



the subsidiary's gross income. §1.921-1. (Sec. 921, '86 Code.)

Rev. Rul. 69-376, 1969-2 C.B. 155.

502.3 Alternative tax. Section 117(c)(1)(A) of the '39 Code is amended to provide that, in the computation of the alternative tax for years subject to the 1939 Code, a corporation's net income for purposes of the special credits for intercorporate dividends received, for dividends paid on certain preferred stock, and for Western Hemisphere trade corporations is to be redetermined without reduction for the excess of the net long-term capital gain over the net short-term capital loss. Effective for taxable years beginning after December 31, 1951, and before January 1, 1954. In view of the above provisions. Rev. Ruls. 54-28 and 54-283 are revoked. (Sec. 117(c), '39 Code; Sec. 1201, '86 Code.)

Rev. Rul. 56-242, 1956-1 C.B. 632.

502.4 Alternative tax. In computing the alternative tax, the special deductions allowed corporations under the 1954 Code are to be based on taxable income including the excess of any long-term gain over net short-term capital loss. Contrary instructions on Schedule D, Form 1120, for 1954 and 1955 should be disregarded. (Secs. 243, 244, 245, 247, 922, 941, 1201; '86 Code.)

Rev. Rul. 56-151, 1956-1 C.B. 382.

502.5 Canadian or Mexican subsidiary. A Canadian or Mexican corporation is treated as a domestic corporation for purposes of qualifying as a Western Hemisphere trade corporation if it is organized and maintained solely for the purpose of complying with the laws of either country as to title and operation of property, and if it is so treated for consolidated return purposes by a domestic corporation owning or controlling, directly or indirectly, 100 percent of its capital stock. §§39.109-1. (Sec. 109, '39 Code; Sec. 921, '86 Code.)

Rev. Rul. 55-372, 1955-1 C.B. 339.

502.6 Commissions on foreign sales. A Western Hemisphere trade corporation purchased equipment for resale from its parent and sold it through dealers in foreign countries stipulating in all contracts that the seller retained title until the goods reached a foreign port. *Held*, commissions paid on sales in the trade corporation's sales territory by a foreign corporation to the parent as disbursing agent for the trade corporation constitute income from sources without the U.S. (Sec. 454(f), '39 Code; Sec. 921, '86 Code.)

Barber-Greene Americas, Inc., 35 T.C. 365, Acq., 1961-2 C.B. 4, 1964-2 C.B. 4.

502.7 Consolidated returns; fractional method. Under certain circumstances the Service will no longer require application of the fractional method without losses set forth in reg. 1.1502-25(c) for purposes of determining the "portion of the consolidated taxable income" attributable to those members of an affiliated group that are Western Hemisphere trade corporations (WHTCs). §§1.1502-25, 1.1503-1. (Secs. 1502, 1503; '86 Code.)

Rev. Rul. 85-136, 1985-2 C.B. 194.

502.8 Consolidated returns; includible corporation. A U.S. corporation that is both a Western Hemisphere trade corporation and a possession corporation but fails to derive benefit from section 931 due to a net operating loss for the year is an "includible corporation" within the meaning of section 1504(b)(4), and may be included in a consolidated return for that year. Rev. Rul. 65-293 revoked. §§1.921-1, 1.931-1, 1.1504-1. (Secs. 921, 931, 1504; '86 Code.)

Rev. Rul. 73-498, 1973-2 C.B. 316; Burke Concrete Accessories, Inc., 56 T.C. 588, Acq., 1973-2 C.B. 1.

502.9 Consolidated returns; special deduction; foreign tax credit. Members of an affiliated group operating in the Western Hemisphere outside the U.S. but having no gross income are excluded in determining the consolidated taxable income attributable to members of the group which are Western Hemisphere trade corporations. Amplified to provide that such members whose only income is from dividends, interest, and capital gains are also excluded. In computing the limitation on foreign tax credit, the deduction provided in section 922 should be allocated between income from sources within and without the U.S. §1.1502-31A. (Secs. 863, 904, 921, 922, 1502; '86 Code.)

Rev. Rul. 56-316, 1956-2 C.B. 597; Rev. Rul. 58-56, 1958-1 C.B. 335.

502.10 Cotton export subsidies. Export subsidy payments received by domestic corporations under Part 482, Cotton Products Export Regulations, constitute income from sources within the United States for the purpose of determining whether such corporations qualify as Western Hemisphere trade corporations. §§1.861-4, 1.862-1, 1.921-1. (Secs. 861, 862, 921; '86 Code.)

Rev. Rul. 68-497, 1968-2 C.B. 312.

502.11 Countries includible. The Virgin Islands, Puerto Rico, the Greater Antilles, the Lesser Antilles, the Bahamas and the islands off the coast of Venezuela, in addition to the numerous islands in the West Indies, are Western Hemisphere trade corporation countries. However, Bermuda and the Falkland Islands are not. (Sec. 921, '86 Code.)

Rev. Rul. 55-105, 1955-1 C.B. 94.

502.12 Domestic corporation created. The creation of a new domestic corporation to carry on the business in Western Hemisphere, other than in the U.S., of an existing domestic corporation for the principal purpose of gaining the benefits of section 922 is not tax avoidance. I.T. 3757 superseded. §1.269-2. (Sec. 269, '86 Code.)

Rev. Rul. 70-238, 1970-1 C.B. 61.

502.13 Domestic purchasing agent for South American firms. Commissions received by a domestic corporation for purchases made in the U.S. for South American firms constitute income from sources within the U.S. (Sec. 921, '86 Code.)

Rev. Rul. 56-477, 1956-2 C.B. 506.

502.14 Foreign tax credit; carrybacks and carryovers; member of affiliated group. The amount of the foreign tax reduction required by reason of the inclusion of Western Hemisphere trade corporations in an affiliated group filing consolidated returns and using the overall limitation in determining the foreign tax credit does not qualify for the foreign tax credit carryback and carryover provisions of section 904(d). §§1.902-2, 1.1503-1. (Secs. 904, 1503; '86 Code.)

Rev. Rul. 74-72, 1974-1 C.B. 253.

502.15 Foreign tax credit; taxable income. In computing the foreign tax credit of an affiliated group of corporations, where the subsidiaries include Western Hemisphere trade corporations some of which have operating losses, the consolidated section 922 deduction is computed on the consolidated income attributable to all Western Hemisphere trade corporations in the group. Further, the consolidated section 922 deduction is allocated only to the profit corporations. §§1.904-1, 1.922-1, 1.1502-31A, 1.1502-43A. (Secs. 904; 922, 1502; '86 Code.)

Rev. Rul. 58-618, 1958-2 C.B. 430.

502.16 Government subsidies. For the purpose of determining whether a domestic corporation which maintains no facilities within the U.S. is a Western Hemisphere trade corporation, subsidies received under section 406 of the Federal Aviation Act of 1958 with respect to its operation of an air-

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502.1 Affiliated corporations. Transactions between a parent and a subsidiary, organized for the purpose of securing the benefits provided for Western Hemisphere trade corporations, should be on an "arm's length" basis, since an allocation of income and deduction may be necessary to prevent evasion of taxes or to clearly reflect the income of either company. §§29.45-1, 29.109-1. (Secs. 45, 109, '39 Code; Secs. 482, 921, '86 Code.)

Rev. Rul. 15, 1953-1 C.B. 141.

502.2 Allocation of income and deductions; interest; tax refund. Interest on a refund of tax resulting from a section 482 allocation of income and deductions between a subsidiary and its parent is not taken into account in determining qualification as a Western Hemisphere trade corporation or in computing the special deduction allowed by section 922. The interest income is includible in

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line over a route lying entirely outside the U.S. constitute income from sources without the U.S. Amounts received by a domestic corporation under section 601 of the Merchant Marine Act of 1936, as amended, with respect to its operation of a shipping line between the U.S. and foreign countries constitute income partly from within and partly from without the U.S. Clarified by Rev. Rul. 66-340. §§1.861-4, 1.862-1, 1.863-4, 1.921-1. (Secs. 861, 862, 863, 921; '86 Code.)
Rev. Rul. 63-269, 1963-2 C.B. 293.

502.17 Greenland. Greenland is considered a country in North America for purposes of the definition of a Western Hemisphere trade corporation. §§1.921-1, 1.922-1. (Secs. 921, 922; '86 Code.)
Rev. Rul. 60-307, 1960-2 C.B. 214.

502.18 Gross income; railway system in South America. Gross income of a domestic corporation owning and operating a railway system in South America includes gross revenue derived therefrom without reduction for expenses incurred in the production of such income in determining whether the corporation qualifies as a Western Hemisphere trade corporation. §1.921-1. (Sec. 921, '86 Code.)
Rev. Rul. 70-347, 1970-2 C.B. 155.

502.19 Gross income; three-year period defined. The 3-year period referred to in section 931(a) relating to income from sources within possessions of the U.S. means a period of 36 months immediately preceding the close of the taxable year. This same rule is applicable to section 921(1) relating to the definition of Western Hemisphere trade corporations. §§1.921-1, 1.931-1. (Secs. 921, 931; '86 Code.)
Rev. Rul. 65-260, 1965-2 C.B. 243.

502.20 Incidental purchases. Purchases which are nonrecurring or unusual of hydro-electric equipment in Europe, by a Western Hemisphere trade corporation previously engaged in mining, are incidental purchases, and purchases in Europe of other than hydro-electric equipment, which are neither nonrecurring nor unusual in character, but do not exceed in amount five percent of the corporation's gross receipts, are also incidental purchases and will not disqualify the taxpayer as a Western Hemisphere trade corporation. §1.921-1. (Sec. 921, '86 Code.)
Rev. Rul. 59-356, 1959-2 C.B. 177.

502.21 Income from within U.S. possession. A domestic corporation operating in a U.S. possession and claiming the benefits of section 931 is not at the same time entitled to claim the special deduction allowed to Western Hemisphere trade corporations under section 922. §§1.921-1, 1.922-1, 1.931-1. (Secs. 921, 922, 931; '86 Code.)
Rev. Rul. 63-224, 1963-2 C.B. 297.

502.22 Insurance proceeds; goods lost in transit from U.S. The gain included in insurance proceeds received by a Western Hemisphere trade corporation as a result of a loss of goods in transit from the U.S. to the Bahamas constitutes income from sources within the U.S. I.T. 3902 and Rev. Ruls. 60-278 and 61-195 superseded. §§1.861-1, 1.862-1, 1.921-1. (Secs. 861, 862, 921; '86 Code.)
Rev. Rul. 70-304, 1970-1 C.B. 163.

502.23 Intercompany transactions. Intercompany transactions between a domestic corporation and its domestic affiliate doing business in Venezuela will not adversely affect the qualifications of the affiliate as a Western Hemisphere trade corporation. §1.921-1. (Sec. 921, '86 Code.)
Rev. Rul. 57-542, 1957-2 C.B. 462.

502.24 Interest on credit sales. Interest received by a domestic corporation on notes or deferred accounts accepted in payment for goods

exported to Western Hemisphere customers is income from sources without the U.S. and from the active conduct of a trade or business for the purposes of section 921. §§1.861-1, 1.862-1, 1.921-1. (Secs. 861, 862, 921; '86 Code.)
Rev. Rul. 65-290, 1965-2 C.B. 241.

502.25 Interest on governmental obligations. In determining whether a domestic corporation satisfies the percentage requirements to qualify as a Western Hemisphere trade corporation, interest on certain governmental obligations is excludable from the corporation's gross income. §1.103-1. (Secs. 103, 921; '86 Code.)
Rev. Rul. 57-435, 1957-2 C.B. 462.

502.26 Net operating loss carryback to year of special deduction. Where the special deduction allowable to Western Hemisphere trade corporations was used in 1959 and after incurring a net operating loss in 1962, a claim for refund of a portion of the 1959 tax was filed on the basis of the net operating loss carryback, taxable income for purposes of section 922(1) is reduced by the net operating loss deduction. The special deduction under section 922 is computed by multiplying the reduced amount of taxable income by the fraction provided in section 922(2). §§1.172-1, 1.922-1. (Secs. 172, 922; '86 Code.)
Rev. Rul. 63-157, 1963-2 C.B. 296.

502.27 Ownership of DISC stock. Ownership of a DISC by an individual who is also the sole owner of a corporation, otherwise qualifying as a Western Hemisphere trade corporation, does not constitute indirect ownership of DISC stock by the corporation, and the special deduction provided in section 922 is allowable to the Western Hemisphere trade corporation. §1.922-1. (Sec. 922, '86 Code.)
Rev. Rul. 76-537, 1976-2 C.B. 228.

502.28 Place of sale; title passed at international boundary. A domestic corporation in the business of selling goods purchased in the U.S. to customers in Mexico that does not have an export license, but enters into an agreement with a licensed U.S. exporter who acts as broker and takes title and risk for the goods from the international boundary until sold in Mexico, does not qualify as a Western Hemisphere trade corporation. §§1.861-7, 1.862-1, 1.921-1. (Secs. 861, 862, 921; '86 Code.)
Rev. Rul. 75-310, 1975-2 C.B. 297.

502.29 Place of sale; title retained until foreign delivery. Sales of goods by a domestic corporation engaged in selling goods purchased in the U.S. to customers in Western Hemisphere countries under straight bills of lading naming the customer as consignee, but subject to a written agreement providing that title to the goods, responsibility for shipment, and risk of loss remain with the domestic corporation until the goods reach their destination, constitutes a clear expression of intent to pass title in the country of destination and, accordingly, gross income from such sales will be considered gross income from sources without the U.S. §1.921-1. (Sec. 921, '86 Code.)
Rev. Rul. 74-249, 1974-1 C.B. 189.

502.30 Place of sale; title retained until foreign delivery. The taxpayer, a wholly owned subsidiary of a U.S. corporation, bought goods from its parent and sold them to distributors in foreign countries of the Western Hemisphere. The agreements between the taxpayer and the distributors provided that the taxpayer should retain title to the goods and bear the risk of loss until the goods reached the foreign port of delivery. *Held*, all of the taxpayer's income was derived from sources outside the U.S. and it qualifies as a Western

Hemisphere trade corporation. (Secs. 26(i), 109, '39 Code; Secs. 921, 922, '86 Code.)

Pan American Eutectic Welding Alloys Co., 36 T.C. 284, Acq., 1964-2 C.B. 6.

502.31 Qualification; aggregate of outside purchases. In view of the *Otis Elevator Co.* decision, the Service will not litigate the issue of the qualification of a domestic corporation as a Western Hemisphere trade corporation under the 1939 Code where the aggregate of the purchases outside the Western Hemisphere for a taxable year does not exceed five-percent of the corporation's gross receipts. §39.109-1. (Sec. 109, '39 Code; Sec. 921, '86 Code.)
Rev. Rul. 63-95, 1963-1 C.B. 363.

502.32 Qualification; income including share of partnership income. A domestic corporation that receives all its gross income, either directly or as its distributive share of a partnership's gross income, from sources without the United States and from the active conduct of a trade or business in Western Hemisphere countries, qualifies as a Western Hemisphere trade corporation. §§1.702-1, 1.921-1. (Secs. 702, 921; '86 Code.)
Rev. Rul. 73-360, 1973-2 C.B. 293.

502.33 Qualification; place of sales. The Service will follow the *Pfaudler Inter-American Corp.* and *Hammond Organ Western Export Corp.* decisions which held that the corporations involved had conducted all their business in the Western Hemisphere and that there was no statutory requirement that their business be conducted outside the U.S. The place of sales involved in those cases was determined by the place where title to the property and other incidents of ownership passed to the buyer. Applying this test, it was determined that the corporations involved derived 95 percent or more of their gross income from sources without the U.S. §§39.109-1, 1.921-1. (Sec. 109, '39 Code; Sec. 921, '86 Code.)
Rev. Rul. 64-198, 1964-2 C.B. 189.

502.34 Sales outside Western Hemisphere. A qualified Western Hemisphere trade corporation is not considered to have had more than incidental economic contact with countries outside the Western Hemisphere where sales of its products to purchasers outside the Western Hemisphere are promoted by a related corporation. §1.921-1. (Sec. 921, '86 Code.)
Rev. Rul. 69-612, 1969-2 C.B. 156.

502.35 Services performed on high seas. A domestic corporation whose business and income are derived, for the most part, from the performance of services on the high seas between ports of countries in North America and the West Indies cannot qualify as a Western Hemisphere trade corporation. Rev. Rul. 63-269 clarified. §1.921-1. (Sec. 921, '86 Code.)
Rev. Rul. 66-340, 1966-2 C.B. 283.

502.36 St. Pierre and Miquelon Islands. The islands of St. Pierre, Great Miquelon, and Little Miquelon are part of North America for Western Hemisphere trade corporation purposes. §§1.921-1, 1.922-1. (Secs. 921, 922; '86 Code.)
Rev. Rul. 66-4, 1966-1 C.B. 177.

502.37 Surviving corporation in merger; gross income. A surviving corporation in a statutory merger must take into account its total gross income and that of the merged corporation for the pre-merger years in applying the computational tests as a Western Hemisphere trade corporation. §§1.381(a)-1, 1.921-1. (Secs. 381, 921; '86 Code.)
Rev. Rul. 72-356, 1972-2 C.B. 452.