Form **8873**

Department of the Treasury
Internal Revenue Service

Extraterritorial Income Exclusion

▶ **Attach to your tax return.**
▶ **See separate instructions.**

OMB No. 1545-1722

2005

Attachment
Sequence No. **126**

Name(s) as shown on return	Identifying number

Part I Elections and Other Information

1 Check the box if you are electing under section 942(a)(3) to exclude a portion of your gross receipts from foreign trading gross receipts on line 15. Attach a schedule indicating which receipts are being excluded . . . . ▶ ☐

2 Check the box if you are electing to apply the extraterritorial income exclusion provisions to certain transactions involving a FSC (see instructions). Attach a schedule listing the affected transactions . . . . ▶ ☐

3 Check the box if the taxpayer is a foreign corporation electing to be treated as a domestic corporation (see instructions) . . ▶ ☐

4a Are you excepted from the foreign economic process requirements because your foreign trading gross receipts are $5 million or less? . . . . ▶ ☐ Yes ☐ No

 b If "No," check the applicable box to indicate how you met the foreign economic process requirements:

  (1) ☐ You met the 50% foreign direct cost test (see instructions).

  (2) ☐ You met the alternative 85% foreign direct cost test (see instructions).

5 See instructions before completing lines 5a through 5c. **Note:** *For transactions for which the exclusion is determined using the foreign sale and leasing income method (i.e., line 44 equals line 45), complete only lines 5a and 5c(1).*

 a Business activity code _____ **b** Product or product line _____

 c Check the applicable box to indicate the basis of your reporting:

  (1) Transaction-by-transaction:

   (a) ☐ Aggregate on Form 8873 **(b)** ☐ Aggregate on tabular schedule **(c)** ☐ Tabular schedule of transactions

  (2) ☐ Group of transactions (see instructions for an important change made to reflect the American Jobs Creation Act of 2004)

Part II Foreign Trade Income and Foreign Sale and Leasing Income

Caution: *If a related person is also eligible for an extraterritorial income exclusion, see **Excluded property** in the instructions.*

		(a) Foreign Trade Income		(b) Foreign Sale and Leasing Income	
6	Sale, exchange, or other disposition of qualifying foreign trade property .	**6**				
7	Enter the amount from line 6, column (a), attributable to the sale of property formerly leased or rented for use by the lessee outside the United States .	**7**	░░░			
8	Lease or rental of qualifying foreign trade property for use by the lessee outside the United States. Enter the same amount in both columns . . .	**8**				
9	Services related and subsidiary to the sale, exchange, or other disposition of qualifying foreign trade property	**9**			░░░	
10	Enter the amount from line 9, column (a), attributable to the sale of property formerly leased or rented for use by the lessee outside the United States .	**10**	░░░			
11	Services related and subsidiary to the lease of qualifying foreign trade property for use by the lessee outside the United States. Enter the same amount in both columns . .	**11**				
12	Engineering or architectural services for construction projects outside the United States	**12**			░░░	
13	Managerial services provided to unrelated persons (see instructions) . .	**13**			░░░	
14	Enter the sum of the amounts from lines 6, 9, 12, and 13 of column (a) attributable to foreign economic processes. **Do not** include any amounts already included on lines 7, 8, 10, or 11 in column (b)	**14**	░░░			
15	**Foreign trading gross receipts.** Add lines 6 through 13 in column (a) . .	**15**			░░░	
16	Add lines 7 through 14 in column (b)	**16**	░░░			
17	**Cost of goods sold:**					
a	Inventory at beginning of year	**17a**				
b	Purchases	**17b**				
c	Cost of labor	**17c**				
d	Additional section 263A costs (attach schedule)	**17d**				
e	Other costs (attach schedule)	**17e**				
f	Total. Add lines 17a through 17e	**17f**				
g	Inventory at end of year	**17g**				
h	Subtract line 17g from line 17f	**17h**				
18	In column (a), subtract line 17h from line 15. In column (b), subtract line 17h from line 16.	**18**				
19	Other expenses and deductions (see instructions) (attach schedule) . . .	**19**				
20	**Foreign trade income.** In column (a), subtract line 19 from line 18. If -0- or less, stop here. You do not qualify for the exclusion	**20**			░░░	
21	**Foreign sale and leasing income.** In column (b), subtract line 19 from line 18	**21**	░░░			

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| Part III | Marginal Costing (Note: *If you are **not** using Marginal Costing, skip Part III and go to Part IV.*) |

Section A — Foreign Trade Income Using Marginal Costing Method

22	Foreign trading gross receipts. Enter the amount from line 15	**22**	
23	Costs and expenses allocable to the amount reported on line 22:		
a	Cost of direct material attributable to property sold **23a**		
b	Cost of direct labor attributable to property sold **23b**		
c	Add lines 23a and 23b	**23c**	
24	Subtract line 23c from line 22	**24**	
25	Worldwide gross receipts from sales of the product or product line	**25**	
26	Costs and expenses allocable to the amount reported on line 25:		
a	Cost of goods sold attributable to property sold **26a**		
b	Other expenses and deductions attributable to gross income . . . **26b**		
c	Add lines 26a and 26b	**26c**	
27	Subtract line 26c from line 25. (**Note:** *If -0- or less, stop here. You may not use Part III to determine your qualifying foreign trade income. Go to line 37.*)	**27**	
28	Overall profit percentage. Divide line 27 by line 25. Carry the result to at least three decimal places	**28**	
29	Overall profit percentage limitation. Multiply line 22 by line 28	**29**	
30	**Foreign trade income using marginal costing.** Enter the **smaller** of line 24 or line 29 . . .	**30**	

Section B — 15% of Foreign Trade Income Method

31	Multiply line 30 by 15% (.15)	**31**	
32	**Foreign trade income using full costing.** Enter the amount from line 20	**32**	
33	Enter the **smaller** of line 31 or line 32	**33**	

Section C — 1.2% of Foreign Trading Gross Receipts Method

34	Multiply line 22 by 1.2% (.012)	**34**	
35	Multiply line 30 by 30% (.30)	**35**	
36	Enter the **smallest** of lines 32, 34, or 35	**36**	

| Part IV | Extraterritorial Income Exclusion (Net of Disallowed Deductions) |

37	Enter your foreign trade income from line 20	**37**	
38	Multiply line 37 by 15% (.15)	**38**	
39	Enter your foreign trading gross receipts from line 15 . . . . . **39**		
40	Multiply line 39 by 1.2% (.012) **40**		
41	Multiply line 38 by 2.0 . . . . **41**		
42	Enter the **smaller** of line 40 or line 41	**42**	
43	Enter your foreign sale and leasing income from line 21	**43**	
44	Multiply line 43 by 30% (.30)	**44**	
45	Enter the **greatest** of lines 33, 36, 38, 42, or 44. If you are using the alternative computation, see instructions for the amount to enter	**45**	
	Note. *If you do not have a reduction for international boycott operations, illegal bribes, kickbacks, etc. (see the instructions for line 50), skip lines 46 through 51 and enter on line 52 the amount from line 45.*		
46	If line 44 equals line 45, divide the amount on line 45 by the amount on line 43. Otherwise, divide the amount on line 45 by the amount on line 37. Carry the result to at least three decimal places **46**		
47	If line 44 equals line 45, enter the amount from line 19, column (b). Otherwise, enter the amount from line 19, column (a) **47**		
48	Multiply line 46 by line 47	**48**	
49	Add lines 45 and 48	**49**	
50	Reduction for international boycott operations, illegal bribes, kickbacks, etc. (see instructions) .	**50**	
51	**Qualifying foreign trade income.** Subtract line 50 from line 49. If -0- or less, stop here. You do not qualify for the exclusion	**51**	
52	Subtract line 48 from line 51	**52**	
53a	Enter the amount from line 52 that is attributable to 100% transactions (see instructions) . .	**53a**	
b	Multiply the amount from line 52 that is attributable to 80% transactions (see instructions) by 80% (0.80) and enter the result here	**53b**	
c	Multiply the amount from line 52 that is attributable to 60% transactions (see instructions) by 60% (0.60) and enter the result here	**53c**	
54	**Extraterritorial income exclusion (net of disallowed deductions).** Add lines 53a through 53c. Enter the result here and include it on the "other deductions" line of your tax return or schedule (see instructions)	**54**	