Wininsert, Inc. Confidential

Company Overview

Wininsert

Innovative Alloy Solutions™
Our Company – Our Legacy

• Leading Global Provider of Innovative Alloy Solutions

• Founded in 1977 – Family Owned & Managed
  • Headquarters - Marinette, Wisconsin
  • Stephen A. Dickinson Materials Research Center – Marinette, Wisconsin
  • European Sales Office – Gerolsbach, Germany

• 200+ employees worldwide

• Certifications
  • ISO14001:2015
  • IATF16949:2016
  • Green Masters Program
Product Portfolio

Valve Seat Rings
Bushings
Spacers
Butterfly/Flap Valves
Linkage Arms
Grinding Knives
Debarking Knives
Poppet Valves
Pump Seals
Sealing Rings
Element Bearings
Shafts/Levers
Wear Washers
Winsert's Customers Around The World
International sales contribute between 45-50% of Winert’s Net Sales

The Interest Charge Domestic International Sales Corporation (IC-DISC) was established in 2006, when the Extra-Territorial Income exclusion was repealed.

IC-DISC earns income from both commissions earned on export sales and the factoring of export accounts receivable, the dividends are re-invested back into Winert, Inc or used for shareholders individual tax payments.

The use of the transaction by transaction (TxT) approach greatly increases the IC-DISC permanent tax savings over the simplified approach on the commissions.
Winser IC-DISC

2006-2012  2013-2017^{(1)}

• Ordinary Federal Tax Rate  35.0%  39.6%
• IC-DISC Qualified Dividend Income Tax Rate  15.0%  23.8%
• Tax Benefit  \((\text{in millions})^{(2)}\)  $2,825  $2,240

^{(1)} 2013 “Obamacare” tax consideration of 3.8% on investment income
^{(2)} Federal Tax only, as there is no benefit on Wisconsin taxes
Mid 2017 – A few Unknowns on Taxes

- Individual income tax rate lowering with a maximum of 30 some percent.
- Trump’s plan may provide options for how S Corporation income is taxed, could be like a C Corp.
- Corporate tax rate reduced to 15% - (20%) with small business max rate of 15% - (25%).
- Maintaining current dividend & capital gain rates of 10%, 15% and 20% or may be 50% of ordinary rate.
- Needed to watch the “Border Tax Adjustment” debate. If it would have passed, IC-DISC benefit will likely go away.
Tax Cuts and Jobs Act (H.R. 1 – TCJA)

- Signed by the President on December 22, 2017.
- Individual income tax rate lowering with a maximum of 37%.
- Qualified Business Income – 20% reduction for pass through income.
- Corporate tax rate reduced to 21%.
- No Change for the IC-DISC.
- Elimination of some incentives – Domestic Production Activities Deduction.
Pass-Through Taxation

• **Previous Tax System for S Corp Manufacturers**
  - Business income passed-through and taxed at ordinary rates- Top marginal rate 39.6% >$470,700
  - DPAD – deduction of 9% of manufacturing income
  - Net marginal rate is approximately 36%

• **TCJA Law**
  - Business income passed-through and taxed at ordinary rates- Top marginal rate 37.0% >$600,000
  - No DPAD deduction
  - Deduction of 20% for pass-through income
  - Net marginal rate is approximately 30%
Pass-Through Taxation Effect

• For 2017, 45% of Wininsert’s Income was attributable to the IC-DISC

• Previous Tax System for S Corp Manufacturers
  • Domestic Income 55% taxed at 36.0%
  • IC-DISC 45% taxed at 23.8%
  • Net combined rate is approximately 30%

• TCJA Law
  • Domestic Income 55% taxed at 29.6% (37% x 80%)
  • IC-DISC 45% taxed at 23.8%
  • Net combined rate is approximately 27%
How about a C Corp?

C Corporation tax rate
- Previously, C Corporations pay a 34%-35% rate on US income.
- TCJA - Flat rate of 21% going forward

Shareholder implications for C Corporation
Income within a privately held C Corporation can be retained for growth or can accrue to shareholders in the following ways:
- Dividends paid to shareholders (taxed at 23.8% federal rate – no change)
- Compensation – which is taxed at highest individual rate, and subject to reasonable compensation limits
- Other – rents, royalties, etc.

Net effect if all C Corp profits benefited the shareholders via dividends.
- If all profits of a C Corp are distributed, the net tax rate is effectively 40%
  - 100% of corporate income is taxed at 21%
  - Remaining 80% profits taxed at 23.8% = 19%

With IC-DISC
- If 55% of profits of a C Corp which are distributed and 45% is IC-DSIC, the net tax rate is effectively 32.6%
  - 55% of corporate income is taxed at 21%
  - Remaining 44% profits is taxed at 23.8%
  - 45% which is IC-DISC income is taxed at 23.8%
Items to Think about

• At what rate differential is the IC-DISC still beneficial?
  • Administrative costs of a IC-DISC - $20,000 to $25,000 annually
  • Factoring Discount Rate Economic Study Update - $10,000 to $15,000 every three years

• If the IC-DISC shares are held in a ROTH IRA, are the earnings from the investment tax free when withdrawn?

Please contact your local tax advisor on how this may relate to your own company.