Form **1120-FSC**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return of a Foreign Sales Corporation

(Please Type or Print)

For calendar year 1986 or other tax year beginning _____, 1986 and ending _____, 198___

OMB No. 1545-0935

1986

A Date of FSC or Small FSC election	Name	**D** Business code number (See page 11 of Instructions)
B Check type of election made: ☐ FSC ☐ Small FSC	Number and street	**E** **Employer identification number**
C Country or U.S. Possession of Incorporation (see instructions)	City or town, state, ZIP code, or country	**F** Date incorporated

G Enter total assets from line 14, column (d), Schedule L (see specific instructions) . . . . . ▶ $ (Dollars) (Cents)

H Complete the following for the shareholder (individual, corporation, partnership, trust, or estate) who at the beginning of the FSC tax year was the principal shareholder. If two or more shareholders owned equal amounts of stock, enter the information for the shareholder that has the same tax year as the tax year of the corporation.

(1) Name		**(2)** **Identifying number**
(3) Address		**(4)** Total assets (corporations only) $
(5) Percentage of voting stock owned	**(6)** Tax year ends (month)	**(7)** Foreign owner ☐ Yes ☐ No

I Check the appropriate box(es) to indicate the pricing rule(s) that was used in determining the taxable income on transactions resulting in foreign trading gross receipts:

(1) ☐ 1.83% of gross receipts **(2)** ☐ 23% of combined taxable income **(3)** ☐ Section 482 method

Tax

1 Total tax from Schedule J, line 8 . . . . . **1**

Schedule A Cost of Goods Sold and/or Operations Relating to Foreign Trading Gross Receipts (See Instructions.)

		(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Inventory at the beginning of the year	1		
2 Purchases	2		
3 Cost of labor	3		
4 Other costs (attach schedule)	4		
5 Total (add lines 1 through 4)	5		
6 Inventory at the end of the year	6		
7 Cost of goods sold and/or operations—Line 5 less line 6. (Enter here and on line 7 of Schedule B. Small FSC, see instructions.)	7		

8 a Check all methods used for valuing closing inventory:

- ☐ *(i)* Cost
- ☐ *(ii)* Lower of cost or market as described in Regulations section 1.471-4 (see instructions)
- ☐ *(iii)* Writedown of "subnormal" goods as described in Regulations section 1.471-2(c) (see instructions)
- ☐ *(iv)* Other (Specify method used and attach explanation) ▶

b Check if the LIFO inventory method was adopted this tax year for any goods (If checked, attach Form 970.) ☐

c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO | 8c |

d Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Additional Information Required

Check the appropriate box in answering the following questions.

	Yes	No
J Highest number of shareholders in the corporation at any time during the tax year ▶		
K Do you maintain an office outside the U.S. in a "designated" country or U.S. possession in which a complete set of books and records (including invoices) for the corporation is maintained?		
L Do you have at least one non-U.S. resident on your board of directors?		
M During this tax year, did you maintain any part of your accounting tax records on a computerized system?		
N Foreign management tests (These questions do not apply to Small FSCs):		
(1) Did all formally convened meetings of the board of directors of the corporation and all formally convened meetings of the shareholders of the corporation take place outside the United States?		
(2) Did the corporation maintain its principal bank account in a country which satisfies the exchange of information requirements of section 927(e)(3) or in a U.S. possession as defined in section 927(d)(5) at all times during the tax year from which all dividends, legal and accounting fees, salaries of officers, and salaries or fees of members of the board of directors were disbursed?		
O Refer to page 11 of the instructions and state the main: Business activity ▶ _____ Product or service ▶ _____		
P Did you have any preferred stock issued and outstanding at any time during the tax year?		
Q Were you at any time during the tax year engaged in a trade or business in the U.S.?		
R Are you a foreign personal holding company or a personal holding company? (See instructions.)		

Continued on page 4.

Schedule B Taxable Income

PART I—Income Attributable to Foreign Trade Income

Type of Receipt (see instructions)	(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Sale, exchange, or other disposition of export property. (Include only 50% of military property sales. Include the other 50% on line 12 below.)		
2 Lease or rental of export property for use outside the U.S.		
3 Services related and subsidiary to:		
a Sale, exchange, or other disposition of export property. (Include only 50% of services relating to the sale or other disposition of military property. Include the other 50% on line 12 below.)		
b Lease or rental of export property		
4 Engineering or architectural services for construction projects outside the U.S.		
5 Managerial services for an unrelated FSC or IC-DISC. (See instructions for determination of qualifying amount.)		
6 Total Foreign Trading Gross Receipts:		
a All FSCs—Add lines 1 through 5. (FSCs that are not small FSCs, skip lines 6b through 6h and go to line 7. Small FSCs, complete lines 6b through 6h to determine their foreign trading gross receipts.)		
b Small FSC limitation (section 924(b)(2)(B)) $5,000,000		
c Controlled group member's share of line 6b (see instructions)		
d Enter smaller of (a) number of days in tax year divided by 365 or (b) 1 (one)		
e Proration of limitation—Line 6b or line 6c (whichever applies) times line 6d		
f Enter total of columns (a) and (b), line 6a (If commission income is included in line 6a, see special computation rule in line 6f instruction.)		
g Small FSC foreign trading gross receipts: Enter smaller of line 6e or 6f. **Note:** *If line 6f exceeds line 6e, enter the excess on line 3 of Schedule F. See line 6h instruction if commission income is involved.*		
h Allocate the amount from line 6g to columns (a) and (b) but do not enter in either column more than that shown for the column on line 6a above (see instructions)		
7 Cost of Goods Sold (Schedule A) (Small FSCs, enter only that portion of cost of goods sold that is attributable to the receipts on line 6h above.) (see Schedule A instructions)		
8 Foreign Trade Income—Line 6a or 6h (whichever applies) less line 7		
9 a Exemption percentage from line 3d, Schedule E		
b Exemption percentage from line 2d, Schedule E		
10 Exempt foreign trade income—Multiply line 8 by lines 9a and 9b		
11 Nonexempt foreign trade income—Line 8 less line 10		
12 Enter 50% of total receipts attributable to the sale, exchange, or other disposition of military property and related services reduced by cost of goods sold and other expenses relating to the receipts (see Schedule A instructions)		
13 Add lines 11 and 12		
14 Allowable deductions from line 18, Schedule G		
15 Net income attributable to nonexempt foreign trade income—Line 13 less line 14		

PART II—Total Taxable Income

16 Taxable income attributable to foreign trade income—Enter total of columns (a) and (b), line 15, reduced by any nontaxable income included in column (b). (See instructions.)	
17 Taxable income from line 15, Schedule F	
18 Taxable income or (loss) before net operating loss deduction and special deductions— Add lines 16 and 17	
19 Less: a Net operating loss deduction (see instructions—attach schedule)	
b Special deductions—(see instructions—attach schedule)	
c Add lines 19a and 19b.	
20 Taxable income or (loss)—Line 18 less line 19c (Enter here and see instructions for Schedule J for figuring the tax on this income.	

Additional Information (continued from page 2).

S Foreign Economic Process Requirements (these requirements do not apply to small FSCs):

Check the box or boxes below to indicate that the FSC (or any person acting under contract with the FSC) met the requirements of section 924(d) for all transactions relating to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

(1) ☐ The FSC (or any person acting under contract with the FSC) met the 50% test of section 924(d)(1) for transactions relating to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

(2) ☐ The FSC (or any person acting under contract with the FSC) met the alternative 85% test of section 924(d)(2) for transactions relating to foreign trading gross receipts reported on lines 1 through 5 of Schedule B.

If the section 924(d)(1) or (d)(2) requirements are not met for any transaction(s), attach a separate schedule showing the income and expenses relating to the transaction(s). Report the income as nonforeign trade income on line 11 of Schedule F. Enter related expenses on line 14 of Schedule F.

Schedule E Percentages (expressed as decimals to 5 places) To Be Used in Figuring Exempt Foreign Trade Income—Sections 923(a)(2) and (3) and 291(a)(4)

Note: *If all shareholders are C corporations, enter .30000 on line 2d and .65217 on line 3d and skip all other lines.*
If all shareholders are other than C corporations, enter .32000 on line 2d and .69565 on line 3d and skip all other lines.

1 Percentage (express as decimal to 5 places) of voting stock owned by shareholders that are C corporations	**1**	
2 Exemption for foreign trade income determined without regard to administrative pricing rules:		
a Difference between section 923(a)(2) and section 291(a)(4) percentage	**2a**	.02000
b Section 923(a)(2) percentage	**2b**	.32000
c Line 2a times line 1	**2c**	
d Exemption percentage—Line 2b less line 2c. (Enter here and on line 9b, Schedule B; and line 16b, Schedule G.)	**2d**	
3 Exemption percentage for foreign trade income determined under administrative pricing rules:		
a Difference between section 923(a)(3) fraction and section 291(a)(4) fraction (16/23 – 15/23 = 1/23) expressed as a decimal	**3a**	.04348
b Section 923(a)(3) fraction (16/23) expressed as a decimal	**3b**	.69565
c Line 3a times line 1	**3c**	
d Exemption percentage—Line 3b less line 3c. (Enter here and in line 9a, Schedule B; and line 16a, Schedule G.)	**3d**	

Schedule F Nonforeign Trade Income

1 International boycott income (see instructions)	**1**	
2 Illegal bribes and other payments (see instructions)	**2**	
3 Small FSCs—If line 6f of Schedule B exceeds line 6e of Schedule B, enter the excess. (Include the deduction for cost of goods sold attributable to the excess on line 14 below.)	**3**	
4 Interest income	**4**	
5 Dividend income (attach schedule—see instructions)	**5**	
6 Carrying charges	**6**	
7 Royalties	**7**	
8 Other investment income	**8**	
9 Receipts excluded under section 924(f) on basis of use, subsidized receipts and receipts from related parties	**9**	
10 Income from excluded property under sections 927(a)(2) and (3)	**10**	
11 Income from transactions that did not qualify as foreign trade income because the foreign economic process test of section 924(d) was not met	**11**	
12 Other income	**12**	
13 Total—Add lines 1 through 12	**13**	
14 Enter deductions allocated or apportioned to above income items (attach schedule—see instructions)	**14**	
15 Taxable income from nonforeign trade income—Line 13 less line 14. (Enter here and on line 17, Schedule B.)	**15**	

Schedule G Deductions Allocated or Apportioned to Foreign Trade Income

		(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Foreign direct costs:			
a Section 924(e)(1) (advertising, etc.)	1a		
b Section 924(e)(2) (processing, etc.)	1b		
c Section 924(e) (3) (transportation, etc.)	1c		
d Section 924(e)(4) (transmittal, etc.)	1d		
e Section 924(e)(5) (assumption of credit risk)	1e		
f Total of lines 1a through line 1e	1f		
Enter all other applicable costs on lines 2 through 14 below. Do not enter a cost on more than one line.			
2 Advertising	2		
3 Interest	3		
4 Depreciation from Form 4562 (less depreciation claimed elsewhere on this return) (attach Form 4562)	4		
5 Salaries and wages	5		
6 Rents	6		
7 Sales commissions	7		
8 Warehousing	8		
9 Freight	9		
10 Compensation of officers	10		
11 Bad debts (see instructions)	11		
12 Pension, profit-sharing, etc., plans (see instructions)	12		
13 Employee benefit programs	13		
14 Other (list): ▶	14		
15 Total (add lines 1f through 14)	15		
16 a Exemption percentage from line 3d, Schedule E	16a		
b Exemption percentage from line 2d, Schedule E	16b		
17 Deductions relating to exempt foreign trade income—Line 15 times line 16a and 16b	17		
18 Total deductions relating to nonexempt foreign trade income—Line 15 less line 17. (Enter here and on line 14, columns (a) and (b), Schedule B.)	18		

Schedule J Tax Computation (See instructions.)

1 Check if you are a member of a controlled group (see section 927(d)(4)) ▶ ☐

2 a If line 1 is checked, see instructions. Enter your portion of each $25,000 taxable income bracket amount:

(i) $_____ (ii) $_____ (iii) $_____ (iv) $_____

b If your tax year includes July 1, 1987, see instructions and enter share of tax bracket amounts:

(i) $_____ (ii) $_____

3 Income tax (see instructions to figure the tax; enter this tax or alternative tax, whichever is less). Check if alternative tax is used ▶ ☐	3	
4 Foreign tax credit (attach Form 1118) (see instructions)	4	
5 Line 3 less line 4	5	
6 Minimum tax (see instructions—attach Form 4626)	6	
7 Personal holding company tax (attach Schedule PH (Form 1120))	7	
8 Total tax—Add lines 5, 6, and 7. Enter here and on line 1, page 1	8	

Schedule L Balance Sheets

ASSETS	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash				
2 a Trade notes, and accounts receivable				
b Commissions receivable				
c Less allowance for bad debts				
3 Inventories				
4 Federal and state government obligations				
5 Other current assets (attach schedule)				
6 Loans to stockholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9 Buildings and other fixed depreciable assets				
a Less accumulated depreciation				
10 Depletable assets				
a Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only)				
a Less accumulated amortization				
13 Other assets (attach schedule)				
14 Total assets				
LIABILITIES AND STOCKHOLDERS' EQUITY				
15 Accounts payable				
16 Mtges., notes, bonds payable in less than 1 year				
17 Transfer prices payable				
18 Other current liabilities (attach schedule)				
19 Loans from stockholders				
20 Mtges., notes, bonds payable in 1 year or more				
21 Other liabilities (attach schedule)				
22 Capital stock				
23 Paid-in or capital surplus				
24 Retained earnings—Appropriated (attach schedule)				
25 Retained earnings—Unappropriated				
26 Less cost of treasury stock		( )		( )
27 Total liabilities and stockholders' equity				

Schedule M-1 Reconciliation of Income per Books With Income per Return

1 Net income on books		7 Income recorded on books this year not included in this return (itemize)	
2 Federal income tax		a Tax-exempt interest $	
3 Excess of capital losses over capital gains		b Exempt foreign trade income $	
4 Income subject to tax not recorded on books this year (itemize)			
5 Expenses recorded on books this year not deducted in this return (itemize)		8 Deductions in this tax return not charged against book income this year (itemize)	
a Depreciation $		a Depreciation $	
b Deductions attributable to exempt foreign trade income $			
6 Total of lines 1 through 5		9 Total of lines 7 and 8	
		10 Taxable income—line 6 less line 9	

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (line 25 above)

1 Balance at beginning of year		5 Distributions: a Cash	
2 Net income on books		b Stock	
3 Other increases (itemize)		c Property	
		6 Other decreases (itemize)	
4 Total of lines 1, 2, and 3		7 Total of lines 5 and 6	
		8 Balance at end of year (line 4 less line 7)	