Unfinished Product X is (a) sold from Taxpayer to Country 4 Branch and then (b) sold from Country 4 Branch to DE 5. DE 5 assembles and tests the product. The assembly and testing are substantial and are generally considered to constitute manufacturing. Finished Product X is then (c) sold from DE 5 to Country 4 Branch and (d) sold from Country 4 Branch to DE 6, DE 7 and Unrelated parties. DE 6 and DE 7 then (e) sell to worldwide markets and Country 8 markets, respectively.

The sales activities in Country 4 Branch, DE 6, and DE 7 must be tested under the branch rules to determine whether there is a tax rate disparity between the manufacturing branch and the sales branch. If the tax rate of the sales branch is not at least 5 percentage points less than the tax rate of the manufacturing branch, then there is no tax rate disparity. In this case, the tax rate of the manufacturing branch is zero. Consequently, it is impossible for there to be tax rate disparity and the branch rule does not apply.