

TAX CREDITS AND INCENTIVES

Berdon's Manufacturing, Distribution and Retail Practice is built around a team of experts who study the industry, building a knowledge base that results in innovative solutions for our clients. We convert information into insight, enabling us to identify tax savings opportunities and deliver timely business advice.

We help determine which tax programs will provide the most benefits by working with companies to assess their eligibility and providing them with the expertise and support needed to take advantage of a variety of federal and state tax incentives, including:

RESEARCH & DEVELOPMENT (R&D) CREDITS

The R&D Tax Credit was established under the Economic Recovery Tax Act of 1981 to encourage innovation and provide an incentive for businesses to make advancements that drive overall productivity. By providing permanent benefits to drive down effective tax rates and generate cash flow, R&D credits have been one of the most valuable credits leveraged by manufacturing and distribution companies.

Federal and state incentives are available to companies in a variety of segments within the industry, including:

- Aerospace & Defense
- Automotive
- Biotech & Pharmaceuticals
- Chemicals
- Electronics and Software
- Food & Beverage
- Heavy Equipment
- Machining
- Medical Device
- Metals
- Plastics
- Tool & Die Casting

Companies within these segments that devote time and resources to developing new or improved products or manufacturing processes may be eligible to benefit from the credit. Qualifying activities include concept development; design; engineering; software development; experimenting with new materials; designing tools, molds and fixtures; and prototyping and testing of products and manufacturing processes.

While the computation of the credit can be complex, the potential for R&D tax credits can be substantial. Berdon has compiled a team of professionals to perform an initial assessment in order to determine if a company qualifies for the credit. Additionally, our team provides the resources, capabilities and knowledge to assist companies in meeting the reporting requirements to ensure an impressive return, allowing companies to invest in further research and development or other business growth activities.

THE INTEREST CHARGE DOMESTIC INTERNATIONAL SALES CORPORATION (IC-DISC)

IC-DISC offers significant Federal income tax savings for making or distributing U.S. products for export. Originally created to promote export sales by allowing companies to defer income, IC-DISC now provides significant and permanent tax savings for manufacturers, producers, resellers, and exporters of goods that are produced in the U.S. with an ultimate destination outside the U.S.

IC-DISC benefits are available to qualified producers or distributors that are either directly involved in exporting, or selling products to distributors or wholesalers who resell for use outside of the U.S.

In order to qualify as an IC-DISC, a company must also:

- Be incorporated in one of the 50 states or in the District of Columbia
- File an election with and receive approval from the IRS to be treated as an IC-DISC for federal tax purposes
- Maintain its own bank account
- Maintain a minimum capitalization of \$2,500 of authorized and issued shares
- Have only a single class of stock
- Meet an annual qualified export receipts test and a qualified export assets test

If qualified, the operating company:

- Pays a tax deductible commission to the IC-DISC equal to at least the greater of 4% of the operating company's gross receipts from qualified exports or 50% of the operating company's net income from qualified exports
- Expenses the commission and reduces ordinary income taxed at a maximum federal income tax rate of 39.6%

As a result, the IC-DISC:

- Is federally tax exempt and is not taxed on the commission income it receives from the operating company (Note: state and local tax exemptions vary and need to be verified)
- Pays dividends to its shareholders, which are taxed at up to a 23.8% federal tax rate (20% capital gains tax and 3.8% net investment income tax).

Our team of professionals has the extensive experience necessary to analyze manufacturing, distribution and/or retail companies in order to determine if an IC-DISC is an option that could provide significant tax breaks. The team's technical expertise combined with Berdon's industry knowledge enables us to properly assess a company's eligibility, develop the appropriate solution, and execute on helping them capitalize on the tax savings opportunities an IC-DISC can offer.