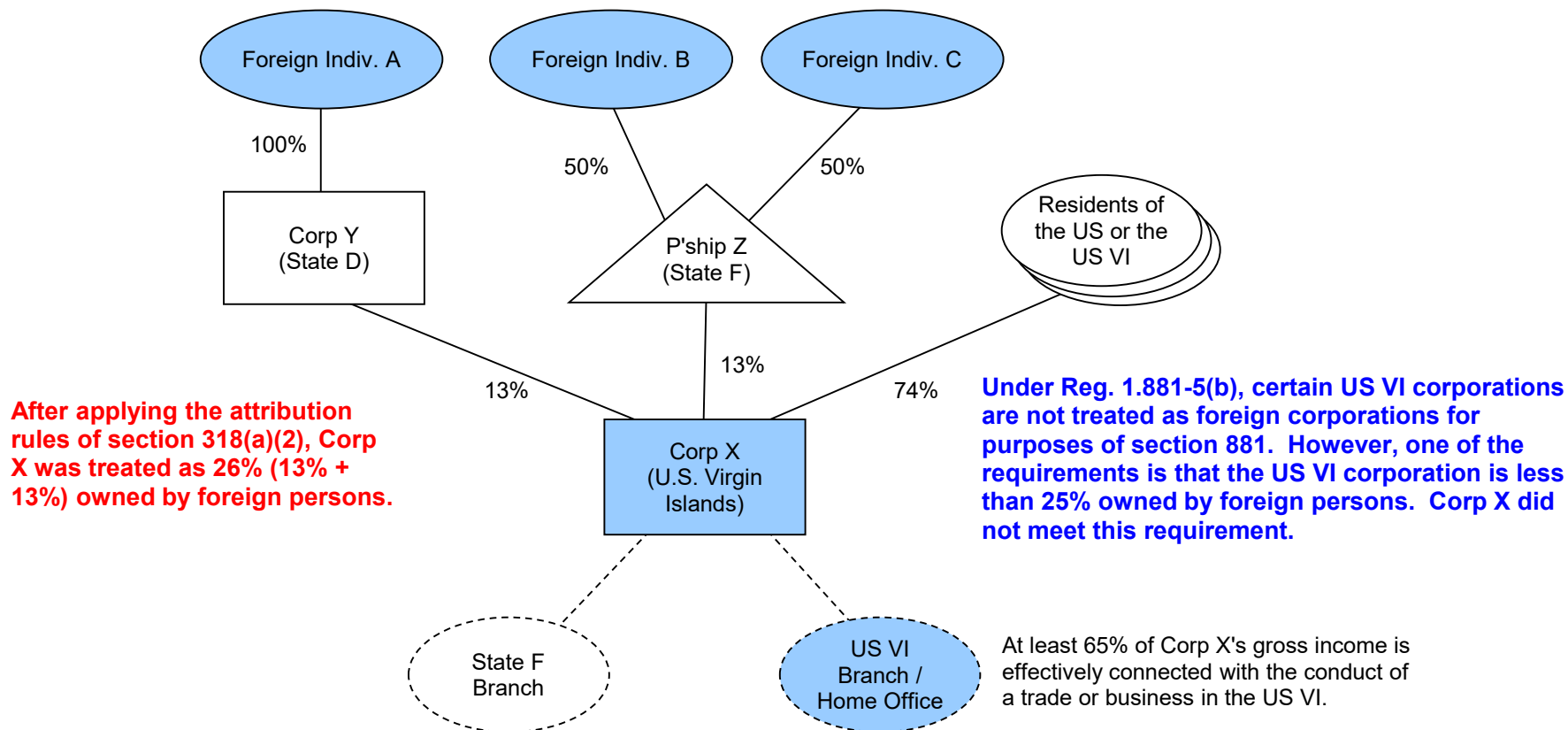


## Reg. 1.881-5(h), Example

## US VI Corp Was Not Less Than 25% Owned By Foreign Persons

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X is a corporation organized under the law of the U.S. Virgin Islands with a branch located in State F. At least 65% of the gross income of X is effectively connected with the conduct of a trade or business in the U.S. Virgin Islands and no substantial part of the income of X for the taxable year is used to satisfy obligations to persons who are not bona fide residents of the United States or the U.S. Virgin Islands. Seventy-four percent of the stock of X is owned by unrelated individuals who are residents of the United States or the U.S. Virgin Islands. Y, a corporation organized under the law of State D, and Z, a partnership organized under the law of State F, each own 13% of the stock of X. A, an unrelated foreign individual, owns 100% of the stock of corporation Y. B and C, unrelated foreign individuals, each own a 50% interest in partnership Z. Thus, the condition of Reg. 1.881-5(c)(1) is not satisfied, because 26% of X is owned indirectly by foreign persons (A, B, and C). Accordingly, X is treated as a foreign corporation for purposes of section 881.