

**SCHEDULE P
(Form 1120-FSC)**

Transfer Price or Commission

OMB No. 1545-0935

Department of the Treasury
Internal Revenue Service

Attach a separate Schedule P to Form 1120-FSC for each transaction, group of transactions, or aggregate of transactions to which the section 925(a)(1) and (2) rules are applied.

1993

For amount reported on line _____, Schedule _____, Form 1120-FSC.

| | |
|--|---|
| Name as shown on Form 1120-FSC | Employer identification number |
| A Product or product line (see instructions) | B Type of transaction (see instructions): |
| C Principle business activity code (if applicable) | (1) Single transaction <input type="checkbox"/> (2) Group of transactions <input type="checkbox"/> (3) Aggregate of transactions <input type="checkbox"/> |

Part I FSC Profit

Section A—Combined Taxable Income

Section A-1.—Full Costing (or 100% of full costing combined taxable income limitation)

| | | | |
|---|-----------|-----------|--|
| 1 Foreign trading gross receipts from transaction between FSC (or related supplier) and third party | | 1 | |
| 2 Costs and expenses allocable to foreign trading gross receipts from transaction: | | | |
| a Cost of goods sold attributable to property if sold, or depreciation attributable to property if leased | 2a | | |
| b Related supplier's expenses allocable to foreign trading gross receipts from transaction | 2b | | |
| c FSC's expenses allocable to foreign trading gross receipts from transaction | 2c | | |
| d Add lines 2a through 2c. | | 2d | |
| 3 Combined taxable income. Subtract line 2d from line 1. If the result is zero or less, enter -0- | | 3 | |

Section A-2.—Marginal Costing

| | | | |
|---|-----------|-----------|---|
| 4 Foreign trading gross receipts from resale by FSC (or sale by related supplier) to third party | | 4 | |
| 5 Costs and expenses allocable to foreign trading gross receipts from sale: | | | |
| a Cost of direct material attributable to property sold | 5a | | |
| b Cost of direct labor attributable to property sold | 5b | | |
| c Add lines 5a and 5b | | 5c | |
| 6 Subtract line 5c from line 4. If the result is zero or less, skip lines 7 through 11 and enter -0- on line 12. | | 6 | |
| 7 Gross receipts of related supplier and FSC (or controlled group) from all foreign and domestic sales of the product or product line | | 7 | |
| 8 Costs and expenses of related supplier and FSC (or controlled group) allocable to gross income from such sales: | | | |
| a Cost of goods sold attributable to property sold | 8a | | |
| b Expenses allocable to gross income from such sales | 8b | | |
| c Add lines 8a and 8b | | 8c | |
| 9 Subtract line 8c from line 7. If the result is zero or less, skip lines 10 and 11 and enter -0- on line 12 | | 9 | |
| 10 Overall profit percentage. Divide line 9 by line 7. Check if the controlled group optional method is used <input type="checkbox"/> | | 10 | % |
| 11 Overall profit percentage limitation. Multiply line 4 by line 10 | | 11 | |
| 12 Combined taxable income. Enter the smaller of line 6 or line 11 | | 12 | |

Section B—23% of Combined Taxable Income Method

| | | | |
|--|--|-----------|--|
| 13 Enter amount from line 3 or line 12 | | 13 | |
| 14 Multiply line 13 by 23% | | 14 | |
| 15 FSC profit. Enter amount from line 14. If marginal costing is used, enter the smaller of line 3 or line 14 | | 15 | |

Section C—1.83% of Foreign Trading Gross Receipts Method

| | | | |
|---|--|-----------|--|
| 16 Enter amount from line 1 | | 16 | |
| 17 Multiply line 16 by 1.83% | | 17 | |
| 18 Multiply line 3 or line 12 (as elected by related supplier) by 46% | | 18 | |
| 19 FSC profit. Enter the smallest of line 3, line 17, or line 18 | | 19 | |

Part II Transfer Price From Related Supplier to FSC

| | | | |
|--|------------|------------|--|
| 20 Enter amount from line 1 or line 4 | | 20 | |
| 21a FSC profit. Enter amount from line 15 or line 19, whichever applies | 21a | | |
| b FSC expenses allocable to foreign trading gross receipts from transaction | 21b | | |
| c Add lines 21a and 21b | | 21c | |
| 22 Transfer price from related supplier to FSC. Subtract line 21c from line 20 (see instructions) | | 22 | |

Part III FSC Commission From Related Supplier

| | | | |
|--|--|-----------|--|
| 23 FSC profit. Enter amount from line 15 or line 19, whichever applies | | 23 | |
| 24 FSC expenses allocable to foreign trading gross receipts from transaction. | | 24 | |
| 25 FSC commission from related supplier. Add lines 23 and 24 (see instructions) | | 25 | |

Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Schedule.—Complete Schedule P for any FSC that for the tax year had foreign trading gross receipts (discussed below) (1) from the resale of export property or services supplied by a related party or (2) in its capacity as commission agent for a related supplier in the disposition of any export property or services. Attach Schedule P to Form 1120-FSC. For these purposes, a related party or a related supplier is an entity that is owned or controlled directly or indirectly by the same interests as the FSC under section 482 and Regulations section 1.482-1(a).

Use this schedule to determine the allowable transfer price to be charged to the FSC (or the commission to be paid to the FSC) under the administrative pricing rules (described below). The result is used to properly allocate the foreign trading gross receipts from the sale of export property or services between the FSC and its related supplier.

A. Product or product line.—A product or product line will be accepted if it conforms to either of the following standards: (1) a recognized industry or trade usage or (2) the two-digit major groups (or any inferior classifications or combinations of inferior classifications within a major group) of the Standard Industrial Classifications.

B. Type of transaction.—Generally, the transaction determinations are made on a transaction-by-transaction basis and the FSC is generally required to complete a separate Schedule P for each transaction. However, Temporary Regulations section 1.925(a)-1T(c)(8) provides that the FSC's related supplier may make an annual election (checkbox (2)) to make some or all of these determinations on the basis of groups consisting of product or product lines. If a group basis is elected, it will apply to all transactions for that product or product line completed during the tax year. The transaction-by-transaction method is to be used for all transactions for which the related supplier did not make an election to group. **Note:** *Sale transactions may not be grouped with lease transactions.*

Checkbox (3): Instead of attaching a separate Schedule P to report each determination made on a transaction-by-transaction basis or on the basis of a group of transactions, the FSC may, on a single Schedule P, aggregate transactions or groups of transactions according to the administrative pricing method (discussed below) used. The FSC and its related supplier must maintain supporting schedules for each transaction or group of transactions reported under this aggregate method.

Foreign Trading Gross Receipts.—See section 924 and **Special Tax Treatment of a FSC** on page 2 of the Instructions for Form 1120-FSC for definitions of the amounts to be entered on lines 1 and 4 of this schedule.

Do not include on lines 1 and 4: (1) certain excluded receipts (defined in section 924(f)); (2) investment income (defined in section 927(c)); or (3) carrying charges (defined in section 927(d)(1)).

Note: *A FSC (other than a small FSC) is treated as having foreign trading gross receipts for the tax year only if it meets*

certain foreign management requirements and foreign economic process requirements. See sections 924(b) through (e) and pages 2 and 3 of the Instructions for Form 1120-FSC.

Administrative Pricing Rules.—Any or all of the methods described below may be used in the same tax year of the FSC for separate transactions (or separate groups of transactions):

• **Full costing combined taxable income.**—If the FSC is the principal on the sale of export property, the full costing combined taxable income of the FSC and its related supplier is the excess of the FSC's foreign trading gross receipts from the sale over the total costs of the FSC and related supplier. The total costs include the related supplier's cost of goods sold and the supplier's and the FSC's noninventoriable costs (see Regulations section 1.471-11(c)(2)(iii)) that relate to the foreign trading gross receipts. See Temporary Regulations section 1.925(a)-1T(c)(6)(iii) for special rules regarding gross receipts and total costs. Interest or carrying charges are not foreign trading gross receipts.

Include on line 2b an appropriate apportionment of deductions that are not definitely allocable, such as interest expense and stewardship expenses. See Temporary Regulations sections 1.861-11T(f) and 1.861-14T(f) for details as to the appropriate apportionment.

• **Marginal costing.**—The related supplier may elect to use the marginal costing rules discussed below to figure its and the FSC's combined taxable income provided the FSC is treated as seeking to establish or maintain a foreign market (defined in Temporary Regulations section 1.925(b)-1T(c)(1)) for sales of export property (defined in Temporary Regulations section 1.927(a)-1T) and the sales produce foreign trading gross receipts (discussed earlier).

Under marginal costing, only direct costs of producing a particular item, product, or product line are taken into account for purposes of figuring the combined taxable income of the FSC and its related supplier. The costs to be taken into account are the related supplier's direct material and labor costs (defined in Regulations section 1.471-11(b)(2)(i)).

The combined taxable income of the FSC and its related supplier may not exceed the overall profit percentage (line 10) multiplied by the FSC's foreign trading gross receipts (line 4) if the FSC is the principal on the sale (or the related supplier's gross receipts if the FSC is a commission agent) from the sale of export property.

See Temporary Regulations section 1.925(b)-1T for additional information regarding the application of the marginal costing rules (including a discussion of no-loss rules that apply to marginal costing, the restrictions against grouping a product in more than one grouping, and the controlled group optional method referred to on line 10).

See Temporary Regulations sections 1.925(a)-1T and 1.925(b)-1T for additional information on all pricing methods.

• **23% of combined taxable income method.**—Under this method, the related supplier may determine an allowable transfer price to be charged to the FSC (or an allowable commission to be paid to the FSC) that permits the FSC to produce a profit on

the transaction that does not exceed 23% of the combined taxable income of the FSC and the related supplier attributable to the foreign trading gross receipts from the sale.

• **1.83% of foreign trading gross receipts method.**—Under this method, the related supplier may determine an allowable transfer price to be charged to the FSC (or an allowable commission to be paid to the FSC) that permits the FSC to produce a profit on the transaction that does not exceed 1.83% of the foreign trading gross receipts of the FSC. The profit may not exceed twice the profit determined under either the 23% of combined taxable income method or the marginal costing method (described above) as elected by the related supplier.

Section 482 method.—If the 23% and 1.83% methods do not apply to a sale or if the related supplier does not choose to use them, the transfer price for a sale by the related supplier to the FSC is determined on the basis of the sales price actually charged but subject to the rules provided by section 482 (and its regulations) and by Temporary Regulations section 1.925(a)-1T(a)(3)(ii). **Do not complete Schedule P if the section 482 method is used.**

Arm's-length pricing with unrelated supplier.—If the transaction is with an unrelated supplier, the FSC's profit will be determined based on the arm's-length price. **Do not complete Schedule P if this method is used.**

Incomplete transactions.—Under the 23% and 1.83% methods, if the FSC does not sell export property purchased from the related supplier by the end of either its tax year or the related supplier's tax year in which the property was transferred, the transfer price of the export property is the related supplier's cost of goods sold for the property. See Temporary Regulations section 1.925(a)-1T(c)(5)(C) for rules regarding the transfer price for the subsequent tax year during which the export property is resold by the FSC. **Do not complete Schedule P for incomplete transactions.**

No-loss rules: (1) If there is a loss on line 3 or line 12, the FSC may not earn a profit under either the 23% or 1.83% methods. Under the 1.83% method, the FSC's profit reported on line 19 may not exceed 100% of the full costing combined taxable income reported on line 3. The related supplier may in all situations set a transfer price or rental payment or pay a commission in an amount that will allow the FSC to recover an amount not in excess of its costs, if any, even if to do so would create, or increase, a loss for the related supplier.

(2) If the FSC recognizes income while the related supplier recognizes a loss on a sale transaction under the section 482 method, neither the 23% method nor the 1.83% method may be used by the FSC and related supplier (or by a FSC in the same controlled group and the related supplier) for any other sale transaction, or group of sale transactions, during the tax year that falls within the same three-digit Standard Industrial Classification as the subject sale transaction.

Reporting Amounts From Parts II and III on Form 1120-FSC.—If the transfer price on line 22 or the FSC commission on line 25 is included on more than one line of Form 1120-FSC, attach an explanation showing the portion of the total applied to each line.

