

Allocation of Income and Expenses
Under Section 936(h)(5)

▶ Attach to Form 5735

Attach a **separate** Schedule P for each product to which the cost sharing or profit split method under section 936(h)(5) applies.

Name as shown on Form 5735	Employer identification number
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Identify the product reported on this schedule. (See Regulations section 1.936-5(a).) ▶

Part I All Taxpayers Must Complete Part I (See instructions.)

1 Product area research	1	
2 Sales of the possession product	2	
3 Sales of all products in the product area	3	
4 Cost sharing fraction (divide line 2 by line 3)	4	
5 Gross cost sharing amount (multiply line 1 by line 4)	5	
6 Reductions	6	
7 Net cost sharing amount (subtract line 6 from line 5). If the cost sharing method applies, also include on line 8a, Part II, Form 5735 and on line 26, page 1, Form 1120 of the possessions corporation	7	

Part II Complete for Profit Split Method Only (See instructions.)

Combined taxable income from the possession product:		
1 Combined gross receipts	1	
2 Combined cost of goods sold:		
a Inventory at beginning of year	2a	
b Merchandise bought for manufacture	2b	
c Salaries and wages allocable or apportionable to the product	2c	
d Other costs (attach schedule)	2d	
e Total (add lines 2a through 2d)	2e	
f Inventory at end of year	2f	
g Cost of goods sold (subtract line 2f from line 2e)	2g	
3 Combined gross income (subtract line 2g from line 1)	3	
4 Other combined expenses allocable or apportionable to the product:		
a Marketing	4a	
b Floor on research and experimental deduction (see instructions)	4b	
c Research and experimental expenses	4c	
d Enter the greater of line 4b or 4c	4d	
e Other deductions (attach schedule)	4e	
f Total (add lines 4a, 4d, and 4e)	4f	
5 Combined taxable income (subtract line 4f from line 3)	5	
6 Possessions corporation's gross income from the product (50% of line 3). Enter here and include in column (f), Part I, Form 5735, and on line 6a, Part II, Form 5735	6	
7 Possessions corporation's applicable deductions (50% of line 4f). Enter here and include on line 8b, Part II, Form 5735	7	
8 Possessions corporation's taxable income from the product (50% of line 5). Enter here and include on line 10, page 1, Form 1120, of the possessions corporation	8	

Part III Complete for Profit Split Method Only (See instructions.)

1 Adjustment to research deduction. Enter line 4b minus line 4c of Part II. Do not enter less than zero	1	
2 Enter the amount from line 5, Part II	2	
3 Enter the amount from line 8, Part II	3	
4 Combined taxable income (line 1 plus line 2 minus line 3). Allocate to U.S. affiliates on schedule below	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 Complete for Cost Sharing Method Only (See instructions.)

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.

General 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 that has elected to use either the cost sharing method or the profit split method of computing taxable income under section 936(h)(5).

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 the corporation has elected a different method for export sales than for domestic sales of the possession product, two Schedules P must be filed for that product. Complete Parts I, II, and III if the profit split method applies to the product. Complete Parts I and IV if the cost sharing method applies to the product.

Form 5712-A. A possessions corporation must establish that it has a significant business presence in a possession with respect to a product before it can use the cost sharing or profit split method of computing taxable income for that product. The possessions corporation must complete **Form 5712-A**, Election and Verification of the Cost Sharing or Profit Split Method Under Section 936(h)(5), and attach it to Schedule P (Form 5735) for each product for which the cost sharing or profit split method is elected.

Specific Instructions

Part I

Line 1. Enter the total 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 41(b); and certain other expenditures. See Regulations section 1.936-6(a)(1).

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

Line 3. Enter the affiliated group's total sales or other dispositions of all products in the same product area as the possession product to persons who are not members of the affiliated group.

Line 6. Enter the total 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 Part II to compute the combined taxable income of the possessions corporation and its U.S. affiliates derived from the possession product. To figure combined taxable income when the possession product is a component or end-product form, see Regulations section 1.936-6(b)(1), Q & A 10 through Q & A 13.

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 that are attributable to the possession product.

Line 4b. Subtract any royalties paid under section 367(d) or section 482 from line 5, Part I. Multiply the result by 120% and enter on line 4b.

Line 8. Since the amount on line 8 is a net amount, do not adjust any gross receipts (line 1, page 1, Form 1120), any cost of goods sold (line 2, page 1, Form 1120), or any other deduction (lines 12 through 26, page 1, Form 1120). If, however, the specific identification of any of these items is needed for other computations (such as the foreign tax credit), the corporation should make the necessary identification.

Part III

Line 4. Allocate the amount on this line to the members of the affiliated group in accordance with Regulations section 1.936-6(b)(1).

Column (c). The total of column (c) should equal the amount entered on line 4, Part III. Since these are net amounts, do not adjust any gross receipts (line 1, page 1, Form 1120), any cost of goods sold (line 2, page 1, Form 1120), or any other deduction (lines 12 through 26, page 1, Form 1120). If, however, the specific identification of any of these items is needed for other computations (such as the foreign tax credit), the necessary identification should be made.

Part IV

Column (c). To compute the cost sharing amount that the affiliates of the possessions corporation must include in income, multiply the amount on line 7, Part I, by 110%. Allocate the result among the affiliates in accordance with Regulations section 1.936-6(a)(5) and enter the amounts in column (c), Part IV. The cost sharing amount for certain intangibles cannot be less than the amount of a royalty paid to an unrelated person under the rules of section 367(d) or section 482.

Column (d). Enter the share of marketing intangible income allocated to each of the members of the affiliated group in accordance with Regulations section 1.936-6(a)(5).

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