

(1) A life insurance company to which part I (sections 801 through 820) of subchapter L of the Code applies,

(2) A mutual insurance company to which part II (sections 821 through 826) of subchapter L of the Code applies, or

(3) A mutual marine insurance or other insurance company to which part III (sections 831 and 832) of subchapter L of the Code applies,

the term “gross amount of premiums” means, for purposes of paragraph (a) of this section, the gross amount of premiums and other consideration which are taken into account by a life insurance company under section 809(c)(1). Determinations for purposes of this paragraph shall be made without regard to section 501(a).

[T.D. 6795, 30 FR 942, Jan. 29, 1965]

§ 1.957-3 Corporations organized in United States possessions.

(a) *General rule.* For purposes of sections 951 through 964, a corporation created or organized in a possession of the United States or under the laws of a possession of the United States shall not be treated as a controlled foreign corporation for any taxable year if—

(1) 80 percent or more of the gross income of such corporation for the 3-year period immediately preceding the close of the taxable year or for such part of such 3-year period as such corporation was in existence or for such part of such 3-year period as occurs on and after the beginning of such corporation's first annual accounting period beginning after December 31, 1962, whichever period is shortest, was derived from sources within a possession of the United States; and

(2) 50 percent or more of the gross income of such corporation for such period, or for such part of such period, was derived from the active conduct within a possession of the United States of one or more trades or businesses constituting—

(i) The manufacture or processing of goods, wares, merchandise, or other tangible personal property;

(ii) The processing of agricultural or horticultural products or commodities (including but not limited to livestock, poultry, or fur-bearing animals);

(iii) The catching or taking of any kind of fish, or any manufacturing or

processing of any products or commodities obtained from such activities;

(iv) The mining or extraction of natural resources, or any manufacturing or processing of any products or commodities obtained from such activities; or

(v) The ownership or operation of hotels.

(b) *Special provisions.* For purposes of section 957(c) and this section—

(1) *United States defined.* The term “United States” includes only the States and the District of Columbia.

(2) *Possession of the United States defined.* The term “possession of the United States” includes Guam, the Midway Islands, the Panama Canal Zone, the Commonwealth of Puerto Rico, American Samoa, the Virgin Islands, and Wake Island.

(3) *Determination of source of gross income.* Whether gross income of a corporation referred to in paragraph (a) of this section is derived from sources within a possession of the United States shall be determined by the application of the provisions of § 1.955-6 except that, for purposes of making such determination, the term “produced”, as used in paragraph (d)(2) of § 1.955-6, shall also include the activities described in paragraph (a)(2)(i) through (iv) of this section and the activities considered, under subparagraph (4) of this paragraph, to be qualifying trades or businesses.

(4) *Manufacturing or processing.* The trades or businesses which qualify under the provisions of paragraph (a)(2) of this section shall include, but not be limited to, the manufacture of tabulating cards, paper tablets or pads, facial tissues, and paper napkins from rolls of paper; the manufacture of such household products as liquid starch by mixing quantities of the ingredients which are used to produce liquid starch; and the manufacture of juices and drinks from fruit concentrates. In the application of paragraph (a)(2) of this section, proper regard shall be given to the classification of a trade or business as a manufacturing or processing activity under the applicable economic incentive law of the possession involved. The fact that an activity of a corporation qualifies as a trade or business for purposes of paragraph (a)

of this section does not necessarily mean that such activity constitutes a substantial transformation of property within the meaning of paragraph (a)(4) of § 1.954-3 for purposes of determining any foreign base company income of such corporation.

[T.D. 6683, 28 FR 11184, Oct. 18, 1963]

§ 1.957-4 United States person defined.

(a) *Basic rule*—(1) *In general*. The term “United States person” has the same meaning for purposes of sections 951 through 964 which it has under section 7701(a)(30) and in the regulations thereunder, except as provided in section 957(d) and paragraphs (b), (c), and (d) of this section which provide, with respect to corporations organized in possessions of the United States, that certain residents of such possessions are not United States persons. The effect of determining that an individual is not a United States person for such purposes is to exclude such individual in determining whether a foreign corporation created or organized in, or under the laws of, Puerto Rico, the Virgin Islands, or any possession of the United States (other than Puerto Rico or the Virgin Islands) is a controlled foreign corporation. See § 1.957-1 for definition of the term “controlled foreign corporation”; § 1.957-2 for a special limitation on the amount of subpart F income of certain controlled foreign corporations deriving income from the insurance of United States risks; and § 1.957-3 for the exclusion of certain corporations organized in United States possessions from the definition of controlled foreign corporation.

(2) *Special provisions applicable to possessions of the United States*. For purposes of section 957(d) and this section—

(i) *Possession of the United States defined*. The term “possession of the United States” has the same meaning which it has under paragraph (b)(2) of § 1.957-3.

(ii) *Determination of residence in a possession*. Whether an individual is a bona fide resident of Puerto Rico, the Virgin Islands, or any other possession of the United States, shall be determined in general by applying to the facts and circumstances in each case the principles of §§ 1.871-2 through 1.871-5, relat-

ing to the determination of residence in the United States.

(b) *Puerto Rico corporation and resident*. With respect only to a foreign corporation created or organized in, or under the laws of, Puerto Rico—

(1) If an individual (who, without regard to this paragraph, is a United States person) is a bona fide resident of Puerto Rico during his entire taxable year in which or with which the taxable year of such foreign corporation ends, and

(2) If 50 percent or more of the gross income of such foreign corporation is derived from sources within Puerto Rico, as determined under § 1.863-6, for the 3-year period (or for such part of such 3-year period as such foreign corporation has been in existence) ending with the close of the taxable year of such foreign corporation which—

(i) Ends with or within the taxable year next preceding such taxable year of such individual and at any time, during the period beginning with the beginning of such latter taxable year of such individual and ending not later than one year after the close of such taxable year of such foreign corporation, such individual directly owns stock in such foreign corporation, or

(ii) Ends within such taxable year of such individual and at any time, during the period beginning after the close of such taxable year of such foreign corporation and ending with the close of such taxable year of such individual, such individual directly owns stock in such foreign corporation,

then, such individual shall not be considered a United States person with respect to such corporation for the taxable year of such corporation which ends with or within the taxable year of such person. The application of this paragraph may be illustrated by the following examples:

Example 1. Foreign corporation R, incorporated under the laws of Puerto Rico, is wholly owned by D, a United States citizen. D and corporation R use the calendar year as the taxable year. For 1961, 1962, and 1963, 60 percent of the gross income of R Corporation is derived from sources within Puerto Rico and 40 percent of the gross income of R Corporation is derived from sources within Panama, as determined under § 1.863-6. During all of 1964, D is a bona fide resident of Puerto Rico. D is not a United States person with