

**Temp. Reg. 1.954-3T
(b)(1)(ii)(c)(3)(v), Example 2**

**Two Manufacturing Branches,
Compare Sales With Lowest
Mfg. Branch Rate (No Sub F)**

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FS is a CFC organized in Country M. FS operates three branches, Branch A, Branch B, and Branch C, located respectively in Country A, Country B, and Country C. Branch A, Branch B, and Branch C each performs different manufacturing activities with respect to the manufacture of Product X. Branch A, through the activities of employees of FS located in Country A, designs Product X. Branch A also performs in Country A other manufacturing activities that are sufficient to qualify as manufacturing under Reg. 1.954-3(a)(4)(iv) with respect to Product X (these activities include the purchase of the raw materials used in the manufacture of Product X from a related person and control of the work-in-process and finished goods throughout the manufacturing process, managing the manufacturing costs and capacities related to Product X and possibly more). Branch B, through the activities of employees of FS located in Country B, provides quality control and oversight and direction. Branch C, through the activities of employees of FS located in Country C, manufactures Product X (within the meaning of Reg. 1.954-3(a)(4)(ii) or (a)(4)(iii)) using the designs developed by Branch A and under the oversight of the quality control personnel of Branch B. The activities of Branch B and the activities of the

remainder of FS in Country M do not independently satisfy Reg. 1.954-3(a)(4)(i). Country A imposes an effective rate of tax of 12% on sales income. Employees of FS located in Country M sell Product X to unrelated persons for use outside of Country M. The sales income from the sale of Product X is taxed in Country M at an effective rate of tax of 10%. Country C imposes an effective rate of tax of 20% on sales income.

Branch A and Branch C through their activities each independently satisfy the requirements of Reg. 1.954-3(a)(4)(i). Therefore, Reg. 1.954-3(b)(1)(ii)(b) is applied by comparing the effective rate of tax imposed on the income from the sales of Product X against the lowest effective rate of tax that would apply to the sales income in either Country A or Country C if Reg. 1.954-3(b)(1)(ii)(b) were applied separately to Branch A and Branch C. Country A imposes the lower effective rate of tax, and therefore, Branch A is treated as the location of manufacture for purposes of applying Reg. 1.954-3(b)(1)(ii)(b). The effective rate of tax in Country B is not considered because Branch B does not satisfy Reg. 1.954-3(a)(4)(i). Neither Branch A nor Branch C is treated as a separate corporation because the effective rate of tax on the sales income of FS from the sale of Product X (10%) is not less than 90% of, and at least 5 percentage points less than, the effective rate of tax that would apply to such income in the country in which Branch A is located (12%). Sales of Product X by the remainder of the controlled foreign corporation are not treated as made on behalf of any branch.

