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Tax Rate Disparity Calculations With Multiple Manufacturing & Sales Branches

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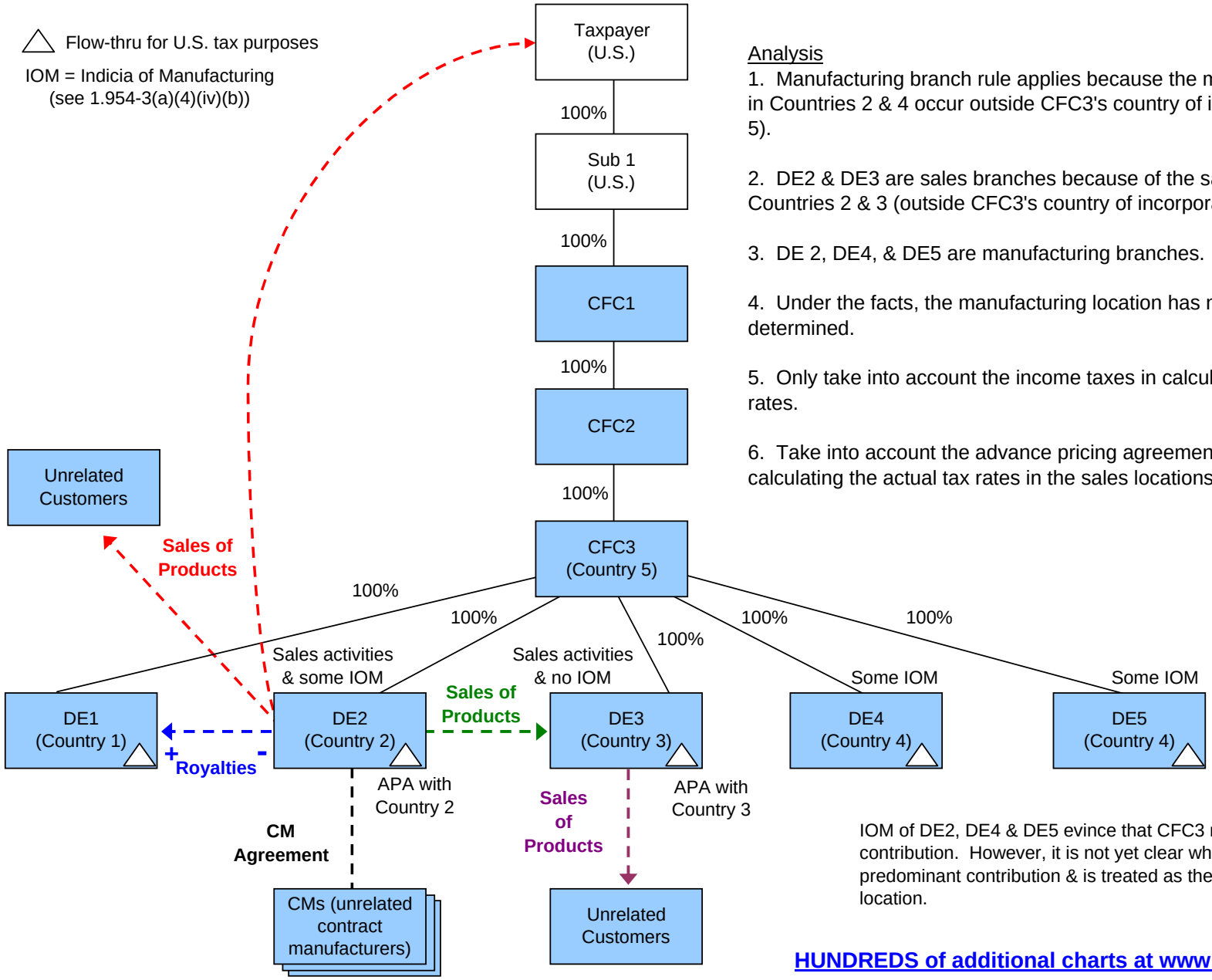

Analysis

1. Manufacturing branch rule applies because the manufacturing activities in Countries 2 & 4 occur outside CFC3's country of incorporation (Country 5).

2. DE2 & DE3 are sales branches because of the sales activities in Countries 2 & 3 (outside CFC3's country of incorporation [Country 5]).

3. DE 2, DE4, & DE5 are manufacturing branches.

4. Under the facts, the manufacturing location has not yet been determined.

5. Only take into account the income taxes in calculating the effective tax rates.

6. Take into account the advance pricing agreements (APAs) in calculating the actual tax rates in the sales locations.

IOM of DE2, DE4 & DE5 evince that CFC3 makes a substantial contribution. However, it is not yet clear which entity makes the predominant contribution & is treated as the manufacturing location.

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