

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

1988

Department of the Treasury
Internal Revenue Service

For calendar year 1988 or other tax year beginning _____, 1988 and ending _____, 19

A Date of incorporation	Name	D Country or U.S. Possession of incorporation (See instructions.)
B Date of FSC or Small FSC election	Number and street (or P.O. box number if mail is not delivered to street address)	E Employer identification number
C Check type of election made: <input type="checkbox"/> FSC <input type="checkbox"/> Small FSC	City or town, state, ZIP code, or country	F Total assets (See Specific Instructions.) Dollars Cents \$

G Refer to the last page of the instructions and enter the principal:

(1) Business code number ▶ (2) Business activity ▶ (3) Product or service ▶

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 end (month and year)	(7) Service Center where return was (or is to be) filed	(8) Foreign owner? <input type="checkbox"/> Yes <input type="checkbox"/> No

Note: If the FSC is a member of a controlled group of corporations as defined in section 927(d)(4) and the principal shareholder for which information is provided in H(1) through H(8) above is not the common parent of the group, complete H(9) through (15) below for the common parent of the group. (See instructions.)

(9) Name of common parent		(10) Identifying number	(11) Service Center where return was (or is to be) filed
(12) Address			
(13) Percentage of voting stock owned	(14) Tax year end (month and year)	(15) Total assets (consolidated if applicable) \$	

I Enter the amount of tax-exempt interest income received or accrued during the tax year \$

J Administrative Pricing Rules:

(1) Check the appropriate box(es) to indicate the pricing rule(s) used in determining the taxable income on transactions resulting in foreign trading gross receipts:
(a) 1.83% of gross receipts **(b)** 23% of combined taxable income **(c)** Marginal costing if 23% method is used **(d)** Section 482 method

(2) Check here if the FSC and the related supplier(s) have met the payment arrangement requirements of Temporary Regulations section 1.925(a)-1T(b)(2)(ii) and are thereby electing under that Regulations section to have met the requirements for use of the administrative pricing rules.

Computation of Tax Due or Tax Overpayment

1 Total tax (Schedule J)				1
2 Payments:				
a 1987 overpayment credited to 1988	2a			
b 1988 estimated tax payments	2b			
c Less 1988 refund applied for on Form 4466	2c	() d Bal ▶	2d
e Tax deposited with Form 7004				2e
f Credit for Federal tax on fuels (attach Form 4136)				2f
g U.S. income tax paid or withheld at source (attach Form 1042S)				2g
3 Enter any penalty for underpayment of estimated tax—check <input type="checkbox"/> if Form 2220 is attached				3
4 Tax due—If the total of lines 1 and 3 is larger than line 2h, enter amount owed				4
5 Overpayment—If line 2h is larger than the total of lines 1 and 3, enter amount overpaid				5
6 Enter amount of line 5 you want: a Credited to 1989 estimated tax ▶			b Refunded ▶	6

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer _____ Date _____ Title _____

Paid Preparer's Use Only

Preparer's signature ▶ _____ Date _____ Check if self-employed Preparer's social security no. _____
 Firm's name (or yours if self-employed) and address _____ E.I. No. ▶ _____
 ZIP code ▶ _____

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

	(a) Using Administrative Pricing Rules		(b) Not Using Administrative Pricing Rules	
	1	2	3	4
1 Inventory at beginning of year	1			
2 Purchases	2			
3 Cost of labor	3			
4a Additional section 263A costs (see instructions—attach schedule)	4a			
b Other costs (attach schedule)	4b			
5 Total—Add lines 1 through 4b	5			
6 Inventory at 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 FSCs, see instructions.)	7			

8a 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 Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the FSC? Yes No

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

Additional Information Required

	Yes	No
K Was the FSC at any time during the year engaged in a trade or business in the U.S.?		
L Is the FSC a foreign personal holding company or a personal holding company? (See instructions.)		
M During the tax year, did the FSC maintain any part of its accounting/tax records on a computerized system?		
N FSC Qualification Requirements:		
(1) Enter the greatest number of shareholders the FSC had at any time during the tax year _____		
(2) Did the FSC have any preferred stock outstanding at any time during the tax year?		
(3) During the tax year, did the FSC maintain an office, in a "qualifying foreign country" or "U.S. possession" (see instructions), in which a complete set of books and records (including invoices) for the FSC was maintained?		
(4) During the tax year, did the FSC maintain the records required under section 6001 at a location within the U.S.?		
(5) At all times during the tax year, did the FSC have at least one non-U.S. resident on its board of directors?		
(6) At any time during the tax year, was the FSC a member of a controlled group of corporations that included a DISC as a member?		
O Foreign Management Tests. (These requirements do not apply to small FSCs.):		
(1) Did all formally convened meetings of the board of directors and all formally convened meetings of the shareholders take place outside the U.S.?		
(2) Principal bank accounts:		
(a) Were all dividends, legal and accounting fees, salaries of officers, and salaries or fees of members of the board of directors disbursed from bank accounts maintained outside the U.S.? (If so, these accounts are considered to be the FSC's principal bank accounts.)		
(b) At all times during the tax year, did the FSC maintain its principal bank accounts in a "qualifying foreign country" or "U.S. possession" (see instructions)?		
Bank names ▶ _____ Account numbers ▶ _____		
P Foreign Economic Process Requirements. (These requirements do not apply to small FSCs.):		
(1) Check the appropriate box below to make an annual election to group the sales activities described under Regulations section 1.924(d)-1(c) on one of the following bases:		
<input type="checkbox"/> customer grouping <input type="checkbox"/> contract grouping <input type="checkbox"/> product or product line grouping <input type="checkbox"/> product or product line subgroupings		
(2) Check one or both boxes below to indicate how the FSC met the "foreign direct costs" requirement:		
<input type="checkbox"/> The FSC (or any person under contract with the FSC) met the 50% test of section 924(d)(1).		
<input type="checkbox"/> The FSC (or any person under contract with the FSC) met the alternative 85% test of section 924(d)(2). Check to indicate the paragraphs of section 924(e) with respect to which this alternative test was satisfied: (1) <input type="checkbox"/> (2) <input type="checkbox"/> (3) <input type="checkbox"/> (4) <input type="checkbox"/> (5) <input type="checkbox"/>		
(3) Check the appropriate box below to make the annual election described at Regulations section 1.924(d)-1(e) to group foreign direct costs on one of the following bases: <input type="checkbox"/> customer grouping <input type="checkbox"/> contract grouping <input type="checkbox"/> product or product line grouping		
Q Activities relating to disposition of export property:		
(1) Check here if the FSC is electing under Regulations section 1.924(e)-1(e)(1) to bear the economic risk of nonpayment of certain commission contracts <input type="checkbox"/>		
(2) Indicate here which one of the 5 methods listed in that Regulations section describes how the risk is to be borne by the FSC:		

Schedule B Taxable Income (or Loss)

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 1, Schedule F.)
- 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 related to the sale or other disposition of military property. Include the other 50% on line 1, Schedule F.)
 - 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 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 your foreign trading gross receipts.)
 - b Small FSC limitation (section 924(b)(2)(B)) \$5,000,000 00
 - 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 that may be taken into account in determining exempt foreign trade income (enter the smaller of line 6e or 6f)
- Note:** If line 6f exceeds line 6e, enter the excess on line 7 of Schedule F. See line 6h instruction if commission income is involved.
- h Allocate the amount from line 6g to columns (a) and (b)—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
- 9a Exemption percentage from line 3d, Schedule E
- 9b 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 nonexempt foreign trade income from line 6, Schedule F
- 13 Add lines 11 and 12
- 14 Enter deductions from line 18, Schedule G, that are attributable to nonexempt foreign trade income
- 15 Net income attributable to nonexempt foreign trade income—Line 13 less line 14

		(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1			
2			
3			
3a			
3b			
4			
5			
6a			
6b	\$5,000,000 00		
6c			
6d			
6e			
6f			
6g			
7			
8			
9a			
9b			
10			
11			
12			
13			
14			
15			

PART II—Taxable Income (or Loss)

- 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). Attach a schedule that shows the computation of the taxable portion of line 15, column (b)
- 17 Taxable income from line 19, Schedule F
- 18 Taxable income (or loss) before net operating loss deduction and dividends-received deduction—Add lines 16 and 17
- 19 Less: a Net operating loss deduction (see instructions—attach schedule)
- b Dividends-received deduction (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.)

16		
17		
18		
19a		
19b		
19c		
20		

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)(A) 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)(B) 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 on line 9a, Schedule B; and line 16a, Schedule G.)	3d	

Schedule F Nonexempt Foreign Trade Income (Excluded from section 923) and Nonforeign Trade Income
Part I—Nonexempt Foreign Trade Income (excluded from section 923)

	(a) Using Administrative Pricing Rules	(b) Not Using Administrative Pricing Rules
1 Enter 50% of total receipts attributable to the sale, exchange, or other disposition of military property and related services (see instructions for line 1 of Schedule B)		
2 International boycott income (see instructions)		
3 Illegal bribes and other payments (see instructions)		
4 Add lines 1, 2, and 3		
5 Enter cost of goods sold and other expenses related to above income.		
6 Nonexempt foreign trade income—Line 4 less line 5. (Enter here and on line 12, columns (a) and (b), Schedule B.)		

Part II—Nonforeign Trade Income

7 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 18 below.)	7	
8 Interest income	8	
9 Dividend income (attach schedule—see instructions)	9	
10 Carrying charges	10	
11 Royalties	11	
12 Other investment income	12	
13 Receipts excluded under section 924(f) on basis of use, subsidized receipts and receipts from related parties	13	
14 Income from excluded property under sections 927(a)(2) and (3)	14	
15 Income from transactions that did not qualify as foreign trade income because the foreign economic process test of section 924(d) was not met	15	
16 Other income	16	
17 Total—Add lines 7 through 16	17	
18 Enter deductions allocated or apportioned to line 17 income (attach schedule—see instructions)	18	
19 Taxable nonforeign trade income—Line 17 less line 18. (Enter here and on line 17, Schedule B.)	19	

Schedule G Deductions Allocated or Apportioned to Foreign Trade Income (See instructions for limitations on deductions before completing lines 1 through 14.)

	(a) Using Administrative Pricing Rules		(b) Not Using Administrative Pricing Rules	
1 Foreign direct costs:				
a Section 924(e)(1) (advertising and sales promotion)	1a			
b Section 924(e)(2) (certain processing and arranging costs)	1b			
c Section 924(e)(3) (certain transportation costs)	1c			
d Section 924(e)(4) (certain determination and transmittal costs)	1d			
e Section 924(e)(5) (assumption of credit risk)	1e			
f Add lines 1a through 1e	1f			
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			
16a 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 (column (a)) times line 16a and line 15 (column (b)) times line 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))	▶ <input type="checkbox"/>		
2 If line 1 is checked:			
a Enter your portion of the \$50,000 amount and \$25,000 amount (in that order) in each taxable income bracket:	(i) \$ _____ (ii) \$ _____		
b Enter your share of the additional 5% tax (not to exceed \$11,750) ▶	\$ _____		
3 Income tax (see instructions to figure the tax). Check this box if the FSC is a qualified personal service corporation (see instructions) ▶	<input type="checkbox"/>	3	
4 Foreign tax credit (attach Form 1118) (see instructions)		4	
5 Line 3 less line 4		5	
6 Personal holding company tax (attach Schedule PH (Form 1120))		6	
7a Alternative minimum tax (see instructions—attach Form 4626)		7a	
b Environmental tax (see instructions—attach Form 4626)		7b	
8 Total tax—Add lines 5, 6, 7a, and 7b. Enter here and on line 1, page 1		8	

Schedule L Balance Sheets

	Beginning of tax year		End of tax year	
	(a)	(b)	(c)	(d)
Assets				
1 Cash				
2a 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 per 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):		-----	
-----		8 Deductions claimed on this tax return not charged against book income this year (itemize):	
5 Expenses recorded on books this year not deducted in this return (itemize):		a Depreciation \$ _____	
a Depreciation \$ _____		-----	
b Deductions attributable to exempt foreign trade income \$ _____		9 Total of lines 7 and 8	
c Travel and entertainment \$ _____		10 Taxable income—line 6 less line 9	

6 Total of lines 1 through 5			

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 per 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 5a, b, c, and 6	
		8 Balance at end of year (line 4 less line 7)	