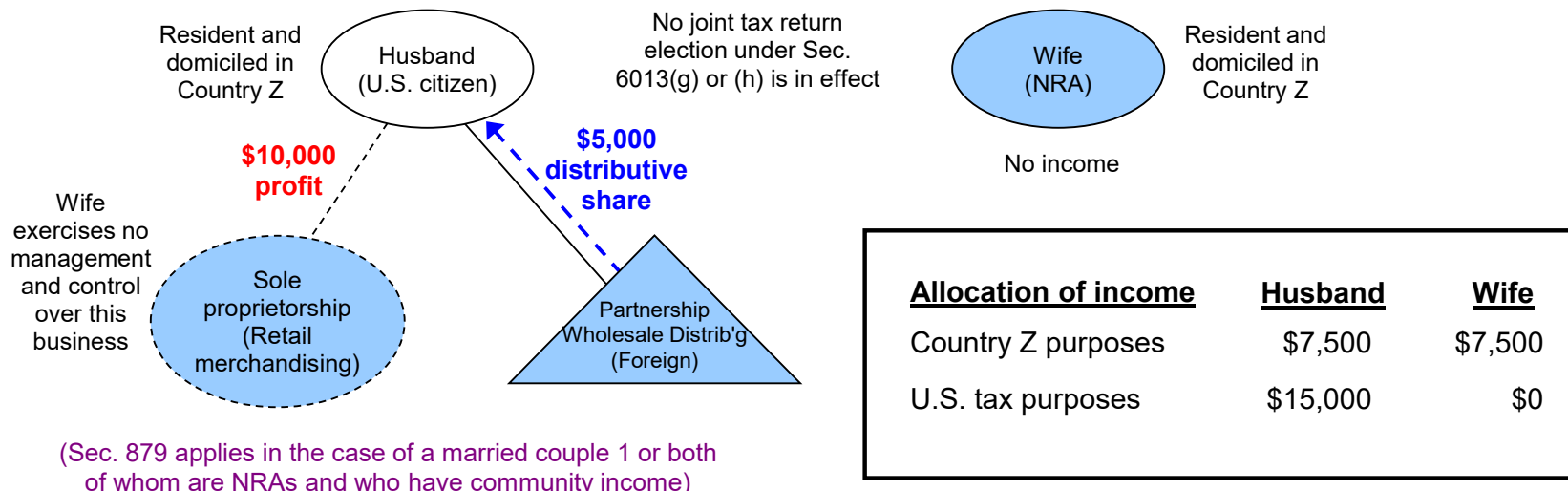


**Reg. 1.879-1(a)(7),  
Example 2**

**Community Income - Sole  
Proprietorship and Partnership**

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(a) H, a U.S. citizen, and W, a nonresident alien individual, each of whose taxable years is the calendar year, were married throughout 1977. H and W were residents of, and domiciled in, foreign country Z during the entire taxable year. No election under section 6013(g) or (h) is in effect for 1977. H is the sole proprietor of a retail merchandising company, which has a \$10,000 profit during 1977. W exercises no management and control over the business. In addition, H is a partner in a wholesale distributing company, and his distributive share of the partnership profit is \$5,000. Both of these amounts of income are treated as community income under the community property laws of country Z, and under these laws both H and W are treated as realizing \$7,500 of the income. Under the rule of Reg. 1.879-1(a)(3) and (4) all \$15,000 of the income is treated as the income of H for U.S. income tax purposes.

(b) If W exercises substantially all of the management and control over the retail merchandising company, then for U.S. income tax purposes the \$10,000 profit is treated as the income of W.