

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

Department of the Treasury
Internal Revenue Service

Transfer Price or Commission

Attach a 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

1996

Name as shown on Form 1120-FSC	Employer identification number
A Product or product line (see instructions)	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"/>
C Principle business activity code (if applicable)	

Part I FSC Profit

Section A—Combined Taxable Income

Full Costing			
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 (see instructions)	2b		
c FSC's expenses allocable to foreign trading gross receipts	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 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 sales:			
a Cost of goods sold attributable to property sold	8a		
b Expenses allocable to gross income	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 Multiply line 3 or line 12 (as elected by related supplier) by 23%.		13	
14 FSC profit. Enter amount from line 13. If marginal costing is used, enter the smaller of line 3 or line 13		14	

Section C—1.83% of Foreign Trading Gross Receipts Method

15 Multiply line 1 by 1.83%.		15	
16 Multiply line 3 or line 12 (as elected by related supplier) by 46%		16	
17 FSC profit. Enter the smallest of line 3, line 15, or line 16		17	

Part II Transfer Price From Related Supplier to FSC

18 Enter amount from line 1 or line 4		18	
19a FSC profit. Enter amount from line 14 or line 17	19a		
b FSC expenses allocable to foreign trading gross receipts from transaction	19b		
c Add lines 19a and 19b		19c	
20 Transfer price from related supplier to FSC. Subtract line 19c from line 18 (see instructions)		20	

Part III FSC Commission From Related Supplier

21 FSC profit. Enter amount from line 14 or line 17		21	
22 FSC expenses allocable to foreign trading gross receipts from transaction.		22	
23 FSC commission from related supplier. Add lines 21 and 22 (see instructions)		23	

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 has foreign trading gross receipts during the tax year from either 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 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 in the following situations.

- 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 is 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 bases its profit 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 meets one of the following standards.

1. The two-digit major group or groups (or any classification or combination within a major group or groups) of the Standard Industrial Classification, or
2. A recognized industry or trade use.

Line B—Type of transaction

Check the appropriate box to indicate the sale, lease, or commission transaction that applies to the FSC.

1. **Transaction-by-transaction.**—Check box 1 if the FSC makes pricing determinations based on each transaction. File a Schedule P for each transaction.

2. **Group of transactions.**—The FSC's related supplier may annually elect to group transactions consisting of products or product lines by checking box 2. If the group basis is elected, it applies to all transactions for that product or product line completed during the tax year. If the election is not made, the supplier checks box 1. Do not group sales transactions with lease transactions.

3. **Aggregate of transactions.**—Check box 3 if the FSC combines its transactions or group of transactions using the applicable administrative pricing rules. File one Schedule P if the FSC aggregates its transactions. Under this method, the FSC and its related supplier must 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 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 are included on lines 1 and 4 and 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

Under the full costing rules in which the FSC is the principal in the sale of export property, the combined taxable income of the FSC and its related supplier is the excess of the FSC's foreign trading gross receipts 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 foreign trading gross receipts. 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.

Line 2b.—Enter 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 combined taxable income provided the FSC is treated as seeking to establish or maintain a foreign market for sales of export property and the sales produce foreign trading gross receipts. 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 combined taxable income of the FSC and its related supplier is figured by subtracting from foreign trading gross receipts 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 combined taxable income also may be limited to the overall profit percentage (line 10) multiplied by the foreign trading gross receipts of the FSC (line 4).

See Temporary Regulations section 1.925(b)-1T for more 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 figures 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 FSC's and the supplier's combined taxable income attributable to the foreign trading gross receipts 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 figures 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 foreign trading gross receipts. It is also limited to twice the profit determined under either (a) the 23% of combined taxable income or (b) the 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 17 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 20.—If the transfer price from the related supplier to the FSC is entered on more than one line on Form 1120-FSC, attach an explanation to this schedule indicating the portion of the amount on line 20 that applies to each line.

Part III

Line 23.—If the FSC commission from the related supplier is entered on more than one line on Form 1120-FSC, attach an explanation to this schedule indicating the portion of the amount on line 23 that applies to each line.

