

Computation of Possessions Corporation Tax Credit Allowed Under Section 936

▶ Attach to your tax return

For calendar year 19 _____ **or other tax year beginning** _____, **19** _____, **and ending** _____, **19** _____

Name _____ Employer identification number _____

Part I Gross Income in Applicable Period

Tax year (Use a separate line for each tax year ending with or within your applicable period. Start with the earliest such tax year. See instruction B.)		Name of U.S. possession in which trade or business was actively conducted	Periods in which trade or business was actively conducted in a U.S. possession (Dates are inclusive)	
Beginning (a)	Ending (b)		From— (d)	To— (e)
		(c)		

Gross income during periods shown in columns (d) and (e)

Gross income from the active conduct of a trade or business in a U.S. possession			Gross qualified possession source investment income (i)	All other gross income		
From sources in U.S. possessions (f)	From all other sources outside the U.S. (g)	From sources in the U.S. (h)		From sources in U.S. possessions (j)	From all other sources outside the U.S. (k)	From sources in the U.S. (l)
Totals						

1 Total gross income in applicable period (add totals of columns (f) through (l))	1	
2 Gross income in applicable period from sources in U.S. possessions (add total of columns (f), (i), and (j))	2	
3 Divide line 2 by line 1 (if less than 80%, do not complete Parts II and III)	3	
4 Gross income from the active conduct of a trade or business in a U.S. possession (total of columns (f), (g), and (h))	4	
5 Divide line 4 by line 1 (if less than 55%, do not complete Parts II and III)	5	

Part II Computing the Possessions Corporation Tax Credit

6 Qualified gross income in current year:			
(a) From sources outside the U.S. from the active conduct of a trade or business in a U.S. possession (see instructions)	6(a)		
(b) From sources outside the U.S. from the sale or exchange of substantially all assets used in a possessions trade or business	6(b)		
(c) Gross qualified possession source investment income	6(c)		
(d) Amounts received in the U.S.	6(d)		
(e) Intangible property income subject to section 936(h)(2)	6(e)		
(f) Other intangible property income (see instructions)	6(f)		
(g) Add lines 6(a), 6(b), and 6(c)	6(g)		
(h) Add lines 6(d), 6(e), and 6(f)	6(h)		
(i) Subtract line 6(h) from 6(g)		6(i)	
7 Applicable deductions (attach schedule):			
(a) Cost sharing amount (see instructions)	7(a)		
(b) Definitely allocable deductions (see instructions)	7(b)		
(c) Ratable part of deductions not definitely allocable	7(c)		
(d) Total (add lines 7(a), 7(b) and 7(c))		7(d)	
8 Qualified taxable income before loss adjustments (line 6(i) less line 7(d)). If loss, do not complete below		8	
9 Loss adjustments (attach schedule):			
(a) Current year losses from non-qualified sources (see instructions)	9(a)		
(b) Recapture of prior year overall foreign losses (see instructions)	9(b)		
(c) Net capital loss or short-term capital loss adjustment (see instructions)	9(c)		
(d) Total (add lines 9(a), 9(b), and 9(c))		9(d)	
10 Qualified taxable income (subtract line 9(d) from line 8)		10	
11 Total taxable income from all sources (enter taxable income from your tax return)		11	
12 Adjustments to taxable income from all sources (see instructions)		12	
13 Subtract line 12 from line 11		13	
14 Divide line 10 by line 13		14	
15 Total U.S. income tax against which section 936 credit is allowed (see instruction C)		15	
16 Section 936 credit (multiply line 14 by line 15). Enter here and on your tax return		16	

Part III To be completed for profit split method only.

1 Adjustment to research deduction. Enter line 4(b) minus line 4(c) of Part II, but not less than zero	1	
2 Enter line 5 of Part II	2	
3 Enter line 8 of Part II	3	
4 Combined taxable income to be allocated below to U.S. affiliates (Enter line 1 plus line 2 minus line 3)	4	

Schedule of affiliates' shares of combined taxable income reported on line 4 of Part III.

(a) Name of affiliate	(b) Identifying number	(c) Amount of share. Enter here and include on line 10, page 1, Form 1120 of the appropriate affiliate.

Part IV To be completed for cost sharing method only.

Schedule of affiliates' shares of cost sharing amount and marketing intangible income

(a) Name of affiliate	(b) Identifying number	(c) Share of cost sharing amount. Enter here and reduce line 26, page 1, Form 1120 of the appropriate affiliate by this amount.	(d) Share of marketing intangible income. Enter here and include on line 10, page 1, Form 1120 of the appropriate affiliate.

Instructions

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

Purpose of Schedule.—Schedule P must be attached to Form 5735 by a possessions corporation which has elected to use either the cost sharing method or the profit split method of computing taxable income under section 936(h)(5).

Specific Instructions

A separate Schedule P must be filed for each product to which the cost sharing method or profit split method under section 936(h)(5) applies. If you have elected a different method for export sales than for domestic sales of the possession product, two Schedules P must be filed for that product. All taxpayers must complete Part I. Complete Parts II and III if the profit split method applies to the product. Complete Part IV if the cost sharing method applies to the product.

Part I

Line 1.—Enter the amount of product area research expenditures incurred by the possessions corporation and all other members, including foreign persons, of the affiliated group within the meaning of section 482. Product area research includes expenditures deductible under section 174; qualified research expenses within the meaning of section 44F(b); and certain other expenditures. See proposed regulations section 1.936-6(a)(1).

Line 2.—Enter the total sales or other dispositions of the possession product by the affiliated group to persons who are not members of the affiliated group. See proposed regulations section 1.936-6(a)(2).

Line 3.—Enter the total sales or other dispositions of all products in the product area by the affiliated group to persons who are not members of the affiliated group.

Line 6.—Enter the amount of product area research expenditures paid or accrued solely by the possessions corporation. However, do not include amounts paid or accrued to or on behalf of related persons and amounts paid or accrued under any cost sharing arrangement with a related person.

Part II

Use this Part to compute the combined taxable income of the possessions corporation and its U.S. affiliates derived from the possession product.

Line 1.—Enter the combined gross receipts from the sale or other disposition of the possession product by the possessions corporation and its U.S. affiliates to unrelated persons or foreign affiliates.

Line 2.—Enter the sum of the costs of goods sold of the possessions corporation and of its U.S. affiliates which are attributable to the possession product.

Line 4.—Enter the sum of the expenses incurred by the possessions corporation and by its U.S. affiliates which are allocable or apportionable to the possession product.

Note: The share of combined taxable income of the possessions corporation entered on line 8 of Part II should be reported on line 10, page 1, Form 1120 of the possessions corporation. The shares of combined taxable income of the U.S. affiliates entered in column (c) of Part III should be reported on line 10, page 1, Form 1120 of each affiliate. Gross receipts, costs of goods sold, and expenses of the possessions corporation and its affiliates which are included in Part II should **not** be reported on any Form 1120 filed by the possessions corporation or its affiliates.

Part III

The amount on line 4 will be allocated to the members of the affiliated group in accordance with proposed regulations section 1.936-6(b)(1). The total of column (c) should equal the amount entered on line 4, Part III.

Part IV

Enter in column (c), Part IV the share of the cost sharing amount (computed in line 7 of Part I) which is allocated to each of the members of the affiliated group in accordance with proposed regulations section 1.936-6(a)(5). Also use column (d), Part IV to enter the share of marketing intangible income which is allocated to each of the members of the affiliated group in accordance with proposed regulations section 1.936-6(a)(5).