

§ 1.927(d)-2T

26 CFR Ch. I (4-1-03 Edition)

Example 3. On October 15, 1985, F, a FSC, leases export property to X for one month with a total rental due of \$20,000. Under the terms of the lease, A agreed to pay F \$10,000 on October 15, 1985, and the remaining \$10,000 on January 15, 1986. The contract does not require the payment of any interest or carrying charges. The second \$10,000 payment is made on January 3, 1986. This payment does not include any carrying charges because X paid the \$10,000 before the start of the normal payment period.

Example 4. On October 15, 1985, F, a FSC, leases export property to X, for one month with a total amount due under the lease of \$10,000, payable on October 15, 1985. X delays payment until January 19, 1986, which was 96 days after the start of the normal payment period. The 60 day normal payment period terminated on December 14, 1985. Therefore, the lease payment is considered to include carrying charges of \$100 computed in the same manner as in *Example 2*. Of this \$100, 17/36, or \$47.22, is carrying charges for 1985 (*i.e.*, 17 days in December), and 19/36, or \$52.78, is carrying charges for 1986.

Example 5. During 1986, F, a FSC, sold on account export properties A and B to related and unrelated persons.

(A) *Unrelated persons.* During 1986, the sales on account to unrelated persons totaled \$6,000. On the last day of each of the months of 1986, F had total receivables from unrelated persons from sales of export properties A and B, as follows:

January 31	\$1,400
February 28	1,400
March 31	1,000
April 30	1,000
May 31	1,200
June 30	1,300
July 31	1,000
August 31	1,300
September 30	1,500
October 31	1,100
November 30	1,200
December 31	1,000
	14,400

Carrying charges for 1986 with unrelated persons under the optional method of subdivision (iii) of this answer will be \$19.23, computed as follows:

Step 1: Determine the average short-term, monthly Federal rate for the year. For purposes of this example, the rate is assumed to be 9%.

Step 2: Determine the average receivables for the year. This average is calculated by totaling the end of the month receivables balance of each month of the year and dividing by twelve. In this example, the average monthly receivables balance is \$1,200, calculated as follows:

$$\$1,200 = \$14,400 / 12$$

Step 3: Determine the number of times the receivables turn over during the year. This is calculated by dividing the sales on account for the year by the average monthly receivables balance for the year. For purposes of this example, receivables turned over 5 times for 1986, computed as follows:

$$5 = \frac{\$6,000}{\$1,200}$$

Step 4: Determine the number of days the average receivables are outstanding in excess of 60 days. In this example, there are 13 receivable days in excess of 60 days, computed as follows:

$$13 \text{ days} = \left(\frac{365}{5} \right) - 60 \text{ days}$$

Step 5: The amount of carrying charges, \$19.23, is calculated by using the following equation:

$$CC = (AR) (I/365) (X)(Y)$$

CC=Carrying charges

AR=Average monthly receivables balance for the taxable year (step 2)

I=The average short-term monthly Federal rate for the year (step 1)

X=The number of times receivables turn over in the year (step 3)

Y=The number of days the average receivables are outstanding over 60 days (step 4).

$$CC = \$19.23 = (\$1,200) (.09/365) (5) (13)$$

(B) *Related persons.* Carrying charges, if any, on the sales on account to related persons must be computed separately using this optional method.

Q-3. Is a discount from the sales price of property or services for prompt payment considered to be stated carrying charges as defined in subdivision (ii)(A) of Q&A 9 of § 1.921-2?

A-3. No.

Q-4. Is the receipt of an arm's length factoring payment from an unrelated person considered a payment of the sales proceeds for purposes of determining whether payment is made within the normal payment period and the possible imposition of carrying charges?

A-4. Yes.

[T.D. 8127, 52 FR 6473, Mar. 3, 1987]

§ 1.927(d)-2T Temporary regulations; definitions and special rules relating to Foreign Sales Corporation.

(a) *Definition of related supplier.* For purposes of sections 921 through 927 and the regulations under those sections, the term "related supplier" means a related party which directly supplies to a FSC any property or services which

the FSC disposes of in a transaction producing foreign trading gross receipts, or a related party which uses the FSC as a commission agent in the disposition of any property or services producing foreign trading gross receipts. A FSC may have different related suppliers with respect to different transactions. If, for example, X owns all the stock of Y, a corporation, and of F, a FSC, and X sells a product to Y which is resold to F, only Y is the related supplier of F. If, however, X sells directly to F and Y also sells directly to F, then, as to the transactions involving direct sales to F, each of X and Y is a related supplier of F.

(b) *Definition of related party.* The term "related party" means a person which is owned or controlled directly or indirectly by the same interests as the FSC within the meaning of section 482 and § 1.482-1(a).

[T.D. 8126, 52 FR 6465, Mar. 3, 1987]

§ 1.927(e)-1 Special sourcing rule.

(a) *Source rules for related persons—(1) In general.* The income of a person described in section 482 from a sale of export property giving rise to foreign trading gross receipts of a FSC that is treated as from sources outside the United States shall not exceed the amount that would be treated as foreign source income earned by such person if the pricing rule under section 994 that corresponds to the rule used under section 925 with respect to such transaction applied to such transaction. This special sourcing rule also applies if the FSC is acting as a commission agent for the related supplier with respect to the transaction described in the first sentence of this paragraph (a)(1) that gives rise to foreign trading gross receipts and the transfer pricing rules of section 925 are used to determine the commission payable to the FSC. No limitation results under this section with respect to a transaction to which the section 482 pricing rule under section 925(a)(3) applies.

(2) *Grouping of transactions.* If, for purposes of determining the FSC's profits under the administrative pricing rules of sections 925(a)(1) and (2), grouping of transactions under § 1.925(a)-1T(c)(8) was elected, the same grouping shall be used for making the

determinations under the special sourcing rule in this section.

(3) *Corresponding DISC pricing rules—(i) In general.* For purposes of this section—

(A) The DISC gross receipts pricing rule of section 994(a)(1) corresponds to the gross receipts pricing rule of section 925(a)(1);

(B) The DISC combined taxable income pricing rule of section 994(a)(2) corresponds to the combined taxable income pricing rule of section 925(a)(2); and

(C) The DISC section 482 pricing rule of section 994(a)(3) corresponds to the section 482 pricing rule of section 925(a)(3).

(ii) *Special rules.* For purposes of this section—

(A) The DISC pricing rules of section 994(a)(1) and (2) shall be determined without regard to export promotion expenses;

(B) Qualified export receipts under section 994(a)(1) and

(2) shall be deemed to be an amount equal to the foreign trading gross receipts arising from the transaction; and

(C) Combined taxable income for purposes of section 994(a)(2) shall be deemed to be an amount equal to the combined taxable income for purposes of section 925(a)(2) arising from the transaction.

(b) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. (i) R and F are calendar year taxpayers. R, a domestic manufacturing company, owns all the stock of F, which is a FSC acting as a commission agent for R. For the taxable year, R and F used the combined taxable income pricing rule of section 925(a)(2). For the taxable year, the combined taxable income of R and F is \$100 from the sale of export property, as defined in section 927(a), manufactured by R using production assets located in the United States. Title to the export property passed outside of the United States.

(ii) Under section 925(a)(2), 23 percent of the \$100 combined taxable income of R and F (\$23) is allocated to F and the remaining \$77 is allocated to R. Absent the special sourcing rule, under section 863(b) the \$77 income allocated to R would be sourced \$38.50 U.S. source and \$38.50 foreign source. Under the special sourcing rule, the amount of foreign source income earned by a related supplier of a FSC shall not exceed the amount that