SCHEDULE P (Form 1120-FSC)

Transfer Price or Commission

OMB No. 1545-0935

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.

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	tment of the Treasury al Revenue Service	For amount reported on line	, Schedule		, Form 1120	-FSC.			
Name	e as shown on Form 1120	-	· ·			r identificati	on number		
A Product or product line (see instructions)						B Type of transaction (see instructions):			
					1 Tra	ansaction-by	-transaction .		
C Pri	nciple business activity co	de (if applicable)				oup of transa			
						3 Aggregate of transactions			
Pa	rt I FSC Profi	t							
Sec	tion A—Combine	d Taxable Income							
Full	Costing Combined Ta	xable Income							
1	-	receipts from transaction between FSC (o	r related supplier) and th	nird nar	tv	1			
2	Costs and expenses allocable to foreign trading gross receipts from transaction:					· ·			
a		utable to property if sold, or depreciation attributa		2a					
b	-	enses allocable to foreign trading gross rece		2b					
c		able to foreign trading gross receipts from		2c					
d	Add lines 2a through			LI		2d			
3	5							1	
Mar	ginal Costing							1	
4	5	receipts from resale by ESC (or sale by re	lated supplier) to third n	artv		4			
5									
a	•	attributable to property sold		5a					
b		ttributable to property sold		5b					
c	Add lines 5a and 5b.			LI		5c			
6	-			 12		. 6			
7									
'	or product line					7			
8	•	of related supplier and FSC (or controlled		• •					
Ŭ	gross income from su		group, anocable to						
а	-	tributable to property sold		8a					
b	-	gross income from such sales		8b					
c	Add lines 8a and 8b.	-				8c			
9	Subtract line 8c from line 7. If zero or less, skip lines 10 and 11 and enter -0- on line 12					9			
10						10		%	
11									
12									
Sec	tion B—23% of C	combined Taxable Income Metho	od						
13	Enter amount from lin	e 3 or line 12				. 13			
14	4 Multiply line 13 by 23%								
15									
Sec	tion C-1.83% of	Foreign Trading Gross Receipts	Method						
16	Enter amount from lin	e1				. 16			
17	Multiply line 16 by 1.8	33%				. 17			
18	Multiply line 3 or line	12 (as elected by related supplier) by 46%				. 18			
19		smallest of line 3, line 17, or line 18 .				. 19			
Pa	rt II Transfer F	Price From Related Supplier to F	SC						
20	Enter amount from lin	e 1 or line 4				. 20			
21a	FSC profit. Enter amo	ount from line 15 or line 19, whichever appl	ies	21a					
b	216								
с	c Add lines 21a and 21b								
22	Transfer price from	related supplier to FSC. Subtract line 21c		ctions)		. 22			
Pa	rt III FSC Com	mission From Related Supplier					1		
23	FSC profit. Enter amo	ount from line 15 or line 19, whichever app	ies			. 23		<u> </u>	
24	FSC expenses allocable to foreign trading gross receipts from transaction							<u> </u>	
25	25 FSC commission from related supplier. Add lines 23 and 24 (see instructions)								

Schedule P (Form 1120-FSC) 1994 For Paperwork Reduction Act Notice, see page 1 of the Instructions for Form 1120-FSC. Cat. No. 11537Y

General Instructions

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

Purpose of Schedule

Use Schedule P to figure the allowable transfer price to charge the FSC or the commission to pay to the FSC under the administrative pricing rules discussed below. Use the transfer price or the commission to allocate foreign trading gross receipts from the sale of export property or certain services between the FSC and its related supplier.

Filing the Schedule

File the schedule for a FSC that had foreign trading gross receipts during the tax year from **one** of the following sources.

• The resale of export property or certain services.

• The disposition of export property or services in which the FSC served as commission agent for a related supplier.

Under section 482 and Regulations section 1.482-1(a), a related party or supplier is an entity that is owned or controlled directly or indirectly by the same interests as the FSC.

When Not To File

Do not complete Schedule P if the following situations apply to the FSC.

• The section 482 method of transfer pricing is used. If the 23% and 1.83% methods do not apply to a sale or if the related supplier does not use the methods, the transfer price for a sale by the related supplier to the FSC is figured on the basis of the sales price actually charged but subject to section 482 and its regulations and to Temporary Regulations section 1.925(a)-1T(a)(3)(ii).

• The arm's-length pricing method is used. If the transaction is with an unrelated supplier, the FSC determines its profit based on the arm's-length price.

• Transactions are incomplete at year's end. If export property bought by the FSC from the related supplier during the tax year is unsold by the end of the FSC's tax year or the related supplier's tax year in which the property was transferred, the 23% and 1.83% methods (discussed below) cannot be used. Instead, the transfer price of the property bought by the FSC is the 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 of property resold during the subsequent tax year.

Specific Instructions

Line A—Product or product line

Enter the product or product line that conforms to one of the following standards.

1. The two-digit major groups (or any classifications or combinations within a major group) of the Standard Industrial Classifications, or

2. A recognized industry or trade usage.

Line B—Type of transaction

Check the appropriate box to indicate the type of transaction that applies to Schedule P.

1. Transaction-by-transaction.—The determination may be made on a transaction-by-transaction basis (box **1**). Under this

method, a separate Schedule P must be filed for each transaction.

2. Group of transactions.—The FSC's related supplier may annually elect to group transactions consisting of products or product lines. The election is made by checking box 2, "Group of transactions." If the group basis is elected, it applies to all transactions for that product or product line completed during the tax year. A related supplier that does not elect to group transactions must make determinations using the transactions are not grouped with lease transactions.

3. Aggregate of transactions.—Check box **3** if the FSC wants to combine its transactions or group of transactions on the basis of the administrative pricing rules that the FSC uses. File a single Schedule P if the FSC chooses to aggregate its transactions. Under this method, the FSC and its related supplier must also maintain a supporting schedule for each transaction or group of transactions.

Part I

Section A—Combined Taxable Income

Under the **administrative pricing rules**, the methods discussed below may be used in the same tax year of the FSC for separate transactions (or separate groups of transactions).

Foreign trading gross receipts (FTGRs) are the gross receipts of a FSC (other than a small FSC) that has met certain foreign management and foreign economic process rules. The receipts that are included on lines 1 and 4 must be from the sale, lease, or rental of export property for use outside the United States or for engineering or architectural services for a construction project located outside the United States. For details, see the Instructions for Form 1120-FSC beginning on page 2 and section 924.

Full Costing Combined Taxable Income

If the FSC is the principal in the sale of export property, the full costing combined taxable income (CTI) of the FSC and its related supplier is the excess of the FSC's FTGRs from the sale over the total costs of the FSC and related supplier. These costs include the supplier's cost of goods sold, and the supplier's and the FSC's noninventoriable costs that relate to the FTGRs. See Regulations section 1.471-11(c)(2)(ii). Also see Temporary Regulations section 1.925(a)-1T(c)(6)(iii) for special rules regarding gross receipts and total costs.

Enter on line 2b an 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 on the apportionment.

Marginal Costing

The related supplier may elect to use the marginal costing rules to figure its and the FSC's CTI provided the FSC is treated as seeking to establish or maintain a foreign market for sales of export property and the sales produce FTGRs. See Temporary Regulations sections 1.925(b)-1T(c)(1) and 1.927(a)-1T for information that defines a "foreign market" and "export property."



Under the marginal costing rules, the CTI of the FSC and its related supplier is figured by subtracting from FTGRs the direct material and direct labor costs of producing a particular item, product, or product line. See Regulations section 1.471-11(b)(2)(ii). The CTI also may be limited to the overall profit percentage (line 10) multiplied by the FTGRs of the FSC (line 4).

See Temporary Regulations section 1.925(b)-1T for additional information on the marginal costing rules. Also see section 1.925(a)-1T for information on the transfer pricing rules.

Section B—23% of Combined Taxable Income

Under this method, the related supplier determines an allowable transfer price to charge the FSC (or an allowable commission to pay to the FSC) so that the FSC will profit on the sale. The profit is limited to 23% of the FSCs and the supplier's CTI attributable to the FTGRs from the sale. Also see incomplete transactions under **When Not To File.**

Section C—1.83% of Foreign Trading Gross Receipts

Under this method, the related supplier determines an allowable transfer price to charge the FSC (or an allowable commission to pay to the FSC) so that the FSC will profit on the sale. The profit is limited to 1.83% of the FSC's FTGRs. It is further limited to twice the profit determined under either (1) the 23% of combined taxable income or (2) the marginal costing rules (described above). Also see incomplete transactions under **When Not To File.**

Limit on FSC Income (No-loss Rules)

If there is a loss on line 3 or line 12, the FSC may not earn a profit under either the 23% method or the 1.83% method. Under the 1.83% method, the FSC's profit on line 19 may not exceed the full costing combined taxable income reported on line 3. The related supplier may, however, set a transfer price or rental payment or pay a commission in an amount that will enable the FSC to recover its costs, if any, even if the result is a loss for the related supplier.

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

Part II

Line 22.—If the transfer price on line 22 from the related supplier to the FSC is included on more than one line on Form 1120-FSC, attach to this schedule an explanation showing the portion of the total that is applied to each line.

Part III

Line 25.—If the FSC commission on line 25 from the related supplier is included on more than one line on Form 1120-FSC, attach to this schedule an explanation showing the portion of the total that is applied to each line.