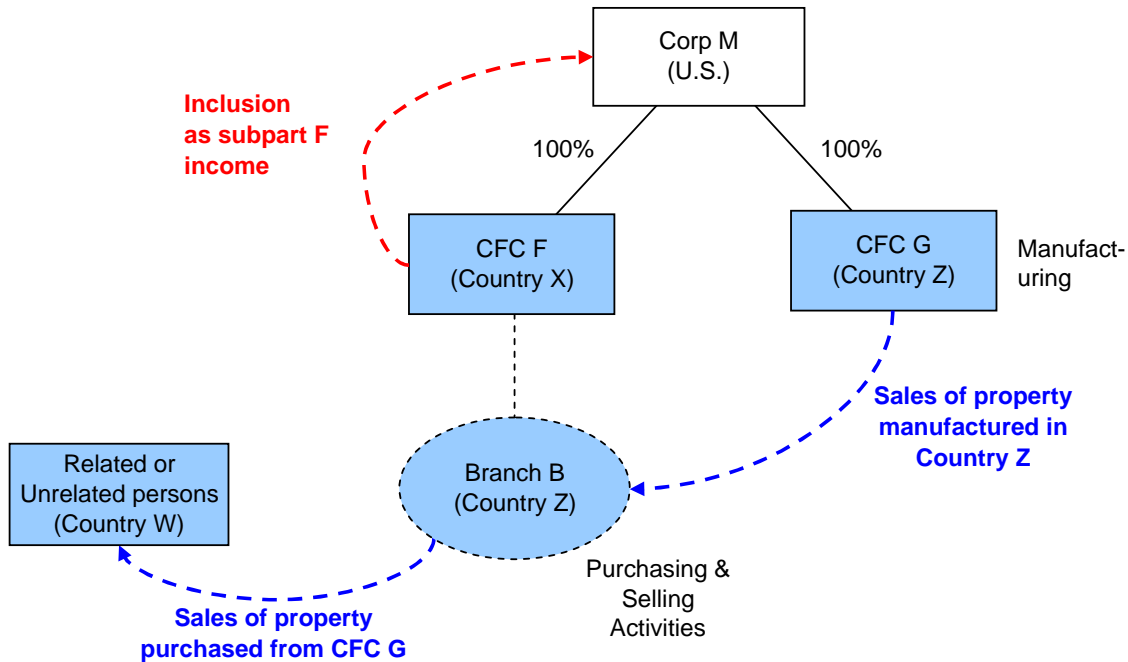


Reg. 1.954-3(b)(4), Example 4

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Branch Rule Cannot Be Used Affirmatively to Avoid Subpart F Income



If Branch B were treated as a corporation as a result of the application of the branch rule, then there would be no subpart F income (product was manufactured in Country Z and deemed incorporation would be in Country Z). See Reg. 1.954-3(a)(2) [same country manufacturing exception].

Controlled foreign corporation F, incorporated under the laws of foreign country X, is a wholly owned subsidiary of domestic corporation M. Corporation F, through its branch B in foreign country Y, purchases from controlled foreign corporation G, a wholly owned subsidiary of M Corporation incorporated under the laws of foreign country Z, personal property which G Corporation manufactures in country Z. Corporation F sells such property for use in foreign country W. Since the income of F Corporation from such purchases and sales is classified as foreign base company sales income under section 954(d)(1), branch B will not be treated as a separate corporation with respect to such income even if the tax differential between countries X and Y would otherwise justify such treatment.

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