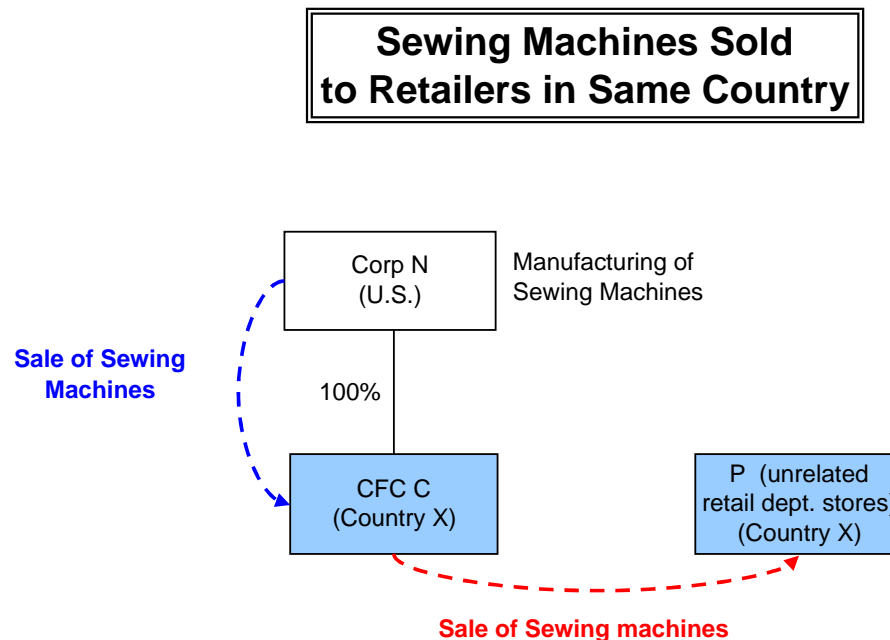


Reg. 1.954-3(a)(3)(iv), Example 2

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Controlled foreign corporation C, incorporated under the laws of foreign country X, is a wholly owned subsidiary of domestic corporation N. Corporation C purchases from N Corporation sewing machines manufactured in the United States by N Corporation and sells the sewing machines to retail department stores, unrelated persons, located in foreign country X. The entire activities of the department stores to which C Corporation sells the machines consist of selling goods from inventory to retail customers at retail outlets in country X. Under these circumstances, at the time of sale **C Corporation may assume the sewing machines will be used**, consumed, or disposed of **in country X**, and no attempt need be made by C Corporation to determine where the sewing machines will ultimately be used by the customers of the retail department stores. **Gross income** of C Corporation derived **from the sales** to the department stores located in country X **is not foreign base company sales income**.

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