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## Managing Export Documents: The Hidden Risks and Opportunities



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Document management takes on a new meaning when small and midsize manufacturers enter the export market. Manufacturers already contend with a high volume of documents to process and manage – whether it's invoices, regulatory forms or purchase orders. The document-management game can become even more complex when manufacturers decide to export.

Common documents, such as customer

agreements, may require additional or different language to comply with laws in the country of destination.

“Every country or jurisdiction has unique regulations that can cover and impact sometimes surprising aspects of a contract,” says Francis Dion, CEO of Xpertdoc, a document management and customer communications technology provider.

For example, in France it’s illegal to demand terms longer than “end-of-month plus 45 days,” Dion says. Also, in Quebec, Canada, a vendor can likely get a client to accept a contract or proposal written in English, but manufacturers might also need to include a statement in French or a court might deem the contract null and unenforceable, Dion explains.

In some instances, small and midsize enterprises (SMEs) might be missing opportunities to take advantage of tax incentives if they don’t properly document or track their export sales.

### **Hidden Tax Advantages**

Are SMEs leaving money on the table? Documentation of export sales and costs could put manufacturers in a better position to leverage tax incentives, says Jim Curtis, senior manager, international tax services for Hall & Company CPAs and Consultants Inc.

“With smaller manufacturers that are individually held, having a good handle on export-related sales and costs, we look at that and see if there are opportunities for things like an IC-DISC,” Curtis says.

Many smaller manufacturers don’t take advantage of IC-DISC, which stands for Interest Charge-Domestic International Sales Corporation, Curtis says. Many SMEs simply are not aware they can form an IC-DISC or lack the accounting records to take advantage of the program, Curtis says.

IC-DISC offers a federal income tax incentive designed for SMEs that export products containing at least 50% U.S. content based on total fair market value, according to the Export-Import Bank of the United States. In an IC-DISC, some or all of the taxable income related to export sales can be taxed as a qualified dividend at 23.8% as opposed to the standard 39.6% for ordinary income.

IC-DISC also applies to indirect exporters, such as a manufacturer that builds an industrial machine in New Jersey and sells it to a distributor in another state. If the distributor exports the product, both the manufacturer and distributor qualify for the IC-DISC incentive, according to the EXIM Bank.

“It’s heavily underutilized,” Curtis says. “I think about five or six years ago I read that there were only about 6,000 DISCs in the country and there could be double or triple that depending on the level of small businesses or manufacturers that are exporting abroad.”

Curtis was referring to a 2011 Forbes article that estimated 6,000 companies are using IC-DISCs. Also, in November, an article in the Journal of Accountancy stated that nearly 12,000 manufacturing exporters were leaving \$1 billion in annual tax savings on the table by not forming an IC-DISC.

Many SMEs are likely missing out on the IC-DISC incentives because they lack the accounting expertise they need to properly track export sales and costs. Curtis recommends that manufacturers be more proactive when it comes to reviewing their financial statements and taxes on a quarterly basis.

“Doing that kind of planning helps uncover these opportunities as well as ensuring that the documentation that they’re doing is in good order,” he says. “I think having your accountants more involved in the process and not just once a year but throughout the year definitely helps.”

## **Consider Digitized Workflows**

Documentation reviews and due diligence can help SMEs also thwart potential legal or compliance issues related to exports. Manufacturers should start thinking about their export documents at the beginning of the sales process with targeted, relevant and localized sales material, Dion says.

“Buyers in foreign markets need to feel that you truly understand them and the specific conditions of their business,” he says. “Generic collaterals, whether they are untranslated or poorly translated, make a wrong impression when it counts most.”

Another important consideration is technology. Manufacturers should ask themselves whether their ERP system allows them to capture the names of their products in all languages, Dion says.

“For example, when addressing a Chinese client in the cover page of a proposal, should you use their “westernized” names or the one they use when doing business locally?” he says. “What about terms and conditions? If local agents are allowed to edit them directly, how does your sales manager from head office know they are complying with company policies and approved terms for this geography?”

Document-management platforms, or enterprise content management (ECM) solutions, can help manufacturers automate their workflows for more efficient and accurate document management. ECM solutions can help manufacturers gain the visibility they need to ensure they’re in compliance with various global standards and regulations, says Sean Morris, director of sales at Digitech Systems, an ECM solutions provider.

ECM solutions help manufacturers build a package of documentation associated with their exports – including all of the purchasing agreements, parts numbers and other relevant information – so they can ensure they’re in compliance while minimizing process steps and increasing efficiency, Morris says. For example, without automated workflows, a change to an engineering spec might require several documentation steps to remain in compliance with various export regulations, which could be overlooked in a paper-based environment.

“There’s a lot that used to be involved in what was a very paper-manual-based process for a lot manufacturers, and the trend we’re seeing is they’re moving more towards digital,” he says.

