

of this section for underpayments of estimated income tax for a taxable year, as determined under section 6654 and the regulations thereunder, shall be to the jurisdiction with which he is required under paragraph (b) of this section to file his return for the taxable year.

(e) *Illustration.* The application of this section may be illustrated by the following examples:

Example 1. B, an individual, files returns on a calendar year basis. B is a resident of the United States at the time he is required to file his declaration of estimated income tax for 1974. If, under the facts and circumstances, B does not reasonably expect at the time he files his declaration of estimated income tax that he will be a resident of Guam at the close of 1974, he will not be subject to this section at the time of such filing. However, B subsequently receives Guam source income which necessitates an amendment of his declaration, and some time later in 1974 he becomes a resident of Guam for the remainder of the year. B is required under paragraph (d)(1) of this section to file his amended declaration with the United States and to make payments of the estimated tax to the United States. However, B is required to file his income tax return for 1974 with Guam and to make any underpayments of estimated tax to Guam, pursuant to paragraphs (b)(1) and (d)(6) of this section.

Example 2. C, an individual, files returns on a calendar year basis. On March 1, 1974, C is a resident of the United States, files his declaration of estimated income tax for 1974 with the United States, and pays his first installment of estimated tax to the United States. Prior to the date C would otherwise be required to file his declaration of estimated income tax for 1974 (April 15, 1974), C becomes a resident of Guam for the remainder of the year. C is required under paragraph (d)(1) of this section to make only his remaining payments of installments of estimated tax to Guam. C is also required to file his income tax return for 1974 with Guam and to make any underpayments of estimated tax to Guam, pursuant to paragraphs (b)(1) and (d)(6) of this section.

Example 3. D, an individual, files returns on a calendar year basis. On August 1, 1974, D ceases to be a resident of the United States for the year and becomes a resident of Guam for the remainder of the year. D is first required to file a declaration of estimated income tax for 1974 on September 15, 1974, because of his receipt of an extraordinary item of income after June 15, 1974. D is required under paragraph (d)(1) of this section to file his declaration with Guam and to make payments of the estimated tax to Guam. D is also required to file his income tax return

for 1974 with Guam and to make any underpayments of estimated tax to Guam, pursuant to paragraphs (b)(1) and (d)(6) of this section.

(f) *Effective date.* This section shall apply for taxable years beginning after December 31, 1972.

(Secs. 7805 (68A Stat. 917; 26 U.S.C. 7805) and 7654(e) (86 Stat. 1496; 26 U.S.C. 7654 (e)) of the Internal Revenue Code of 1954)

[T.D. 7385, 40 FR 50261, Oct. 29, 1975]

§ 1.936-1 Elections.

(a) *Making an election.* A domestic corporation shall make an election under section 936(e), for any taxable year beginning after December 31, 1975, by filing Form 5712 on or before the later of—

(1) The date on which such corporation is required, pursuant to sections 6072(b) and 6081, to file its Federal income tax return for the first taxable year for which the election is made; or

(2) April 8, 1980.

Form 5712 shall be filed with the Internal Revenue Service Center, 11601 Roosevelt Boulevard, Philadelphia, Pennsylvania 19155 (Philadelphia Center).

(b) *Revoking an election.* Any corporation to which an election under section 936 (e) applies on February 8, 1980 is hereby granted the consent of the Secretary to revoke that election for the first taxable year to which the election applied. (The corporation may make a new election under § 1.936-1 (a) for any subsequent taxable year.) The corporation shall make this revocation by sending to the Philadelphia Center a written statement of revocation on or before April 8, 1980.

(Secs. 7805 and 936(e) of the Internal Revenue Code of 1954 (68A Stat. 917 and 90 Stat. 1644; 26 U.S.C. 7805 and 936(e)))

[T.D. 7673, 45 FR 8588, Feb. 8, 1980; T.D. 7673, 45 FR 16174, Mar. 13, 1980]

§ 1.936-4 Intangible property income in the absence of an election out.

The rules in this section apply for purposes of section 936(h) and also for purposes of section 934(e), where applicable.

Q. 1: If a possessions corporation and its affiliates do not make an election under either the cost sharing or 50/50

profit split option, what rules will govern the treatment of income attributable to intangible property owned or leased by the possessions corporation?

A. 1: Intangible property income will be allocated to the possessions corporation's U.S. shareholders with the proration of income based on shareholdings. If a shareholder of the possessions corporation is a foreign person or a tax-exempt person, the possessions corporation will be taxable on that shareholder's pro rata amount of the intangible property income. If any class of the stock of a possessions corporation is regularly traded on an established securities market, then the intangible property income will be taxable to the possessions corporation rather than the corporation's U.S. shareholders. For these purposes, a United States shareholder includes any shareholder who is a United States person as described under section 7701(a)(30). The term "intangible property income" means the gross income of a possessions corporation attributable to any intangible property other than intangible property which has been licensed to such corporation since prior to 1948 and which was in use by such corporation on September 3, 1982.

Q. 2: What is the source of the intangible property income described in question 1?

A. 2: The intangible property income is U.S. source, whether taxed to U.S. shareholders or taxed to the possessions corporation. Such intangible property income, if treated as income of the possessions corporation, does not enter into the calculation of the 80-percent possessions source test or the 65-percent active trade or business test of section 936(a)(2)(A) and (B).

Q. 3: How will the amount of income attributable to intangible property be measured?

A. 3: Income attributable to intangible property includes the amount received by a possessions corporation from the sale, exchange, or other disposition of any product or from the rendering of a service which is in excess of the reasonable costs it incurs in manufacturing the product or rendering the service (other than costs incurred in connection with intangibles) plus a reasonable profit margin. A rea-

sonable profit margin shall be computed with respect to direct and indirect costs other than (i) costs incurred in connection with intangibles, (ii) interest expense, and (iii) the cost of materials which are subject to processing or which are components in a product manufactured by the possessions corporation. Notwithstanding the above, certain taxpayers who have been permitted by the Internal Revenue Service in taxable years beginning before January 1, 1983, to use the cost-plus method of pricing without reflecting a return from intangibles, but including the cost of materials in the cost base, will not be precluded from doing so. (Sec. 3.02(3), Rev. Proc. 63-10, 1963-1 C.B. 490.) Thus, the Internal Revenue Service may continue in appropriate cases to permit such taxpayers to continue to report their income as they have been under existing procedures described in the previous sentence if it is appropriate under all the facts and circumstances and does not distort the income of the taxpayer.

Q. 4: If there is no intangible property related to a product produced in whole or in part by a possessions corporation, what method may the possessions corporation use to compute its income?

A. 4: The taxpayer may compute its income using the appropriate method as provided under section 482 and the regulations thereunder. The taxpayer may also elect the cost sharing or profit split method.

[T.D. 8090, 51 FR 21524, June 13, 1986]

§ 1.936-5 Intangible property income when an election out is made: Product, business presence, and contract manufacturing.

The rules in this section apply for purposes of section 936(h) and also for purposes of section 934(e), where applicable.

(a) Definition of product.

Q. 1: What does the term "product" mean?

A. 1: The term "product" means an item of property which is the result of a production process. The term "product" includes component products, integrated products, and end-product