

Department of the Treasury Internal Revenue Service

Attach a separate schedule for each transaction or group of transactions to which the inter-company pricing rules under section 994(a)(1) and (2) are applied.

For amount reported on line _____, Schedule _____, Form 1120-IC-DISC

Name as shown on Form 1120-IC-DISC

This schedule is for a (check one):

- (a) Single transaction
(b) Group of transactions

Employer identification number

Identify product or product line reported on this schedule (Also, enter the Enterprise Standard Industrial Classification number, if used.) (See instruction B)

Part I Computation of IC-DISC Taxable Income

SECTION A.—Computation of Combined Taxable Income

Section A-1.—If marginal costing is not used

- 1 Gross receipts from transaction between IC-DISC (or related supplier) and third party
2 Less 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) IC-DISC export promotion expenses allocable to gross income from transaction
(d) Other IC-DISC expenses allocable to gross income from transaction
3 Combined taxable income (if a loss, enter zero)

Section A-2.—If marginal costing is used

- 4 Gross receipts from resale by IC-DISC (or sale by related supplier) to third party
5 Less 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) IC-DISC export promotion expenses allocable to gross income from sale that are claimed as such
6 Combined taxable income or (loss) before application of overall profit percentage limitation (subtract line 5 from line 4) (if a loss, enter zero on line 12 and omit lines 7 through 11)
7 Gross receipts of related supplier and IC-DISC (or controlled group) from all foreign and domestic sales of the product or product line
8 Less costs and expenses of related supplier and IC-DISC (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
9 Total taxable income on full costing basis (line 7 less line 8) (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 []—see instruction G)
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.—50-50 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 Enter one-half of line 13
15 Enter 10% of IC-DISC export promotion expenses allocable to gross income from transaction that are claimed as such
16 Total (add line 14 and line 15)
17 IC-DISC taxable income (enter the smaller of line 13 or line 16)

SECTION C.—4% Gross Receipts Method (Cannot be used if marginal costing is used)

- 18 Gross receipts from transaction (enter amount from line 1)
19 Multiply line 18 by 4%
20 10% of IC-DISC export promotion expenses (enter 10% of amount from line 2(c))
21 Total (add line 19 and line 20)
22 Combined taxable income (enter amount from line 3 or amount computed under special rule—if special rule is applied, check here []—see instruction H)
23 IC-DISC taxable income (enter the smaller of line 21 or line 22)

Part II Computation of Transfer Price From Related Supplier to IC-DISC

1	Gross receipts from transaction (enter amount from line 1 or line 4, Part I)		
2	Less reductions:		
	(a) IC-DISC taxable income (not in excess of amount determined in Part I)		
	(b) IC-DISC export promotion expenses allocable to gross income from transaction		
	(c) Other IC-DISC expenses allocable to gross income from transaction		
3	Transfer price from related supplier to IC-DISC (see instruction F)		

Part III Computation of IC-DISC Commission From Related Supplier

1	IC-DISC taxable income (not in excess of amount determined in Part I)		
2	IC-DISC export promotion expenses allocable to gross income from transaction		
3	Other IC-DISC expenses allocable to gross income from transaction		
4	IC-DISC commission from related supplier (add lines 1 through 3) (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-IC-DISC to show the computation of IC-DISC taxable income used in computing (1) the transfer price from a related supplier to an IC-DISC or (2) the IC-DISC commission from a related supplier.

Complete a separate Schedule P for each transaction or group of transactions to which the inter-company pricing rules of section 994(a)(1) and (2) are applied.

B. IC-DISC Taxable Income.—Generally, the inter-company pricing determinations are to be made on a transaction-by-transaction basis. However, the IC-DISC may make an annual election to determine inter-company pricing on the basis of groups consisting of products or product lines. If the “group” basis is elected, then all transactions with respect to that product or product line must be “grouped.” Each “group” is 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 inter-company 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. See the regulations under section 994.

1) 4% gross receipts method.—Under the 4% method, the transfer price charged by the related supplier to the IC-DISC or IC-DISC commission from the related supplier is the amount as a result of which the taxable income derived by the IC-DISC from the

transaction will not exceed the sum of (1) 4% of the qualified export receipts of the IC-DISC derived from the transaction plus (2) 10% of the export promotion expenses (as defined in section 994(c)) of the IC-DISC attributable to the qualified export receipts.

2) 50-50 combined taxable income method.—Under the 50-50 method, the transfer price that the related supplier charges the IC-DISC, or the related supplier’s IC-DISC commission, is the amount that lowers the taxable income that the IC-DISC derives from the transaction to an amount no larger than the sum of: (1) 50% of the IC-DISC’s and related supplier’s combined taxable income attributable to the qualified export receipts from the transaction plus (2) 10% of the IC-DISC’s export promotion expenses (as defined in section 994(c)) attributable to the qualified export receipts. Do not include in combined taxable income (line 13, Part I) the discount amount reflected in receivables (on the sale of export property) that a related supplier transferred to the IC-DISC. (See regulations sections 1.994-1(c)(3) and (6)(v)).

See instruction C if marginal costing rules apply.

3) Section 482 method.—Under the section 482 method, the transfer price the related supplier charged the IC-DISC, or IC-DISC 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.**

4) Incomplete transactions.—For purposes of the 4% and 50-50 methods, if the related supplier sells property to the IC-DISC during the year but the IC-DISC does not resell it during the year, the related supplier’s transfer price to the IC-DISC must be at least (but need not exceed) the related supplier’s cost of goods sold. **Do not complete Schedule P for incomplete transactions.** The related supplier’s transfer price to the IC-DISC must be recomputed for the year in which the IC-DISC resells the property and the transaction must then be reported on Schedule P for that year.

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 50-50 method is used.

Marginal costing cannot be used for (1) leasing of property; (2) performance of services; or (3) sales of export property that (in the hands of a purchaser related under section 954(d)(3) to the seller) give rise to foreign base company sales income as described in section 954(d) unless, for the purchaser’s year in which it resells the property, section 954(b)(3)(A) applies or the income is under the exceptions in section 954(b)(4).

D. Part I, Section B.—50-50 Combined Taxable Income Method.—Complete this section if the 4% gross receipts method (Part I, Section C) is not used, whether or not marginal costing (Section A-2) is used.

E. Part I, Section C.—4% Gross Receipts Method.—Do not complete this section if the 50-50 method (Part I, Section B) is used.

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

G. Controlled Group Optional Method.—The overall profit percentage may be computed under an optional method. See regulations section 1.994-2(c)(2) for details.

H. Special Rule for Applying the 4% Gross Receipts Method Permitted by Regulations.—If IC-DISC taxable income on a sale is computed under the 4% method and the IC-DISC chooses to apply the special rule for transfer prices or commissions, attach a separate computation of the limitation on IC-DISC taxable income determined under the special rule and enter the amount on line 22, Part I. Under the special rule, a transfer price or commission will not be considered to cause a loss for a related supplier if the IC-DISC’s net profit on the sale is no greater than the IC-DISC’s and related supplier’s net profit percentage on all their sales of the product or product line. See regulations section 1.994-1(e)(1)(ii) for details.