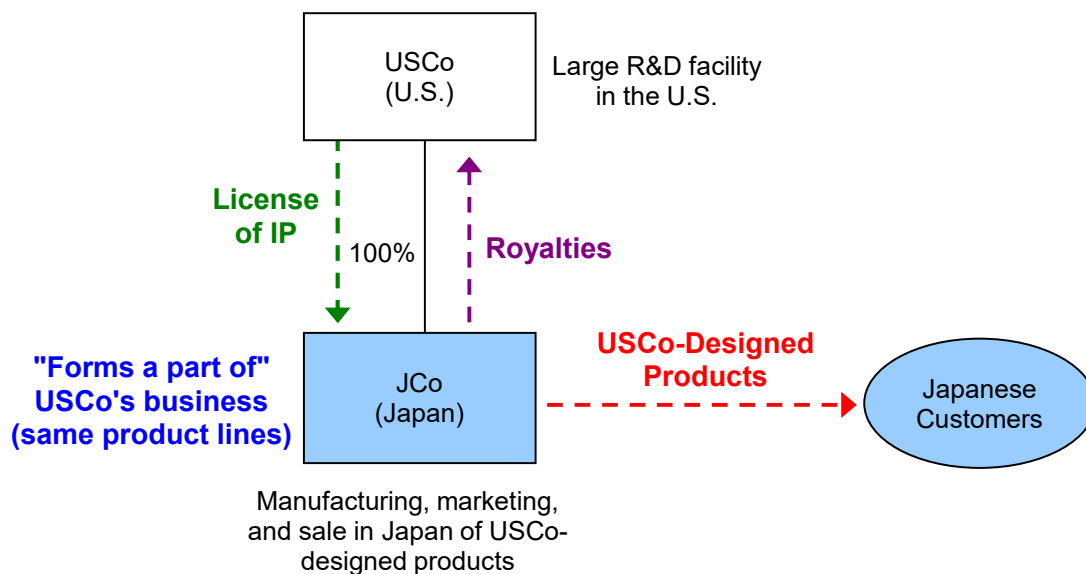


**Japan Treaty (2003)  
Treasury Tech. Explan.,  
Article 22, Paragraph 2,  
Example 2**

**Japanese Manufacturer  
Activity "Forms a Part of"  
U.S. R&D Activity**

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**Limitation on benefits:**

**Active trade or  
business test  
("derived in  
connection with")**

USCo is a corporation resident in the United States. USCo owns 100 percent of the shares of JCo, a company resident in Japan. USCo operates a large research and development facility in the United States that licenses intellectual property to affiliates worldwide, including JCo. JCo and other USCo affiliates then manufacture and market the USCo-designed products in their respective markets. Because the activities conducted by JCo and USCo involve the same product lines, these activities are considered to form a part of the same trade or business.

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