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

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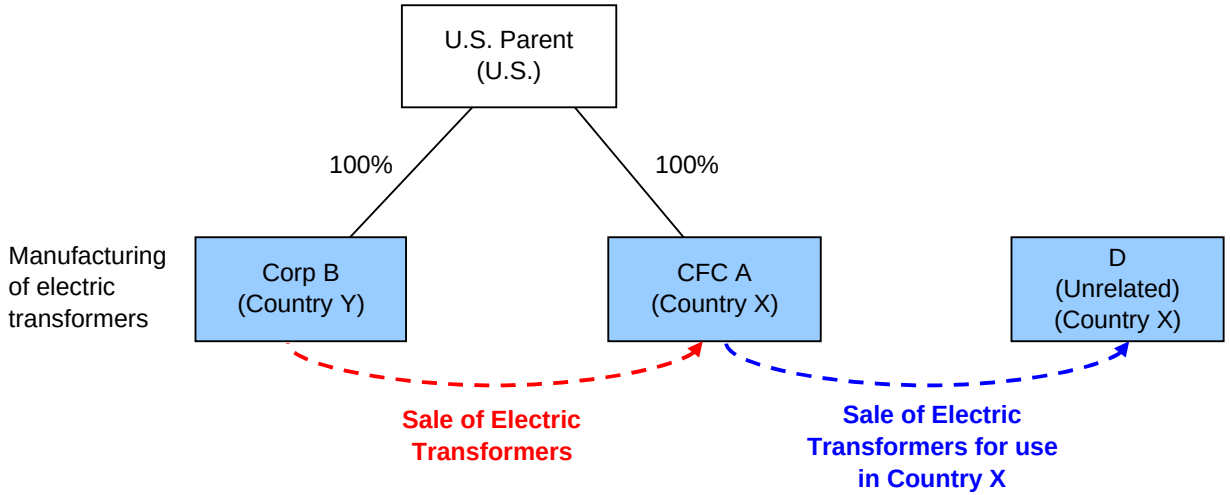
Electric Transformers Sold for Use in Same Country



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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