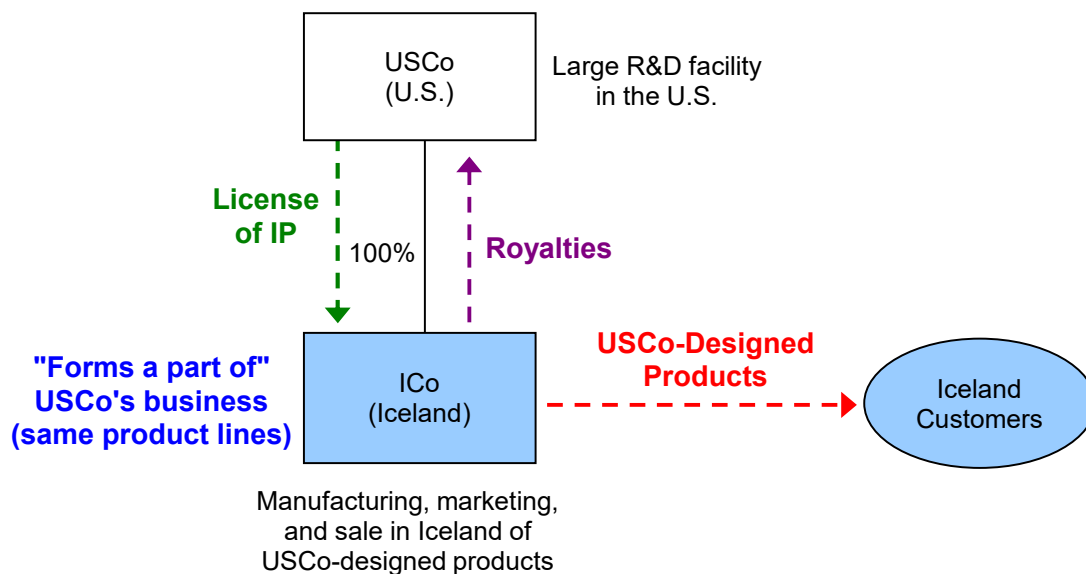


**Iceland Treaty (2007)
Treasury Tech. Explan.,
Article 21, Paragraph 4,
Example 2**

**Iceland Manufacturer
Activity "Forms a Part of"
U.S. R&D Activity**

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Limitation on benefits:

**Active trade or
business test
("derived in
connection with")**

USCo is a corporation resident in the United States. USCo owns 100 percent of the shares of ICo, a corporation resident in Iceland. USCo operates a large research and development facility in the United States that licenses intellectual property to affiliates worldwide, including ICo. ICo and other USCo affiliates then manufacture and market the USCo-designed products in their respective markets. Since the activities conducted by ICo and USCo involve the same product lines, these activities are considered to form a part of the same trade or business.

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