intellectual Property**  
Attorney Michael Leonard, President and Co-Founding Partner, Leonard Patel
- 10:00**          **Trade Finance SME**  
Michael Filchock, First Vice President, Global Trade Solutions, Suntrust Bank
- 10:20**          **Break**
- 10:30**          **Concurrent Panel**
- George Judd, Director, Cask Technologies LLC
  - Ellen Meinhart, International Trade Manager, VEDP
  - Ryan Losi, Executive Vice President, PIASCIK
  - Michael Leonard, President and Co-Founding Partner, Leonard Patel
  - Michael Filchock, First Vice President, Global Trade Solutions, Suntrust Bank

## Speaker Biographies

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### OPENING KEYNOTE



**George Judd**  
**Director, Cask Technologies LLC**  
**Greater Washington DC Metro**

George is one of the three original founders and East Coast Director for Cask Technologies, an Economically Disadvantaged Woman Owned Business with their Headquarters in San Diego California. He oversees all operations and activities in support of DoD, Federal and Commercial clients across multiple operating locations. Prior to the startup at Cask, George worked at several defense companies after retiring in 2005 from the Air Force with 23 years of service in the communications field. His last assignment was with the Defense Information Systems Agency (DISA) as the Executive Officer for the Director of Operations and with the White House Communications Agency. He has a Bachelor of Science Degree in Computer Science, a Master's Degree in Computer Resource and Information Management, and is a Project Management Professional (PMP).

## Session Speakers – Alphabetical Order

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**Michael P. Filchock**  
**First Vice President**  
**Global Trade Solutions**  
**SunTrust Banks, Inc.**

Michael P. Filchock provides global trade services and trade finance solutions to new and existing clients for SunTrust Bank's Global Trade Solutions Division.

Mr. Filchock joined SunTrust Bank in 2004 as Vice President with trade finance and trade banking business development responsibilities for the Georgia and Tennessee markets. Prior to joining SunTrust, Mr. Filchock was a former official at the Export- Import Bank of the U.S. ("Ex-Im Bank"). Ex-Im Bank is the official export credit agency of the United States and its mission is to assist in financing the export of U.S. goods and services to international markets. Mr. Filchock's international banking career also includes tenures with SouthTrust Bank and AmTrade International Bank.

Before joining Ex-Im Bank, Mr. Filchock worked for KPMG Peat Marwick, L.L.P. and the Federal Home Loan Mortgage Corporation.

Mr. Filchock has extensive training and experience in international banking operations and trade finance using U.S. government programs of the Export-Import Bank, Small Business Administration and other trade finance vehicles. He earned the Certified Treasury Professional (CTP) designation from the Association of Financial Professionals. He is a frequent speaker on international banking topics and export financing programs.

Mr. Filchock is a graduate of California University of Pennsylvania with a BS in Business, and an MBA from Averett University



**Michael Leonard II**  
**President and Co-Founding Partner**  
**Leonard Patel**

Michael Leonard is the president and co-founder of LeonardPatel. His practice is focused primarily on intellectual property matters, including patent and trademark prosecution, drafting opinions, valuation and licensing. Mr. Leonard also counsels small businesses on business issues and strategy, and attempts to connect innovative companies with venture capital. Mr. Leonard has assisted clients with procuring patents in numerous fields, including complex software technologies such as operating systems and modeling software, mobile telecommunications, optics, robotics, jet and rocket engines, electronics and circuit fabrication, materials, medical devices, and machine tools.

Prior to his career as an intellectual property attorney, Mr. Leonard worked as a software engineer and a consultant. Some of the technologies he assisted in developing include a Java-based embedded operating system, client and server-side business applications, databases, and software for mobile devices.



**Ryan Losi**  
**Executive Vice President**  
**PIASCIK**

Ryan Losi is Executive Vice President of PIASCIK and leads the firm's business development efforts. This involves public relations, branding, marketing and advertising, developing and maintaining client relationships, identifying additional opportunities for existing clients (both domestically and internationally) and serving as a technical resource for professionals within the firm. Ryan also, leads the firm's international and real estate tax practices. His knowledge of complex international tax areas and transactions has enabled PIASCIK to serve as a CPA partner to the Commonwealth of Virginia's Economic Development Programs. In addition, his understanding of the unique and complex tax needs of professional athletes has enabled him to achieve a Registered Representative status with the NFL Players Association. Ryan is widely considered as a thought leader on taxation topics such as international business, real estate, manufacturing and healthcare. He has presented at numerous organizations and universities, including U.S. Export-Import Bank, Virginia Conference on World Trade, South Carolina International

Trade Conference, Council for International Tax Executives, Medical Society of Virginia, James Madison University, Virginia State University, Virginia Economic Development Partnership and many others. Ryan has vast domestic and international work experience in the technology and manufacturing sectors after tenures at PricewaterhouseCoopers, as an International Manager in their New York, New York office and at KPMG in the Richmond, Virginia office where he served in both their International and Domestic Tax Practices. While at PwC, Ryan served on a National Team whose focus was to serve the international corporate tax needs of Fortune 100 companies within the technology and aerospace sectors, which included serving technology and manufacturing giants Alcoa, Cisco Systems, Tyco International, Sony USA, Boeing, Siemens USA, Scientific Atlantic, United Technologies, British Aerospace, Smiths Industries, Boehringer Ingelheim, DuPont, Honeywell, Ethyl, and L-3 Communications.

Ryan is a graduate of Virginia Commonwealth University with a Bachelor of Science degree in Accounting with over 16 years of experience. He is a member of the American Institute of Certified Public Accountants and the Virginia Society of Certified Public Accountants. Ryan has served on the boards for the Virginia Biosciences Development Center and the Virginia International Trade Alliance and is currently President and board member for Virginia International Business Council, Treasure for the Society of International Business Fellows, Strategic Advisor Board member for the alliantgroup, and various other organizations throughout the Country. Ryan has also served as an Adjunct Professor for VCU's Executive MBA program teaching international accounting and taxation.



**Ellen Meinhart**  
**International Trade Manager**  
**Virginia Economic Development Partnership**

Ellen has over 25 years of international sales, business development and marketing experience working for IBM, NCR, 2-German manufacturers, the Australian Information Industry Association and other organizations. For the past 5 years, she ran her own outsourced business development company which connected international companies with US clients, business partners and funding. As of Jan 1, 2015 – she is your International Trade Manager. Ellen welcomes the opportunity to assist you leverage Virginia's international trade programs in order to increase your sales. Ellen has an MBA in Marketing and International Business from Wright State University as well as a BS in Marketing from Miami University. She has lived, worked and/or studied in Germany, France, Australia, and Brazil in addition to successfully completing projects involving China, Egypt, Chile, England and Canada. Ellen believes collaboration and mutually beneficial relationships are the keys to client success no matter where in the world you work. 100% client delight is Ellen's chief priority.



**Mukesh Srivastava**  
**Associate Professor**  
**College of Business**  
**University of Mary Washington**

Mukesh Srivastava, Associate Professor in the College of Business, holds a doctorate in business administration from the University of Surrey, U.K., and is a recipient of the prestigious Cambridge Commonwealth Fellowship. He teaches courses on strategic management in information systems and innovation, knowledge management systems, business intelligence, management of emerging technologies, and enterprise resource planning systems. His research is primarily focused on technology management, global outsourcing, strategy and innovation, and eLearning.

Dr. Srivastava is the founder of International Journal of Global Management Studies and the International Journal of Global Management Studies Professional and serves as the editor-in-chief of both journals. The journals are published by the Association of Global Management Studies (AGMS). Dr. Srivastava is the founder of AGMS, which approximate 400 academicians and professional as its members. It serves as a platform for the study of global themes across management. In 2010, the association sponsored its inaugural international conference. The conference is running in its sixth year, and has been held at Said Business School-University of Oxford, University of California-Berkeley, Harvard faculty Club and Las Vegas. In 2010, Dr. Srivastava had his textbook “eLearning Via The Internet: An Empirical Study” published by Pearson Learning Solutions.

Dr. Srivastava spent October 2011 in Tunisia as part of a Fulbright Specialist grant for 2011-12. While in Tunisia, he developed a graduate program in management and information technology for the Tunis Business School at Tunis University. He also serves on the editorial board of many journals, including the Contemporary Management Research journal, International Journal of Ecommerce Studies. In addition, he co-chairs the advisory board of the Shree Satya Institute of Management, a post-graduate degree granting institution in India. His articles on management and information systems have been published in national and international journals. In 2011, his interview was quoted extensively in a special supplement to the Wall Street Journal sponsored by SAP that discusses enterprise resource planning in China. The interview stems from his report, “Chinese Cultural Implications for ERP Implementation” in the Journal of Technology Management and Innovation.



## Success Stories

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GBX Consultants, Inc. is a Service-Disabled Veteran Owned Small Business with offices in the Washington, D.C. metro area and Southern California. A professional services management firm with operations in 50 states, 2 U.S. territories, and 16 countries, GBX has worked with a variety of government organizations including:

- Department of Defense, Office of the Secretary of Defense;
- Department of Defense, Military Health System;
- Department of Health and Human Services, Public Health Service;
- Department of Homeland Security, Immigration and Customs Enforcement;
- Department of Labor, Veterans' Employment and Training Service;
- Department of the Navy, Office of the Secretary of the Navy; and
- Department of Veterans Affairs, Veterans Benefits Administration.

Our dedication to our clients begins with strong strategic planning and operational program assessments that provide independent advice and recommendations for organizational development. We draw from the collective intelligence of our workforce to help our clients formulate and develop action plans to successfully implement those recommendations.

GBX President & CEO Gene Bruseau on their team's Success with Virginia Economic Development Partnership's VALET program:

"The Virginia VALET program has been an incredible source of support. They have provided GBX with the guidance and expertise in international markets; providing business intelligence and consultation in several countries. VALET has assisted GBX with all facets of international business strategic planning - from initial marketing intelligence to in-country support during trade missions. With their help and personal passion, GBX is now positioned to expand operations in Europe and South America. Their in-country consultants are able to arrange meetings with government and private sector decision makers with real-time service and product needs. VALET is fully positioned to provide the tools, coordination and services to facilitate successful business outcomes in international markets."



## Zenith Aviation Flying High With Exports

Zenith Aviation Inc. does business all over the world from its headquarters off Lafayette Boulevard in Fredericksburg.

Exports have played a key role in fueling the impressive growth at Zenith, a privately owned, industry-leading aviation parts supplier to regional airlines and corporate flight departments.

Zenith Aviation buys aviation parts in bulk from flight departments that are upsizing or downsizing their fleets. The company then inventories, sells and ships the parts from its Fredericksburg warehouse.

About two-thirds of Zenith's customers are overseas, said Donald Capwell, the company's vice president of operations. The company ships goods internationally on a daily basis, working with shippers such as UPS, FedEx and DHL.

Capwell encourages businesses getting into exports to hire a consultant, take advantage of the many free resources that are available, build strong relationships with competent and reliable vendors, and not re-invent the wheel.

"More than likely, there are similar companies trying to do what you want to do," he said. "Find out what they are doing, and shorten your learning curve!"



That doesn't mean exporting is easy. Among the challenges Capwell points out are navigating a myriad of federal regulations and getting familiar with diverse international laws.

The challenges are worth the effort, however, Capwell believes. He advises other companies to explore exporting options just as Zenith has done with success.

"The world is shrinking, so I'd definitely encourage all companies to explore international options to increase their sales base," Capwell said.





The Virginia Leaders in Export Trade (VALET) Program was integral to promoting the expansion of A-T Solutions' customer base worldwide.

An internationally recognized leader in counterterrorism, A-T Solutions provides a full spectrum of intelligence, technology, training, and mission support solutions that protect people, infrastructure, and nations from terrorist threats. The company supports more than 200 customers across more than 70 countries, through work with the departments of Defense, Homeland Security, Justice, Energy and State; the intelligence community; allied nations; state and local agencies; and the private sector.

#### *Counterterrorism Mission Success Hinges on Diversification*

“Our goal is help make the world a safer place by thwarting terrorism worldwide. We saw a decline in federal spending on the horizon with end of the wars in Iraq and Afghanistan. Diversification into international markets is elemental to our mission and an essential part of our strategic plan for growth. By expanding our business through exporting, we create jobs at home and overseas, while enabling allies to better train and equip their forces,” says Paul McQuillan, A-T Solutions Chief Marketing Officer.

Realizing the need to and benefit of diversifying by growing the business globally through exporting, the company joined the VALET program, as a member of the 15th class, in 2009.

#### *VALET Experts Facilitate Export Opportunities*

VALET's experienced team of international service professionals assisted A-T Solutions' exporting efforts by providing in-country market research and identifying prospective distributors for the company's counterterrorism training aids, products, software, and training services. VALET resources helped the company develop an international sales plan and overcome the challenges posed by international travel, language barriers, and operations in a foreign country, including navigating the myriad rules and regulations governing export and international trade.

“In all the countries we explored, including Australia, Brazil, Colombia, and India, the VALET team helped us pinpoint markets and partners and provided essential logistical support for our visits. They did a great job setting up meetings and establishing connections with the commercial offices at the U.S. embassies in the countries we visited. They found local brokers/agents that assisted us as well. We are still in negotiations with several of them and continue to actively pursue these opportunities,” says John Connell, A-T Solutions Executive Vice President, Mission Support Division.



# **Presentations**

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# INTERNATIONAL TRADE OVERVIEW

Ellen Meinhart  
International Trade Manager  
[emeinhart@yesvirginia.org](mailto:emeinhart@yesvirginia.org)  
703-268-

VIRGINIA ECONOMIC  
DEVELOPMENT PARTNERSHIP  
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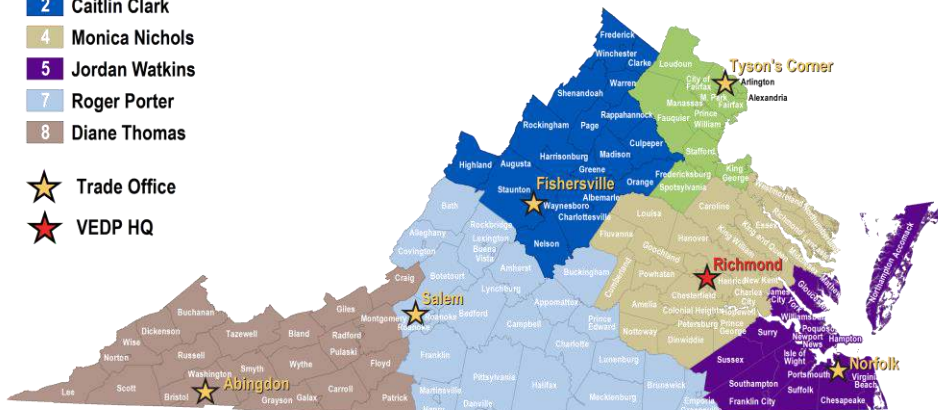


## WHO DOES IT?



- 1 Michael Howley & Ellen Meinhart
- 2 Caitlin Clark
- 4 Monica Nichols
- 5 Jordan Watkins
- 7 Roger Porter
- 8 Diane Thomas

- ★ Trade Office
- ★ VEDP HQ



## MISSION & GOALS



### Mission:

- Increase profitability of VA companies
- Expand Virginia's tax & job base

### Goals:

- Encourage clients to travel
- Increase international sales



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## HOW DO WE INCREASE EXPORT SALES?



- MARKET INTELLIGENCE/RESEARCH
- QUALIFIED, CONTACTED AND CONFIRMED MEETINGS WITH INTERNATIONAL CLIENTS & STRATEGIC BUSINESS PARTNERS
- WRITE & EXECUTE INTERNATIONAL BUSINESS PLANS

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## RESEARCH



### Examples of Research Topics

- What markets should I pursue
- Who is importing my product or service?
- Can you explain the defense offset policy in India?
- How do I find a local partner?
- How do I set up an Interest Charge-Domestic Sales Corporation
- What standards does my product need to meet to be sold in Brazil?
- Will I encounter any import tariffs in South Korea?
- How do I get my frozen goods, currently held at the Mexican border, into Mexico?

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## RESEARCH



### Internal

- Top Markets; Market / Industry Overviews; Competitor Analysis; etc.
- Publications – Fast Facts, other reports
- Free service

### Global Network

- > 75 in-country consultants
- Two free projects per client, per year

### Program Partners

- Freight Forwarders
- Bankers
- Accountants
- Lawyers

## VEDP - International Trade: Trade Mission Schedule 2014-15



TRADE MISSIONS AND TRADE SHOWS JULY 31, 2014 TO JUNE 30, 2015		
COUNTRY OR EVENT	MEETING DATES	REGISTRATION DEADLINE
Canada (East)	September 2 - 5, 2014	June 27, 2014
DEFSEC Atlantic 2014 (Canada)	September 3 - 5, 2014	June 27, 2014
Southern Africa	September 10 - 16, 2014	July 11, 2014
Africa Aerospace and Defense 2014 (South Africa)	September 17 - 21, 2014	July 11, 2014
India	September 15 - 19, 2014	July 18, 2014
ExpoDefensa 2014 (Colombia)	October 29 - 31, 2014	August 29, 2014
Southeast Asia	November 17 - 21, 2014	September 19, 2014
Costa Rica	November 17 - 21, 2014	September 19, 2014
IDEX 2015 (UAE)	February 22 - 26, 2015	December 19, 2014
Middle East	March 1 - 5, 2015	December 19, 2014
Australia	March 9 - 13, 2015	January 9, 2015
Brazil	April 6 - 10, 2015	February 6, 2015
LAAD 2015 (Brazil)	April 14 - 17, 2015	February 6, 2015
Canada (West)	May 11 - 15, 2015	March 13, 2015
Mexico	May 18 - 22, 2015	March 20, 2015

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## INTERNATIONAL TRAVEL



### FY 2014

- 140 companies traveled with VEDP on Trade Missions
- 79 companies traveled on Independent Market Visits

### Countries Traveled:

- United Kingdom, Australia, Germany, Canada, Chile, Argentina, Singapore, Vietnam, Colombia, Poland, Czech Republic, Korea, China, Turkey, Brazil, Saudi Arabia, United Arab Emirates, Qatar, Japan, Israel, Indonesia, Mexico, Costa Rica, Peru, India, Ecuador, Jordan

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## INTERNATIONAL TRAVEL



**92%**

of companies that have traveled with VEDP  
on Trade Missions would participate again

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## VALET PROGRAM



### Virginia Leaders in Export Trade (VALET)

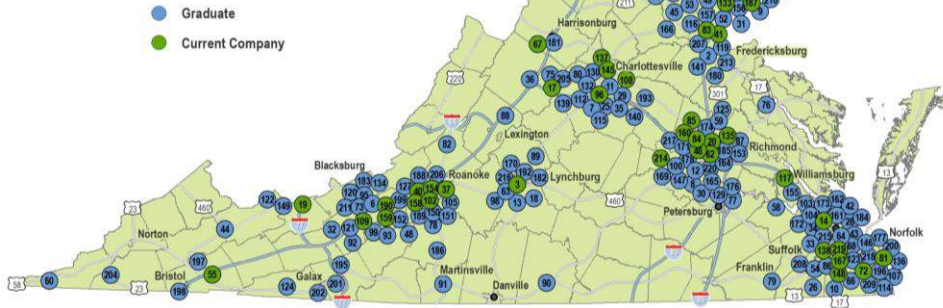
- 50 companies annually accelerate their global marketing efforts through this program
- Companies experience a **57%** increase in international sales over the two year program

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## VALET PROGRAM



### VALET Companies Current and Alumni July 2014



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## VALET PROGRAM



### Eligibility Criteria

- 20 employees
- \$2 million USD in annual sales
- \$20,000 USD annual commitment toward export trade
- Completed international research

### Program Benefits

- \$15,000 toward export related expenses
- 25 program partners offering pro bono services
- Executive training
- International sales plan development
- Educational events
- Customized research

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## VALET SUCCESS



- BODE Technology
  - VALET 2007-2009
  - Starting International Sales - \$100,000
  - Currents International Sales - \$4.9 Million
  - VA staff increased from 85 to 130
  - Started in 3 countries, now sell in 50+ countries

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## “GOING GLOBAL” DEFENSE INITIATIVE



1. Market Research
2. Export Compliance
3. Contract & Proposal Generation
4. Technical Translation & Adaptation
5. Security Cooperations/COCOMS
6. Export Training
7. Online Directory of Virginia Defense Companies

[ExportVirginia.org/defense](http://ExportVirginia.org/defense)

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## VIRGINIA CONFERENCE ON WORLD TRADE



November 4 – 5, 2015 – Sheraton Norfolk Waterside  
[www.VACWT.org](http://www.VACWT.org)



Virginia Conference  
 on World Trade



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## CLIENT TESTIMONIALS



TRAX INTERNATIONAL, Lynchburg

*“The VEDP has been instrumental in researching and connecting us with key people and opportunities in Brazil.”*

VITECH CORPORATION, Blacksburg

*“We now have a formal, professional export compliance process, and a resource to contract when needed. In the aerospace industry export compliance is incredibly important.”*

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# Agenda

- History of U.S. Export Tax Incentives
- Introduction to the IC-DISC
- Tests to Qualify as an IC-DISC
- Qualified Export Property
- Determining the IC-DISC Benefit
- Maximizing the Benefit
- Structuring the IC-DISC
- Ideal Candidates and Q&A

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## History of U.S. Export Tax Incentives

- Western Hemisphere Trade Corporation (WHTC) 1954 – 1961
- Export Trade Corporation (ETC) 1961 – 1971
- Domestic International Sales Corporation (DISC) 1971 – 1984
- Foreign Sales Corporation (FSC) 1984 – 2001
- Extraterritorial Income Exclusion (ETI) 2000– 2006
- **Interest Charge - Domestic International Sales Corporation (IC-DISC) 1984 - ?**

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## History of U.S. Export Tax Incentives

- Domestic International Sales Corporation (“DISC”) regime was enacted by Congress to stimulate exports in the early 1970s.
- U.S. exporters were allowed to avoid U.S. tax on a portion of their profits by allocating those profits to a DISC subsidiary.
- Our trading partners complained to the provisional organization of General Agreement on Tariffs and Trade (“GATT”) that our DISC regime was an “illegal export subsidy”.
- Under pressure from GATT, Congress passed the Foreign Sales Corporation (“FSC”) regime, which replaced the DISC regime. However, the DISC regime was not completely repealed, only altered to become the IC-DISC regime.

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## History of U.S. Export Tax Incentives

- The IC-DISC regime was unattractive compared to the FSC regime because it provided only a temporary tax benefit (i.e., deferral) versus a permanent tax benefit under the FSC regime.
- The FSC regime responded to controversy to subsidy claims by our trading partners by requiring a U.S. exporter to establish a foreign corporation and that foreign corporation had to perform certain foreign economic processes and activities to obtain the U.S. tax benefit.
- From our trading partners’ perspective the FSCs themselves were conduits having no substantial economic substance nor purpose other than to provide a subsidy to U.S. exporters

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## History of U.S. Export Tax Incentives

- Our trading partners further complained to the World Trade Organization (“WTO”) that our FSC regime was again an “illegal export subsidy”.
- Under pressure from the WTO, Congress passed the Extraterritorial Income (“ETI”) regime, which replaced the FSC regime. The FSC regime repealed.
- The ETI regime did not require a separate legal entity and merely excluded a portion of an exporter’s income from taxation.
- Again, our trading partners complained to the WTO and under pressure Congress repealed the ETI regime replacing the ETI Regime with the Domestic Production Deduction (DPD) regime in 2004. The DPD regime does not have any exporting requirements.

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## History of U.S. Export Tax Incentives

### IC-DISC – The Sole Survivor

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## Introduction to the IC-DISC

- IC-DISC must be a U.S. corporation with only a single class of stock.
- IC-DISC stock must have minimum par value of \$2,500 at all times.
- The U.S. corporation must elect to be an IC-DISC by filing special forms with the IRS within a certain timeframe.
- Must maintain separate books and records and a bank account.
- Must obtain an F.E.I.N and file an annual return.
- Two types of IC-DISCs – Commission (most common) and buy-sell.

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## Introduction to the IC-DISC

- The IC-DISC is not subject to U.S. corporate income tax, thus it does not pay tax on its income (usually in the form of a commission) that it receives from the related U.S. exporter/manufacturer who also claims a tax deductible commission expense.
- When the IC-DISC pays a dividend to its owners they will pay tax on that income at a maximum 20% tax rate. The owners are in effect converting a portion of their business income from exports, which is taxed at a maximum 39.6% tax rate to qualified dividend income taxed to an individual at a maximum 20% tax rate.

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## Introduction to the IC-DISC

- The reduction in tax rate is 19.6% if the exporter/manufacturer operates as a flow-through entity (e.g., S corporation, partnership, or LLC).
- The reduction in tax rate is 28% if the exporter/manufacturer operates as C corporation.
- Special rules for U.S. shareholder(s) if export revenue exceeds \$10 million .
- The IC-DISC was originally designed to allow the U.S. exporter to “borrow” funds (i.e., tax dollars) from Treasury at a very low rate of interest .
- Not until 2003 did the IC-DISC become such a powerful tool providing permanent tax savings (President Bush).
- Not until 2013 did the permanent tax savings itself become permanent (i.e., no sunset provisions) under President Obama.

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## Introduction to the IC-DISC

- If the IC-DISC does not distribute all of its earnings in the form of a dividend the U.S. shareholders must pay an interest charge on their IC-DISC related deferred tax liability. This equals the difference between the shareholder's tax for the taxable year computed first with, and then without, the accumulated IC-DISC income of the shareholder that has been deferred. (Currently less than 1%)
- If IC-DISC distributes cash representing all of its income there is no interest charge.
- As a practical matter, because of the preferential tax rate of either 0%, 15% or 20% on qualified dividends to individuals, most shareholders should not look to defer and take the dividend as soon as possible.

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## Tests to Qualify as an IC-DISC

- Domestic corporation
- Qualified export receipts test – 95% of gross receipts of the IC-DISC must be qualified export receipts and/or commissions thereon (e.g., sales of export property, rents for the use of export property outside the U.S., service related to export sales, engineering or architectural services for foreign construction projects).
- Qualified export asset tests – 95% of the assets of the IC-DISC must be qualified export assets (e.g., foreign accounts receivable, temporary investments, export property, producer loans).

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## Qualified Export Property

- Manufacturing Requirement – The export property must be manufactured, produced, grown, or extracted in the U.S. by a person other than the IC-DISC; and
- Destination Requirement – The export property must be held for sale, lease or rental for direct use, consumption, or disposition outside the U.S.; and
- 50% Maximum Foreign Content Requirement – The export property must have a maximum of 50% foreign content.

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## Determining the IC-DISC Benefit

- The Code and Regulations provide numerous “safe harbor” pricing methods for determining the “arms length” commission income that the IC-DISC receives from the related exporter for the sale of export property.
- The most commonly used pricing methods allowed by the Code and Regulations are the greater of:
  - 4% of the qualified export receipts, or
  - 50% of the combined taxable income (IC-DISC and related exporter).

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## Determining the IC-DISC Benefit

### Sample Calculation

Qualified Export Receipts	\$5,000,000
Less: Cost of Goods Sold	<u>(3,000,000)</u>
Gross Margin	2,000,000
Less: Selling, General and Adm. Expenses	<u>(1,000,000)</u>
Net Export Profits	1,000,000
IC-DISC Commission (Greater of 50% of Export Profits or 4% of Export Receipts)	<u>          x.50</u> 500,000
U.S. Tax Benefit (Difference between Exporter's Tax Rate of 39.6% and 20%)	<u>          x.196</u> <b>\$98,000</b>

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## Maximizing the Benefit

- IC-DISC rules allow the use of various pricing methods in addition to the two previously mentioned to achieve the greatest IC-DISC commission income possible.
- The IC-DISC rules provide multiple different pricing methods that can be used to optimize the IC-DISC commission income.
- The rules permit the exporter to compute the IC-DISC commission on an aggregate basis, product family, product line, product, recognized industry or trade usage or even by transaction.
- Generally, the margins of the exporter will dictate which pricing methods are used.

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## Maximizing the Benefit

- The exporter can optimize the IC-DISC commission by ignoring loss sales.
- The exporter can optimize the IC-DISC commission by choosing to group certainly high margin sales from certain low margin sales.
- The exporter can also apply special “marginal costing” rules to optimize the IC-DISC commission. These rules allow the exporter to only include “direct costs” such as direct material and direct labor and exclude fixed costs and S,G, &A for purposes of optimizing the IC-DISC commission.
- The rules also allow the exporter to substitute its combined domestic and export profitability if higher to help bolster its export profitability for purposes of optimizing the IC-DISC commission.

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## Maximizing the Benefit

- The exporter has considerable flexibility in how it allocates and apportions expenses (i.e., S,G, &A).
- Some expenses if not directly related to export sales (e.g., expenses of a domestic sales force) can be excluded entirely for purposes of optimizing the IC-DISC commission.
- There are special rules for certain expenses such as interest, research and development, state and local taxes, charitable contributions, and a few others. There can be tremendous flexibility and opportunity in allocating or apportioning these expenses away from export sales for purposes of optimizing the IC-DISC commission.

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## Structuring the IC-DISC

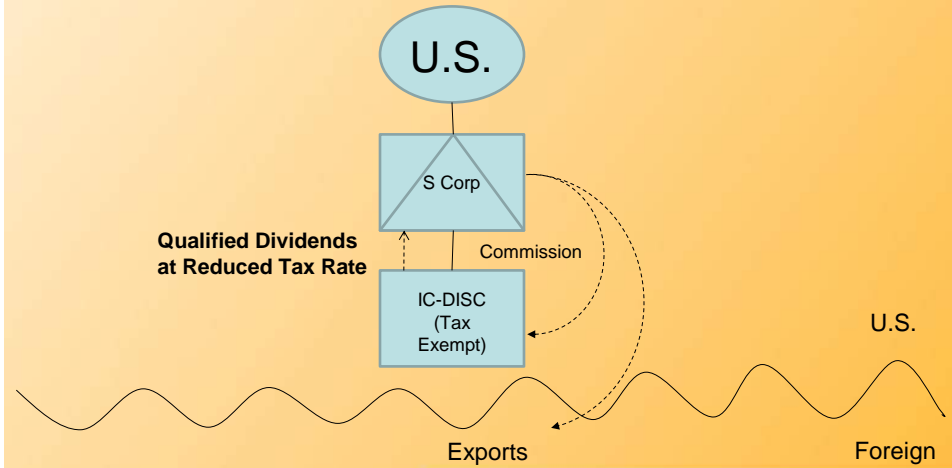
- There are numerous ways to utilize the IC-DISC within an exporter's legal organization. The following slides are a few of the most common forms.
- An expert international attorney and international CPA should be consulted when exploring and utilizing these strategies.

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An IC-DISC as a subsidiary of an S corporation or another flow-through entity

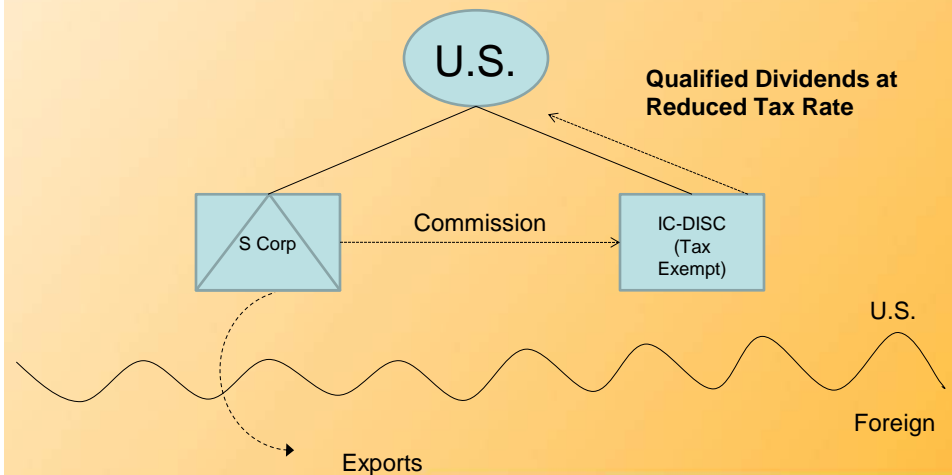


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An IC-DISC as a brother-sister entity of an S corporation or another flow-through entity

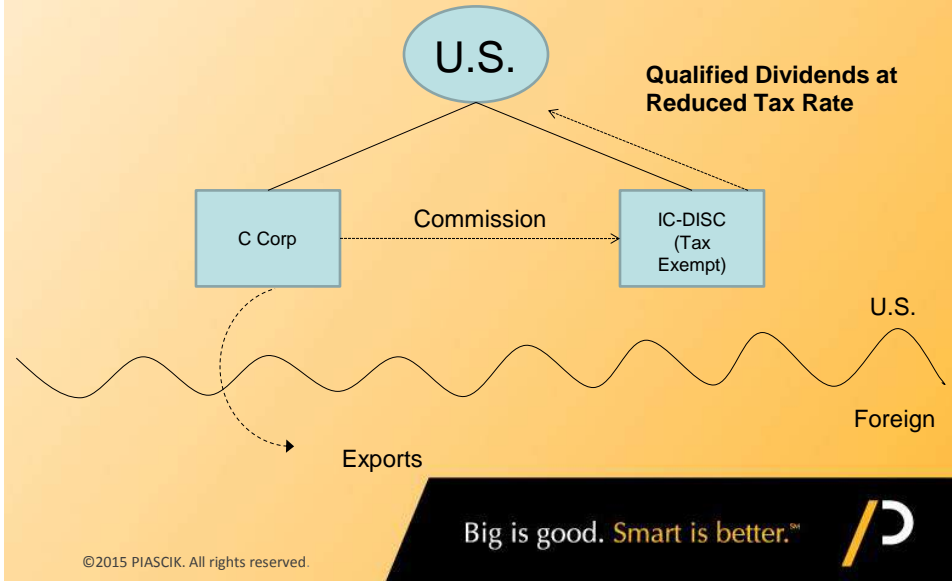


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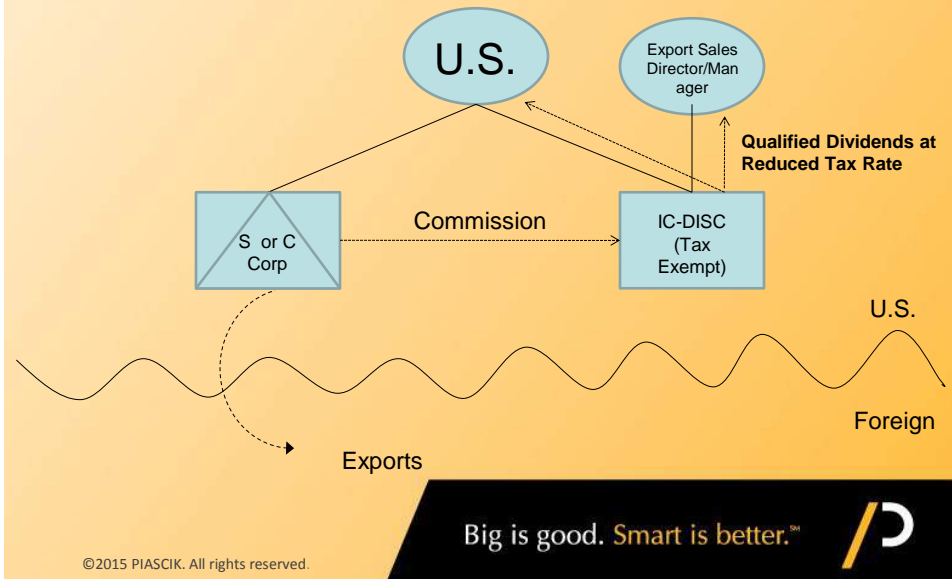
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An IC-DISC **should only** be a brother-sister entity of a C corporation

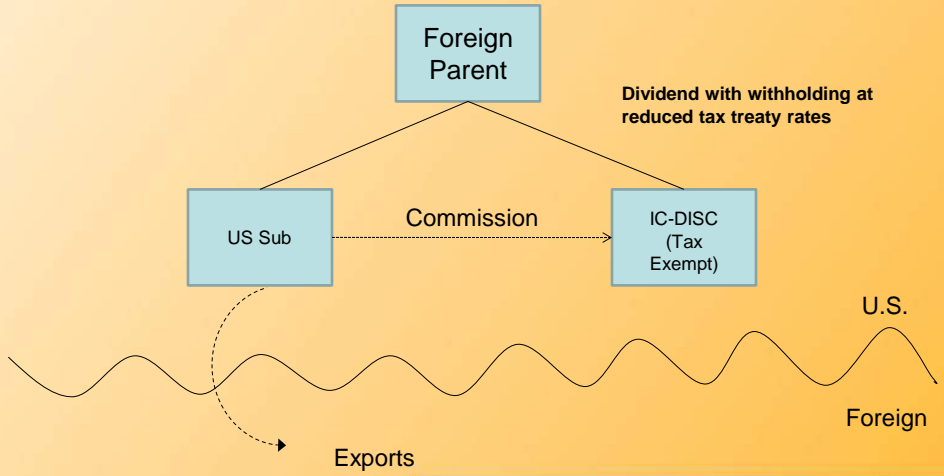


An IC-DISC shares can be provided to a key employee who is not an owner of the operating company





A foreign parent can take advantage of reduced treaty rates if the foreign parent is in a country with a recently ratified treaty with the U.S.

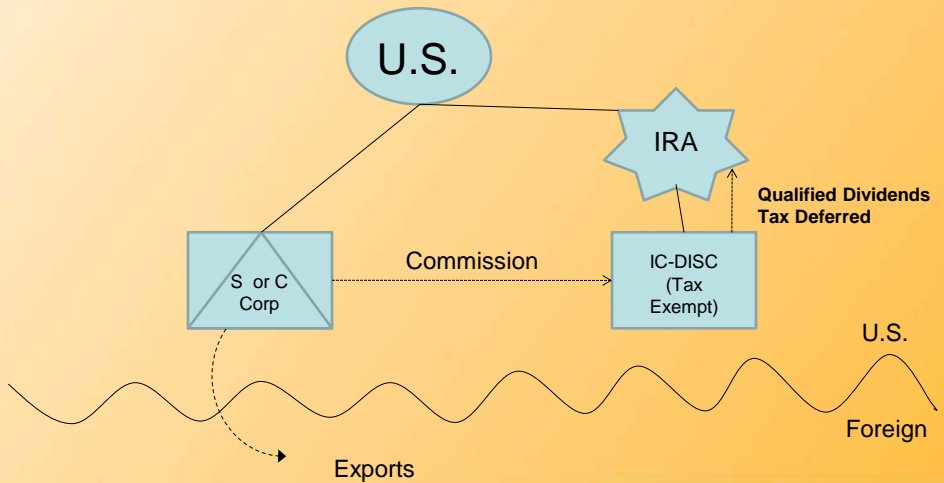


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An IC-DISC shares could be owned by a Traditional IRA

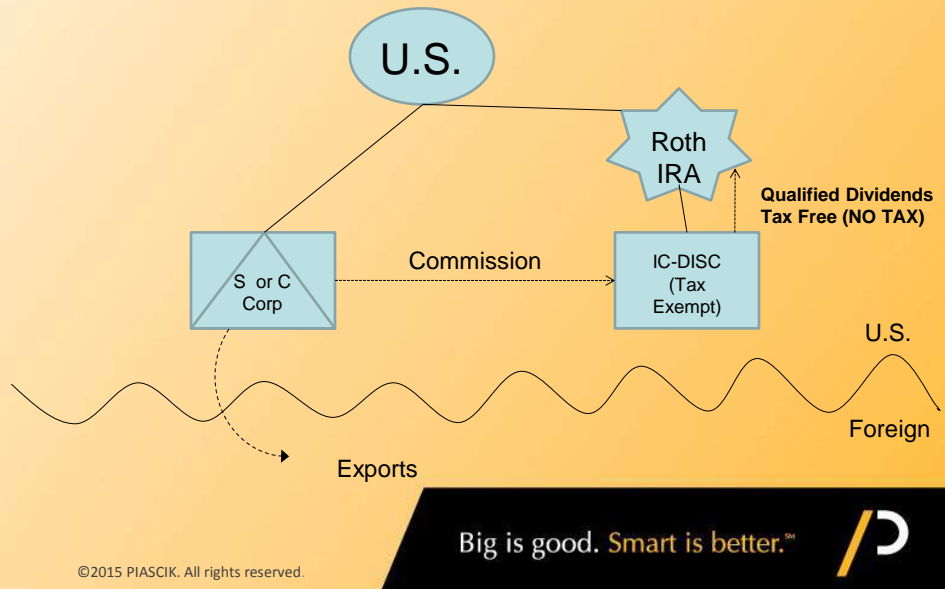


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Although a listed transaction, a Roth IRA's ownership of an IC-DISC shares can significantly reduce tax



## Ideal Candidates

- Closely held exporter
- U.S. produced goods (software may qualify) and or certain services
- Annual export sales of at least \$1 Million;  
**AND/OR**
- Net taxable income derived from export sales of at least \$200,000.