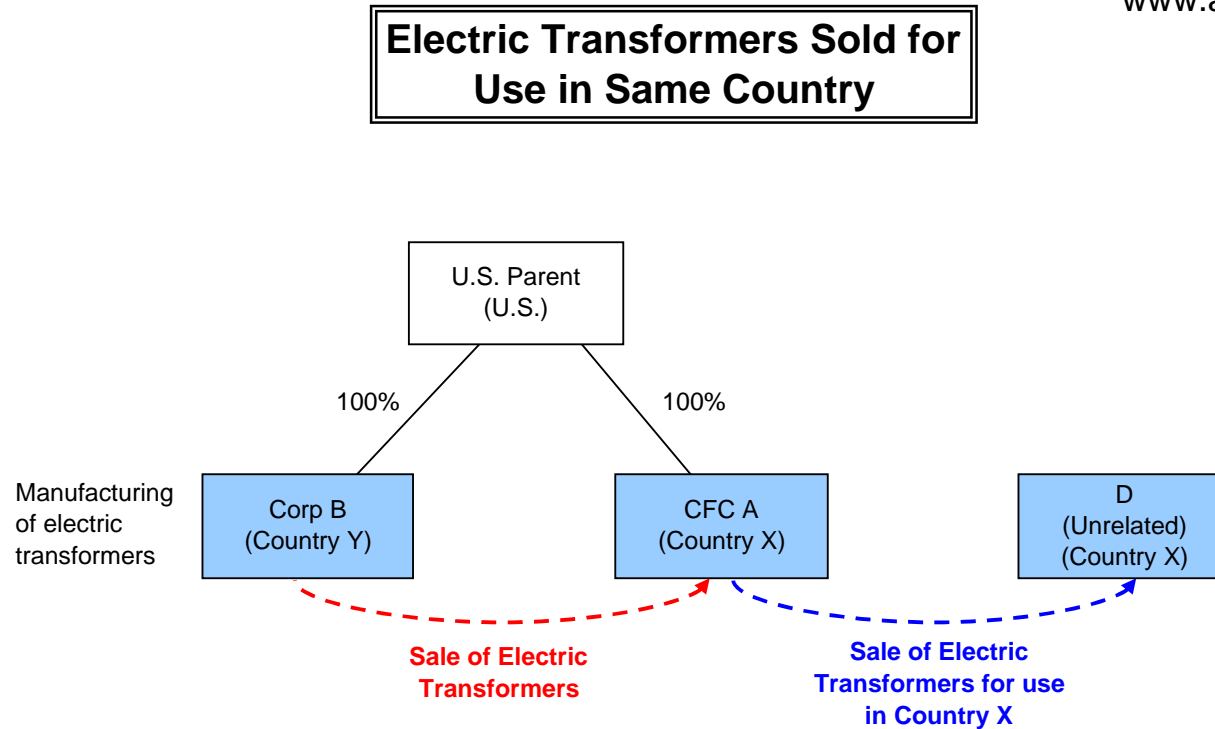


## Reg. 1.954-3(a)(3)(iv), Example 1

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Controlled foreign corporation A, incorporated under the laws of foreign country X, and controlled foreign corporation B, incorporated under the laws of foreign country Y, are related persons. Corporation A purchases from B Corporation electric transformers produced by B Corporation in country Y and sells the transformers to D Corporation, an unrelated person, for installation in a factory building being constructed in country X. Since the personal property purchased and sold by A Corporation is to be used within the country in which A Corporation is incorporated, **income** of A Corporation derived **from the purchase and sale** of the electric transformers **is not foreign base company sales income**.

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