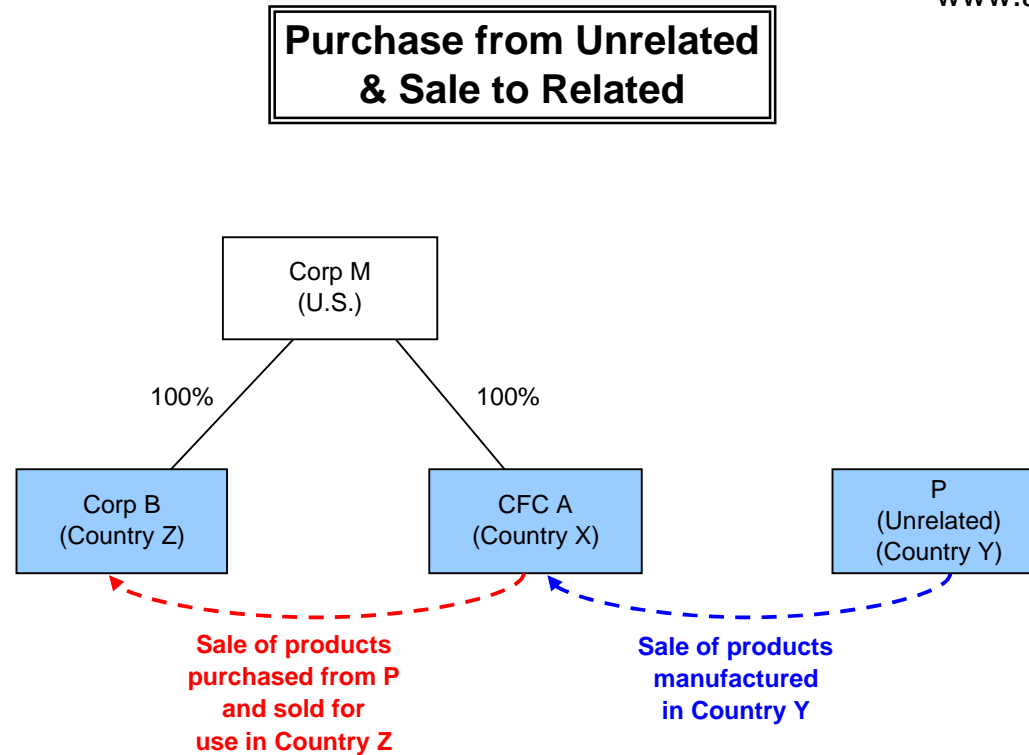


Reg. 1.954-3(a)(1)(iii), Example 2

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Controlled foreign corporation A, incorporated under the laws of foreign country X, is a wholly owned subsidiary of domestic corporation M. Corporation A purchases from P, not a related person, articles manufactured in country Y and sells the articles in the form in which purchased to foreign corporation B, a related person, for use in foreign country Z. **Gross income** of A Corporation derived **from the purchase and sale** of the personal property **is foreign base company sales income**.

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