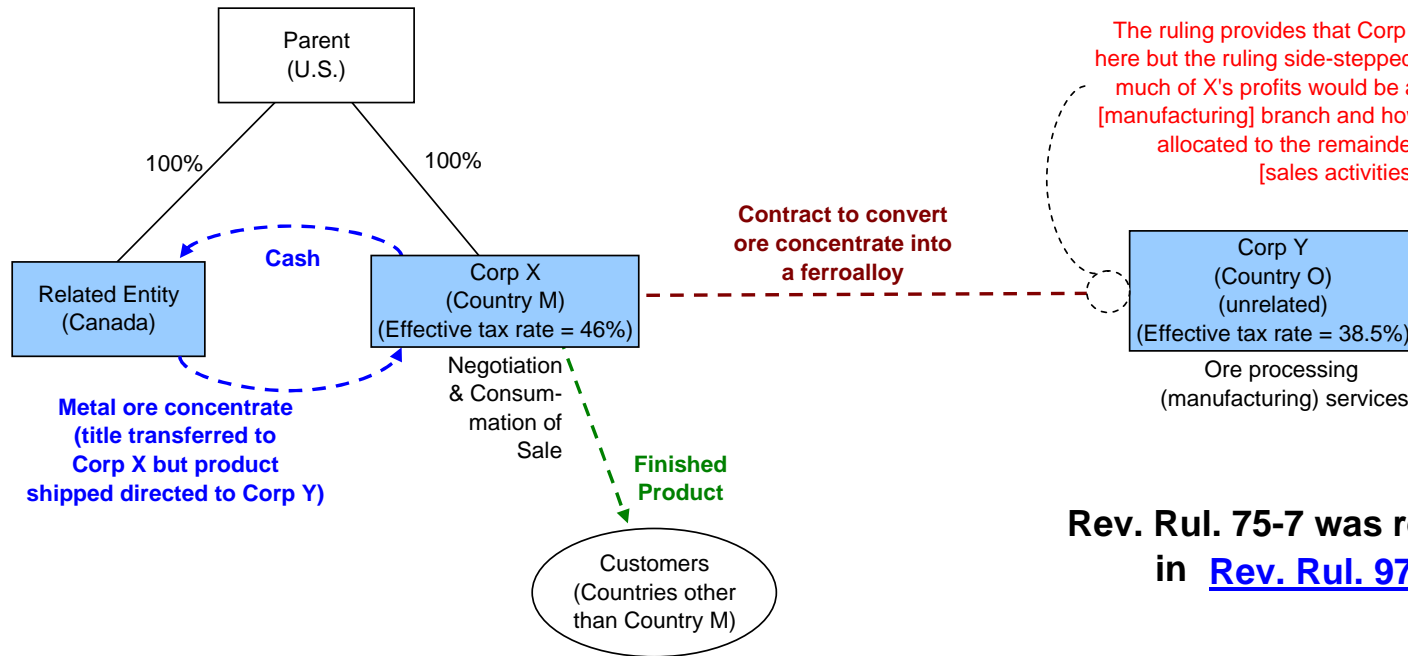


**Revenue Ruling 75-7
(revoked)**

**Contract Manufacturing - Attribution
of Manufacturing, But a Branch Existed**

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**Rev. Rul. 75-7 was revoked
in [Rev. Rul. 97-48](#)**

Under the terms of the contract X paid Y a conversion fee. The ore concentrate, before and during processing, and the finished product remained the sole property of X at all times. X alone purchased all raw material and other ingredients necessary in the processing operation and bore the risk of loss at all times in connection with the operation. Complete control of the time and quantity of production was vested in X. Complete control of the quality of the product was also vested in X, and Y was at all times required to use such processes as were directed by X. X could, when the occasion warranted it, send engineers or technicians to Y's plant to inspect, correct, or advise with regard to the processing of the ore concentrate into the finished product.

A foreign corporation will be considered to have manufactured, produced, or constructed personal property which it sells, if the property sold is in effect not the property which it purchased. If purchased personal property is substantially transformed prior to sale, the property sold will be treated as having been manufactured, produced, or constructed by the selling corporation. Under the contractual arrangement between X and Y, the performance by Y of the operations whereby the ore concentrate is processed into a ferroalloy is considered to be a performance by X. Therefore, X will be treated as having "substantially transformed personal property" within the meaning of Reg. 1.954-3(a)(4).

Furthermore, since X is conducting a manufacturing activity outside country M it will be considered to do so through a branch or similar establishment within the meaning of Reg. 1.954-3(b)(1)(ii). However, since the effective rate of tax in country M is higher than the rate of tax in country O, the manufacturing activity of X conducted in country O will not be considered to have substantially the same tax effect as a wholly-owned subsidiary corporation of X within the meaning of Reg. 1.954-3(b)(1)(ii). Accordingly, the income derived by X upon the sale of the ferroalloy will not constitute "foreign base company income" within the meaning of section 954(a).