

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

1985

Department of the Treasury Internal Revenue Service

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

Name as shown on Form 1120-FSC
This schedule is for a (check one):
(a) Single transaction
(b) Group of transactions
Employer identification number

Part I Computation of FSC Taxable Income

SECTION A.—Computation of Combined Taxable Income

Section A-1.—If full costing is used

1 Gross receipts from transaction between FSC (or related supplier) and third party
2 Costs and expenses allocable to gross income from transaction:
a Cost of goods sold attributable to property if sold or depreciation attributable to property if leased
b Related supplier's expenses allocable to gross income from transaction
c FSC's expenses allocable to gross income from transaction
d Add lines 2a through 2c
3 Combined taxable income—Line 1 less line 2d (if a loss, enter zero)

Section A-2.—If marginal costing is used

4 Gross receipts from resale by FSC (or sale by related supplier) to third party
5 Costs and expenses allocable to gross income from sale:
a Cost of direct material attributable to property sold
b Cost of direct labor attributable to property sold
c Other
d Add lines 5a through 5c
6 Combined taxable income or (loss) before application of overall profit percentage limitation (line 4 less line 5d) (if a loss, enter zero on line 12 and omit lines 7 through 11)
7 Gross receipts of related supplier and FSC (or controlled group) from all foreign and domestic sales of the product or product line
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
b Expenses allocable to gross income from such sales
c Add lines 8a and 8b
9 Total taxable income on full costing basis (line 7 less line 8c) (if a loss, enter zero on line 12 and omit lines 10 and 11)
10 Overall profit percentage (divide line 9 by line 7) (if controlled group optional method is used, check here [])
11 Overall profit percentage limitation (multiply line 4 by line 10)
12 Combined taxable income (enter the smaller of line 6 or line 11)

SECTION B.—23% Combined Taxable Income Method (Must be used if marginal costing is used)

13 Combined taxable income (enter amount from line 3 or line 12) (see instructions)
14 FSC taxable income—Enter 23% of line 13

SECTION C.—1.83% of Foreign Trading Gross Receipts Method (Cannot be used if marginal costing is used)

15 Gross receipts from transaction (enter amount from line 1)
16 Multiply line 15 by 1.83%
17 Multiply line 3 by 46%
18 FSC taxable income—Enter the smaller of line 16 or line 17

Part II Computation of Transfer Price From Related Supplier to FSC

1	Gross receipts from transaction (enter amount from line 1 or line 4, Part I)	
2	Reductions:	
a	FSC taxable income (applicable amount from line 14 or 18, Part I)	
b	FSC expenses allocable to gross income from transaction	
c	Add lines 2a and 2b	
3	Transfer price from related supplier to FSC—Line 1 less line 2c (see instruction F)	

Part III Computation of FSC Commission From Related Supplier

1	FSC taxable income (applicable amount from line 14 or 18, Part I)	
2	FSC expenses allocable to gross income from transaction	
3	FSC commission from related supplier (add lines 1 and 2) (see instruction F)	

Instructions

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

A. Purpose of Schedule.—Complete Schedule P and attach it to Form 1120-FSC to show the computation of FSC taxable income used in computing (1) the transfer price from a related supplier to a FSC or (2) the FSC commission from a related supplier.

Complete a separate Schedule P for each transaction or group of transactions to which the transfer pricing rules of sections 925(a)(1) and (2) are applied.

B. FSC Taxable Income.—Generally, the transfer pricing determinations are to be made on a transaction-by-transaction basis. However, the FSC may make an annual election to determine transfer pricing on the basis of groups consisting of products or product lines. If the "group" basis is elected, then generally all transactions with respect to that product or product line must be "grouped." Each "group" is generally limited to one type of transaction (i.e., sales, leases, or commissions).

The determination as to a product or product line will be accepted if it conforms to any one of the following standards: (1) a recognized industry or trade usage, or (2) the 2-digit major groups (or any subclassifications within a major group) of the Enterprise Standard Industrial Classification. You may choose a product grouping with respect to one product and use the transaction-by-transaction method for another product within the same tax year.

Generally, the computation of taxable income under the transfer pricing rules will not be permitted to the extent that their application would result in a loss to the related supplier involved in the computation.

Each of the following methods may be applied with respect to sales, leases, and services:

• **1.83% of foreign trading gross receipts method (1.83% method).**—Under the 1.83% method, the transfer price charged by the related supplier to the FSC or FSC commission from the related supplier is the amount as a result of which the taxable income derived by the FSC from the transaction will not exceed the smaller of (1) 1.83% of the foreign trading gross receipts of the FSC or (2) two times the taxable income determined under the combined taxable income method (line 3 of Part I).

• **23% of combined taxable income method (23% method).**—Under the 23% method, the transfer price that the related supplier charges the FSC, or commission paid by the related supplier to the FSC, is the amount as a result of which the taxable income derived by the FSC from the sale will not exceed 23% of the combined taxable income of the FSC and the related supplier attributable to the foreign trading gross receipts from such sale.

See instruction C if marginal costing rules apply.

a. "No loss" rule.— Neither the 23% method nor the 1.83% methods may be used if there is a combined loss on a transaction, or group of transactions, of a FSC and its related supplier. However, the FSC is permitted to recover its costs even if to do so creates, or increases, a loss to the related supplier.

b. Incomplete transactions.—For purposes of the 1.83% and 23% methods, if the related supplier sells property to the FSC during the year but the FSC does not resell it during the year, the related supplier's transfer price to the FSC must be the related supplier's cost of goods sold. Do not complete Schedule P for incomplete

transactions. The related supplier's transfer price to the FSC must be recomputed for the year in which the FSC resells the property and the transaction must then be reported on Schedule P for that year.

• **Section 482 method.**—Under the section 482 method, the transfer price the related supplier charged the FSC, or FSC commission from the related supplier, is the amount actually charged but subject to the arm's length standard of section 482. Do not complete Schedule P if the section 482 method is used.

C. Part I, Section A.—Computation of Combined Taxable Income.—Complete Section A-1 unless the marginal costing rules apply.

Complete Section A-2 if the marginal costing rules apply. Marginal costing rules apply only for sales, or commissions on sales, of property and only if the 23% method is used.

Marginal costing cannot be used to determine the combined taxable income for leasing of property or the performance of services.

D. Part I, Section B.—23% Combined Taxable Income Method.—Complete this section if the 1.83% method (Part I, Section C) is not used.

E. Part I, Section C.—1.83% of Foreign Trading Gross Receipts Method.—Do not complete this section if the 23% method (Part I, Section B) is used.

F. Reporting Amounts on Form 1120-FSC.—If (1) the computed transfer price for sales, leases, or services (Part II) or (2) FSC commission (Part III) is entered on more than one line of Form 1120-FSC, attach an explanation indicating the portion of the total that is applied to each line.