

corporation B, and 10 shares to foreign corporation C. Corporation C, a bank, lends \$3 million to finance the operations of A Corporation. In the course of negotiating these financial arrangements, D, an officer of C Corporation, and E, an officer of M Corporation, orally agree that C Corporation will vote its stock as M Corporation directs. By virtue of such oral agreement M Corporation possesses the voting power ostensibly owned by C Corporation, and A Corporation is a controlled foreign corporation.

Example 8. For its prior taxable year, *JV*, a foreign corporation, had outstanding 1000 shares of class A stock, which is voting common, and 1000 shares of class B stock, which is nonvoting preferred. *DP*, a domestic corporation, and *FP*, a foreign corporation, each owned precisely 500 shares of both class A and class B stock, and each elected 5 of the 10 members of *JV*'s board of directors. The other facts and circumstances were such that *JV* was not a controlled foreign corporation on any day of the prior taxable year. On the first day of the current taxable year, *DP* purchased one share of class B stock from *FP*. *JV* was a controlled foreign corporation on the following day because over 50 percent of the total value in the corporation was held by a person that was a United States shareholder under section 951(b). See § 1.951-1(f).

Example 9. The facts are the same as in *Example 8* except that the stock of *FP* was publicly traded, *FP* had one class of stock, and on the first day of the current taxable year *DP* purchased one share of *FP* stock on the foreign stock exchange instead of purchasing one share of *JV* stock from *FP*. *JV* became a controlled foreign corporation on the following day because over 50 percent of the total value in the corporation was held by a person that was a United States shareholder under section 951(b).

Example 10. *X*, a foreign corporation, is incorporated under the laws of country *Y*. Under the laws of country *Y*, *X* is considered a mutual insurance company. *X* issues insurance policies that provide the policyholder with the right to vote for directors of the corporation, the right to a share of the assets upon liquidation in proportion to premiums paid, and the right to receive policyholder dividends in proportion to premiums paid. Only policyholders are provided with the right to vote for directors, share in assets upon liquidation, and receive distributions. United States policyholders contribute 25 percent of the premiums and have 25 percent of the outstanding rights to vote for the board of directors. Based on these facts, the United States policyholders are United States shareholders owning the requisite combined voting power and value. Thus, *X* is a controlled foreign corporation for purposes of taking into account related person insurance income under section 953(c).

(d) *Effective date.* Paragraphs (a) and (c) *Examples 8* through *10* of this section are effective for taxable years of a controlled foreign corporation beginning after November 6, 1995.

[T.D. 6688, 28 FR 11631, Oct. 31, 1963, as amended by T.D. 8216, 53 FR 27510, July 21, 1988; T.D. 8618, 60 FR 46529, Sept. 7, 1995; 60 FR 62026, Dec. 4, 1995; T.D. 8704, 62 FR 21, Jan. 2, 1997]

§ 1.957-2 Controlled foreign corporation deriving income from insurance of United States risks.

(a) *In general.* For purposes of taking into account only the income derived from the insurance of United States risks under § 1.953-1, the term "controlled foreign corporation" means any foreign corporation of which more than 25 percent, but not more than 50 percent, of the total combined voting power of all classes of stock entitled to vote is owned within the meaning of section 958(a), or is considered as owned by applying the rules of ownership of section 958(b), by United States shareholders on any day of the taxable year of such foreign corporation, but only if the gross amount of premiums received by such foreign corporation during such taxable year which are attributable to the reinsuring and the issuing of insurance and annuity contracts in connection with United States risks, as defined in § 1.953-2 or 1.953-3, exceeds 75 percent of the gross amount of all premiums received by such foreign corporation during such year which are attributable to the reinsuring and the issuing of insurance and annuity contracts in connection with all risks. The subpart F income for a taxable year of a foreign corporation which is a controlled foreign corporation for such taxable year within the meaning of this paragraph shall, subject to the provisions of section 952(b), (c), and (d), and § 1.952-1, include only the income derived from the insurance of United States risks, as determined under § 1.953-1.

(b) *Gross amount of premiums defined.* For a foreign corporation which is engaged in the business of reinsuring or issuing insurance or annuity contracts and which, if it were a domestic corporation engaged only in such business, would be taxable as—

(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)