

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

Department of the Treasury
Internal Revenue Service

Transfer Price or Commission

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.

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

OMB No. 1545-0935

1994

Name as shown on Form 1120-FSC A Product or product line (see instructions) C Principle business activity code (if applicable)	Employer identification number B Type of transaction (see instructions): 1 Transaction-by-transaction <input type="checkbox"/> 2 Group of transactions <input type="checkbox"/> 3 Aggregate of transactions <input type="checkbox"/>
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Part I FSC Profit

Section A—Combined Taxable Income

Full Costing Combined Taxable Income			
1 Foreign trading gross receipts from transaction between FSC (or related supplier) and third party		1	
2 Costs and expenses allocable to foreign trading gross receipts from transaction:			
a Cost of goods sold attributable to property if sold, or depreciation attributable to property if leased	2a		
b Related supplier's expenses allocable to foreign trading gross receipts from transaction	2b		
c FSC's expenses allocable to foreign trading gross receipts from transaction	2c		
d Add lines 2a through 2c.		2d	
3 Combined taxable income. Subtract line 2d from line 1. If zero or less, enter -0-		3	
Marginal Costing			
4 Foreign trading gross receipts from resale by FSC (or sale by related supplier) to third party		4	
5 Costs and expenses allocable to foreign trading gross receipts from sale:			
a Cost of direct material attributable to property sold	5a		
b Cost of direct labor attributable to property sold	5b		
c Add lines 5a and 5b		5c	
6 Subtract line 5c from line 4. If zero or less, skip lines 7 through 11 and enter -0- on line 12		6	
7 Gross receipts of related supplier and FSC (or controlled group) from all foreign and domestic sales of the product or product line		7	
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	8a		
b Expenses allocable to 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 Overall profit percentage. Divide line 9 by line 7. Check if the controlled group optional method is used <input type="checkbox"/>		10	%
11 Overall profit percentage limitation. Multiply line 4 by line 10		11	
12 Combined taxable income. Enter the smaller of line 6 or line 11		12	

Section B—23% of Combined Taxable Income Method

13 Enter amount from line 3 or line 12	13	
14 Multiply line 13 by 23%	14	
15 FSC profit. Enter amount from line 14. If marginal costing is used, enter the smaller of line 3 or line 14	15	

Section C—1.83% of Foreign Trading Gross Receipts Method

16 Enter amount from line 1	16	
17 Multiply line 16 by 1.83%	17	
18 Multiply line 3 or line 12 (as elected by related supplier) by 46%	18	
19 FSC profit. Enter the smallest of line 3, line 17, or line 18	19	

Part II Transfer Price From Related Supplier to FSC

20 Enter amount from line 1 or line 4	20	
21a FSC profit. Enter amount from line 15 or line 19, whichever applies	21a	
b FSC expenses allocable to foreign trading gross receipts from transaction	21b	
c Add lines 21a and 21b		21c
22 Transfer price from related supplier to FSC. Subtract line 21c from line 20 (see instructions)		22

Part III FSC Commission From Related Supplier

23 FSC profit. Enter amount from line 15 or line 19, whichever applies	23	
24 FSC expenses allocable to foreign trading gross receipts from transaction.	24	
25 FSC commission from related supplier. Add lines 23 and 24 (see instructions)		25

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 transaction-by-transaction basis. Sale 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 23% 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.

