

**Reg. 1.904-4(f)(4)(i),
Example 1**

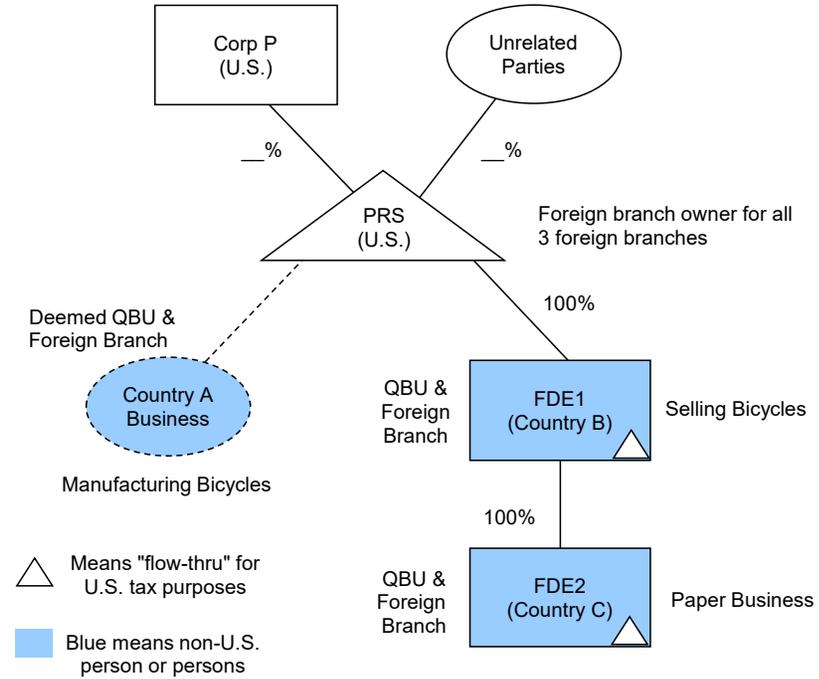
**Determination of Foreign Branches
and Foreign Branch Owner**

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P, a domestic corporation, is a partner in PRS, a domestic partnership. All other partners in PRS are unrelated to P. PRS conducts activities solely in Country A (the Country A Business), and those activities constitute a trade or business outside the United States within the meaning of Reg. 1.904-4(f)(3)(vii)(B). PRS reflects items of income, gain, loss, and expense of the Country A Business on the books and records of PRS's home office. PRS is in the business of manufacturing bicycles.

PRS owns FDE1, a disregarded entity organized in Country B. FDE1 conducts activities in Country B (the Country B Business), and those activities constitute a trade or business outside the United States within the meaning of Reg. 1.904-4(f)(3)(vii)(B). FDE1 maintains a set of books and records that are separate from those of PRS, and the separate set of books and records reflects items of income, gain, loss, and expense with respect to the Country B Business. FDE1 is in the business of selling bicycles manufactured by PRS.

FDE1 owns FDE2, a disregarded entity organized in Country C. FDE2 conducts activities in Country C (the Country C Business), and those activities constitute a trade or business outside the United States within the meaning of Reg. 1.904-4(f)(3)(vii)(B). FDE2 maintains a set of books and records that are separate from those of PRS and FDE1, and the separate set of books and records reflects items of income, gain, loss, and expense with respect to the Country C Business. FDE2's paper business is not related to FDE1's bicycle sales business, and FDE1 does not hold its interest in FDE2 in the ordinary course of its trade or business.



Country A Business's activities comprise a trade or business conducted outside the United States within the meaning of Reg. 1.989(a)-1(b)(2)(ii)(A) and (b)(3) (in each case, as modified by Reg. 1.904-4(f)(3)(vii)). PRS does not maintain a separate set of books and records with respect to the Country A Business. However, under Reg. 1.904-4(f)(3)(vii)(C), the Country A Business's activities are deemed to satisfy the requirement of Reg. 1.989(a)-1(b)(2)(ii)(B) that a QBU maintain a separate set of books and records with respect to the relevant activities. Thus, for purposes of this Reg. 1.904-4(f), the activities of the Country A Business constitute a QBU as defined in Reg. 1.989-1(b)(2)(ii) and (b)(3), as modified by Reg. 1.904-4(f)(3)(vii), that conducts a trade or business outside the United States. Accordingly, the activities of the Country A Business constitute a foreign branch within the meaning of Reg. 1.904-4(f)(3)(vii). PRS, the person that owns the Country A Business, is the foreign branch owner, within the meaning of Reg. 1.904-4(f)(3)(viii), with respect to the Country A Business.

Country B Business's activities comprise a trade or business outside the United States within the meaning of Reg. 1.989(a)-1(b)(2)(ii)(A) and (b)(3) (in each case, as modified by Reg. 1.904-4(f)(3)(vii)). PRS maintains a separate set of books and records with respect to the Country B Business, as described in Reg. 1.989(a)-1(b)(2)(ii)(B). Thus, for purposes, the activities of the Country B Business constitute a QBU as defined in Reg. 1.989-1(b)(2)(ii) and (b)(3), as modified by Reg. 1.904-4(f)(3)(vii), that conducts a trade or business outside the United States. Accordingly, the activities of the Country B Business constitute a foreign branch within the meaning of Reg. 1.904-4(f)(3)(vii). Under Reg. 1.904-4(f)(3)(viii), PRS, the person that owns the Country B Business indirectly through FDE1 (a disregarded entity), is the foreign branch owner with respect to the Country B Business.

The same analysis that applies to the Country B Business applies to the Country C Business. Accordingly, the activities of the Country C Business constitute a foreign branch within the meaning of Reg. 1.904-4(f)(3)(vii). PRS, the person that owns the Country C Business indirectly through FDE1 and FDE2 (disregarded entities), is the foreign branch owner with respect to the Country C Business.