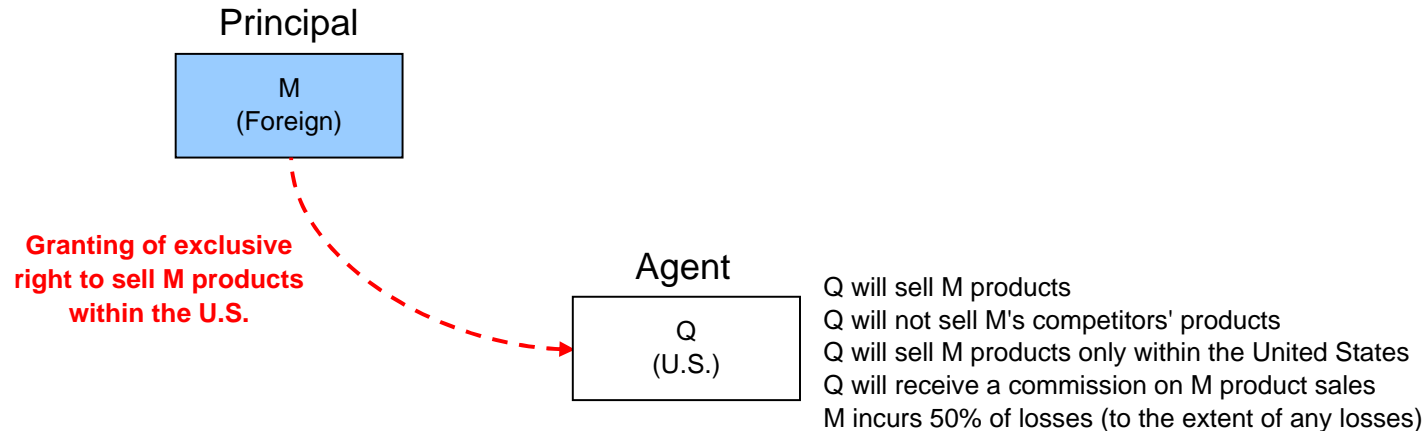


Revenue Ruling 70-424

Domestic Corp Is Foreign Corp's Agent

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M, a foreign corporation, and Q, a domestic corporation, entered into an agreement under which M conveyed to Q the sole agency for the sales of its products in the United States. Q agreed to make sales of such products within the United States and not to make sales of the same kind of products of any other company except on express permission from M. Q further agreed not to make sales of M's products to purchasers domiciled outside the United States or to any competitor of M without consent of M and not to take a financial interest in any competitor of M. It is also provided that Q will secure yearly contracts which will be subject to the approval of M. Q assumes the full responsibility for the sales of M's product and acts as guarantor. However, M agreed to share equally with Q any loss incurred up to a specified amount in any one year during the life of the agreement. Under the agreement Q is to receive a commission based on a graduated percentage of the selling price of the products. The ruling held that the arrangement is one of ordinary principal and agent through which M carries on its activities in the United States and thus is engaged in trade or business within the United States. M was, therefore, subject to U.S. tax under section 882.

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