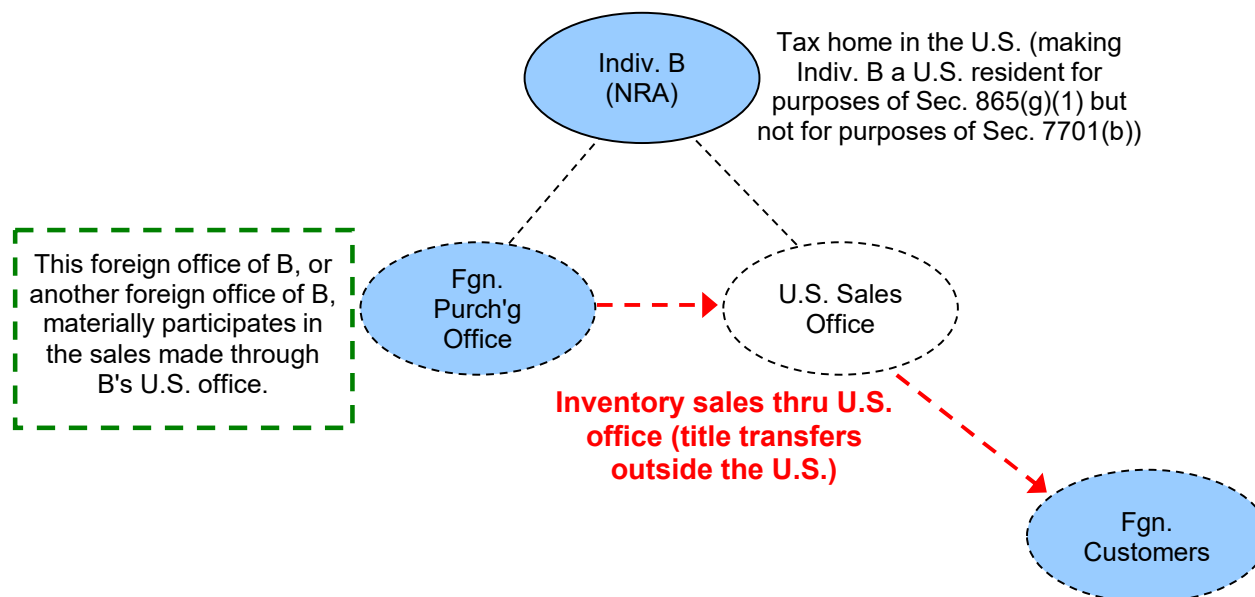


**Prop. Reg. 1.864-6(c)(3)(iii),  
Example 3**

**NRA With a US Tax Home  
Selling Foreign-Purchased  
Inventory Thru a US Office &  
a Foreign Office Materially  
Participates in the Sales**

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Nonresident alien individual B, who has a tax home in the United States, has an office in a foreign country that purchases merchandise and sells it through B's sales office in the United States for use in various foreign countries, with title to the property passing outside the United States. B has an office in a foreign country which participates materially in the sales which are made through its U.S. office. By reason of its sales activities in the United States, B is engaged in business in the United States during the taxable year. During the taxable year, B derives income of \$300,000x from these sales made through its U.S. sales office. Under section 865(b), all of B's income from these sales is foreign source as title to the merchandise passes outside the United States. The income which is allocable to B's U.S. sales office is not effectively connected for the taxable year with the conduct of a trade or business in the United States by that corporation.

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