

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

**Computation of 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 pricing rules under sections 925(a)(1) and (2) are applied.

**1987**

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
- (c) Aggregate of transactions

Identify product or product line reported on this schedule. (Also, enter the Principal Business Activity code, if used.) (See instruction B.)

Employer identification number

**Part I Computation of FSC Profit**

**SECTION A.—Computation of Combined Taxable Income**

**Section A-1.—If full costing is used (or if 100% of full costing combined taxable income limitation is applicable)**

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

**Section A-2.—If marginal costing is used**

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

<b>13</b>	Combined taxable income (enter amount from line 3 or line 12) (see instructions)	
<b>14</b>	FSC profit—Enter 23% of line 13 (For FSC tax years beginning after 12-31-86, may not exceed line 3 amount.)	

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

<b>15</b>	Gross receipts from transaction (enter amount from line 1)	
<b>16</b>	Multiply line 15 by 1.83%	
<b>17</b>	Multiply line 3 or 12 by 46% (For FSC tax years beginning after 12-31-86, may not exceed line 3 amount.)	
<b>18</b>	FSC profit—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 profit (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 profit (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.)

**Schedule P for 1985 and 1986 Must Be Amended in Certain Cases.**

—If costs other than direct material costs and direct labor costs were used to figure combined taxable income under the marginal costing method (line 5c of the 1985 and 1986 Schedule P), you must file an amended Schedule P for these prior tax years. Regulations section 1.925(b)-1T(b)(1) provides that only direct material and labor costs may be used under the marginal costing method. These regulations are effective for tax years beginning after December 31, 1984.

**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 administrative pricing rules of sections 925(a)(1) and (2) are applied. In the alternative, a separate Schedule P may be completed for each pricing method used. On this separate Schedule P the aggregate of the transactions or group of transactions will be reflected. Supporting schedules for each transaction or group of transactions must, however, be maintained by the FSC and related supplier.

**B. FSC Profit.**—Generally, the determinations of the FSC's profit are to be made on a transaction-by-transaction basis. However, an annual election may be made to determine the FSC's profit on the basis of groups consisting of products or production 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, services, or leases).

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 Principal Business Activity codes that are listed at the end of the Instructions for Form 1120-FSC. 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.

Each of the following methods may be applied:

● **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 commission paid by the related supplier to the FSC, is the amount as a result of which the profit 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 profit determined under the full costing combined taxable income method (line 3 of Part I) or, if the related supplier elects, the marginal costing method (line 12 of Part I).

● **23% of combined taxable income 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 profit 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.

● **Marginal costing.**—Under marginal costing, the combined taxable income of the FSC and the related supplier attributable to the foreign trading gross receipts from the sale of export property may not exceed the smaller of maximum combined taxable income (line 6, Part I) or the overall profit percentage limitation (line 11, Part I). Marginal costing may be used only for sale transactions.

● **"No loss" rule.**—The profit which the FSC may earn on a transaction, or group of transactions, under the administrative pricing rules may not exceed 100% of full costing combined taxable income (line 3, Part I). Accordingly, neither the 23%

method nor the 1.83% method 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.

● **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.

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

**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.

**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.