

SCHEDULE P
(Form 1120-IC-DISC)

Intercompany Transfer Price or Commission

OMB No. 1545-0938

Department of the Treasury
Internal Revenue Service

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

2001

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

Name as shown on Form 1120-IC-DISC

Employer identification number

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

This schedule is for a (check one):

Single transaction
Group of transactions

Part I IC-DISC Taxable Income

SECTION A—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		1
2	Less costs and expenses allocable to gross receipts from transaction:		
a	Cost of goods sold from property if sold, or depreciation from property if leased	2a	
b	Related supplier's expenses allocable to gross receipts from transaction	2b	
c	IC-DISC export promotion expenses allocable to gross receipts from transaction	2c	
d	Other IC-DISC expenses allocable to gross receipts from transaction	2d	
e	Add lines 2a through 2d	2e	
3	Combined taxable income. Subtract line 2e from line 1. If a loss, enter -0-		3

Section A-2—If marginal costing is used

4	Gross receipts from resale by IC-DISC (or sale by related supplier) to third party		4
5	Costs and expenses allocable to gross receipts from sale:		
a	Cost of direct material from property sold	5a	
b	Cost of direct labor from property sold	5b	
c	IC-DISC export promotion expenses allocable to gross receipts from sales that are claimed as promotional	5c	
d	Add lines 5a through 5c	5d	
6	Combined taxable income or (loss) before application of overall profit percentage limitation. Subtract line 5d from line 4. If a loss, skip lines 7 through 11 and enter -0- on line 12		6
7	Gross receipts of related supplier and IC-DISC (or controlled group) from all foreign and domestic sales of the product or product line		7
8	Costs and expenses of related supplier and IC-DISC (or controlled group) allocable to gross income from such sales:		
a	Cost of goods sold from property sold	8a	
b	Expenses allocable to gross receipts from such sales	8b	
c	Add lines 8a and 8b	8c	
9	Subtract line 8c from line 7. If a loss, skip lines 10 and 11 and enter -0- on line 12		9
10	Overall profit percentage. Divide line 9 by line 7. Check if 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—50-50 Combined Taxable Income Method (Must be used if marginal costing is used. See instructions.)

13	Combined taxable income. Enter amount from line 3 or line 12	13
14	Multiply line 13 by 50% (.50).	14
15	Enter 10% (.10) of IC-DISC export promotion expenses allocable to gross income from transactions that are claimed as export promotion	15
16	Add lines 14 and 15	16
17	IC-DISC taxable income. Enter the smaller of line 13 or line 16.	17

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

18	Gross receipts from transaction. Enter amount from line 1	18
19	Multiply line 18 by 4% (.04)	19
20	Multiply line 2c by 10% (.10).	20
21	Add lines 19 and 20	21
22	Combined taxable income. Enter amount from line 3 or amount computed under special rule. If special rule is applied, check here <input type="checkbox"/> . See instructions	22
23	IC-DISC taxable income. Enter the smaller of line 21 or line 22.	23

Part II Transfer Price From Related Supplier to IC-DISC (See instructions.)

24	Gross receipts from transaction. Enter amount from line 1 or line 4, Part I		24	
25	Less reductions:			
	a IC-DISC taxable income (but not to exceed amount determined in Part I)	25a		
	b IC-DISC export promotion expenses allocable to gross income from transaction	25b		
	c Other IC-DISC expenses allocable to gross income from transaction	25c		
	d Add lines 25a through 25c		25d	
26	Transfer price from related supplier to IC-DISC. Subtract line 25d from line 24		26	

Part III IC-DISC Commission From Related Supplier (See instructions.)

27	IC-DISC taxable income (but not to exceed amount determined in Part I)	27	
28	IC-DISC export promotion expenses allocable to gross receipts from transaction	28	
29	Other IC-DISC expenses allocable to gross receipts from transaction	29	
30	IC-DISC commission from related supplier. Add lines 27 through 29	30	

Instructions

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

Purpose of schedule. Use Schedule P to show the computation of taxable income used in computing (1) the transfer price from a related supplier to an IC-DISC (Part II) or (2) the IC-DISC commission from a related supplier (Part III).

Complete and attach a separate Schedule P to Form 1120-IC-DISC for each transaction or group of transactions to which the intercompany pricing rules of sections 994(a)(1) and (2) are applied.

IC-DISC taxable income. Generally, the intercompany pricing determinations are to be made on a transaction-by-transaction basis. However, the IC-DISC may make an annual election to determine intercompany pricing on the basis of groups consisting of products or product lines. If the group basis is elected, then all transactions for that product or product line must be grouped. Each group is limited to one type of transaction (i.e., sales, leases, or commissions).

A product or product line determination will be accepted if it conforms to either of the following standards: (1) a recognized industry or trade usage or (2) major product groups (or any subclassifications within a major product group) (see Schedule P (Form 1120-IC-DISC) Codes for Principal Business Activity on page 15 of the Instructions for Form 1120-IC-DISC). The corporation may choose a product grouping for 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 intercompany pricing rules will not be permitted to the extent that their application would result in a loss to the related supplier.

Each of the following methods may be applied for sales, leases, and services. See the regulations under section 994.

50-50 combined taxable income method. The transfer price the related supplier charges the IC-DISC, or the related supplier's IC-DISC commission, is the amount that lowers the taxable income the IC-DISC derives from the transaction to an amount that is no more 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 and (2) 10% of the IC-DISC's export promotion expenses (as defined in Regulations section 1.994-1(f)) attributable to the qualified export receipts. Do not include in combined taxable income (line 13) 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 Part I, Section A instructions below if marginal costing rules apply.

4% gross receipts method. The transfer price charged by the related supplier to the IC-DISC or IC-DISC commission from the related supplier is the amount that ensures that the taxable income derived by the IC-DISC from the transaction does not exceed the sum of (1) 4% of the qualified export receipts of the IC-DISC derived from the transaction and (2) 10% of the export promotion expenses (as defined in Regulations section 1.994-1(f)) of the IC-DISC attributable to the qualified export receipts.

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 is subject to the arm's length standard of section 482. Do not complete Schedule P if the section 482 method is used.

Incomplete transactions. For the 50-50 and 4% 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 at least equal (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.

Part I, Section A—Combined Taxable Income. Complete Section A-1 only if marginal costing is not used.

For purposes of line 2d, be sure to include the appropriate apportionment of deductions that are not directly allocable such as interest expenses and stewardship expenses. See

Temporary Regulations sections 1.861-11T(a) and 1.861-14T(e) for an explanation of appropriate apportionment.

Complete Section A-2 if marginal costing is used. The marginal costing rules may be used only for sales, or commissions on sales, of property 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).

Line 10. The overall profit percentage may be computed under an optional method. See Regulations section 1.994-2(c)(2) for details.

Part I, Section B and Section C. Complete Section B or Section C. You must complete Section B if marginal costing is used.

Line 22. 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, check the box in line 22 and attach a separate computation of the limitation on IC-DISC taxable income determined under the special rule and enter the amount on line 22. 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 does not exceed 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.

Reporting Part II and Part III amounts on Form 1120-IC-DISC. If the computed transfer price for sales, leases, or services (Part II) or 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.

