



STATE OF DELAWARE
DEPARTMENT OF FINANCE
DIVISION OF REVENUE
DELAWARE STATE BUILDING
820 N. FRENCH STREET
WILMINGTON, DELAWARE 19801

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DIVISION OF REVENUE
TAX RULING 84-3

December 27, 1984

SUBJECT: Domestic International Sales Corporations

Under the Tax Reform Act of 1984 (P.L. 98-369) for Federal tax purposes all elections to be taxed as a Domestic International Sales Corporation (DISC) are terminated (revoked) as of December 31, 1984, and the DISC provisions are replaced by Foreign Sales Corporation (FSC) provisions. Unlike a DISC, (which is a U.S. corporation) a FSC must be a foreign corporation, and if it satisfies certain foreign management and economic processes tests, a portion of the FSC's income attributable to export profits, but not export investment income, will be exempt from Federal tax.

The 1984 Act also provides that for Federal tax purposes all corporations which qualify as a DISC on December 31, 1984, will treat their accumulated DISC income as "previously taxed income." Hence, the accumulated tax deferred income of existing DISC's will be deemed previously taxed income and therefore exempt from tax upon distribution to shareholders after January 1, 1985.

Section 1902 (b) (10), Title 30, Delaware Code, exempts from Delaware corporation income tax a corporation which qualifies for and elects to be treated as a DISC under Federal law, and also provides that shareholders of the DISC shall be subject to tax in the same manner as is provided for Federal tax purposes. Accordingly, since the accumulated tax deferred income of a DISC is deemed previously taxed income and excluded from Federal taxable income, such deferred income will also be exempt from Delaware taxation to the same extent as it is exempt for Federal purposes.

Robert W. Chastant
Director of Revenue

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