

§ 1.6038A-1

26 CFR Ch. I (4-1-04 Edition)

- (ix) Product line.
- (8) Example.
- (i) Facts.
- (ii) Existing records test.
- (iii) Significant industry segments.
- (iv) High profit test.
- (v) Material profit and loss statements.
- (d) Liability for certain partnership record maintenance.
- (e) Agreements with the District Director or the Assistant Commissioner (International).
- (1) In general.
- (2) Content of agreement.
- (i) In general.
- (ii) Significant industry segment test.
- (iii) Example.
- (3) Circumstances of agreement.
- (4) Agreement as part of APA process.
- (f) U.S. maintenance.
- (1) General rule.
- (2) Non-U.S. maintenance requirements.
- (3) Prior taxable years.
- (4) Scheduled production for high volume or other reasons.
- (5) Required U.S. maintenance.
- (g) Period of retention.
- (h) Application of record maintenance rules to banks and other financial institutions. [Reserved]
- (i) Effective dates.

§ 1.6038A-4 Monetary penalty.

- (a) Imposition of monetary penalty.
- (1) In general.
- (2) Liability for certain partnership transactions.
- (3) Calculation of monetary penalty.
- (b) Reasonable cause.
- (1) In general.
- (2) Affirmative showing required.
- (i) In general.
- (ii) Small corporations.
- (iii) Facts and circumstances taken into account.
- (c) Failure to maintain records or to cause another to maintain records.
- (d) Increase in penalty where failure continues after notification.
- (1) In general.
- (2) Additional penalty for another failure.
- (3) Cessation of accrual.
- (4) Continued failures.
- (e) Other penalties.
- (f) Examples.
- Example (1)—Failure to file Form 5472.
- Example (2)—Failure to maintain records.
- (g) Effective dates.

§ 1.6038A-5 Authorization of agent.

- (a) Failure to authorize.
- (b) Authorization by related party.
- (1) In general.
- (2) Authorization for prior years.
- (c) Foreign affiliated groups.
- (1) In general.

- (2) Application of noncompliance penalty adjustment.
- (d) Legal effect of authorization of agent.
- (1) Agent for purposes of commencing judicial proceedings.
- (2) Foreign related party found where reporting corporation found.
- (e) Successors in interest.
- (f) Deemed compliance.
- (1) In general.
- (2) Reason to know.
- (3) Effect of deemed compliance.
- (g) Effective dates.

§ 1.6038A-6 Failure to furnish information.

- (a) In general.
- (b) Coordination with treaties.
- (c) Enforcement proceeding not required.
- (d) *De minimis* failure.
- (e) Suspension of statute of limitations.
- (f) Effective dates.

§ 1.6038A-7 Noncompliance.

- (a) In general.
- (b) Determination of the amount.
- (c) Separate application.
- (d) Effective dates.

[T.D. 8353, 56 FR 28060, June 19, 1991]

§ 1.6038A-1 General requirements and definitions.

(a) *Purpose and scope.* This section and §§ 1.6038A-2 through 1.6038A-7 provide rules for certain foreign-owned U.S. corporations and foreign corporations engaged in trade or business within the United States (reporting corporations) relating to information that must be furnished, records that must be maintained, and the authorization of the reporting corporation to act as agent for related foreign persons for purposes of sections 7602, 7603, and 7604 that must be executed. Section 6038A(a) and this section require that a reporting corporation furnish certain information annually and maintain certain records relating to transactions between the reporting corporation and certain related parties. This section also provides definitions of terms used in section 6038A. Section 1.6038A-2 provides guidance concerning the information to be submitted and the filing of the required return. Section 1.6038A-3 provides guidance concerning the maintenance of records. Section 1.6038A-4 provides guidance concerning

the application of the monetary penalty for the failure either to furnish information or to maintain records. Section 1.6038A-5 provides guidance concerning the authorization of an agent for purposes of sections 7602, 7603, and 7604. Section 1.6038A-6 provides guidance concerning the failure to furnish information requested by a summons. Finally, §1.6038A-7 provides guidance concerning the application of the non-compliance penalty for failure by the related party to authorize an agent or by the reporting corporation to substantially comply with a summons.

(b) *In general.* A reporting corporation must furnish the information described in §1.6038A-2 by filing an annual information return (Form 5472 or any successor), and must maintain records as described in §1.6038A-3.

(c) *Reporting corporation—(1) In general.* For purposes of section 6038A, a reporting corporation is either a domestic corporation that is 25-percent foreign-owned as defined in paragraph (c)(2) of this section, or a foreign corporation that is 25-percent foreign-owned and engaged in trade or business within the United States. After November 4, 1990, a foreign corporation engaged in a trade or business within the United States at any time during a taxable year is a reporting corporation. See section 6038C.

(2) *25-percent foreign-owned.* A corporation is 25-percent foreign-owned if it has at least one direct or indirect 25-percent foreign shareholder at any time during the taxable year.

(3) *25-percent foreign shareholder—(i) In general.* A foreign person is a 25-percent foreign shareholder of a corporation if the person owns at least 25 percent of—

(A) The total voting power of all classes of stock of the corporation entitled to vote, or

(B) The total value of all classes of stock of the corporation.

(ii) *Total voting power and value.* In determining whether one foreign person owns 25 percent of the total voting power of all classes of stock of a corporation entitled to vote or 25 percent of the total value of all classes of stock of a corporation, consideration will be given to all the facts and circumstances of each case, under prin-

ciples similar to §1.957-1(b)(2) (consideration of arrangements to shift formal voting power away from a foreign person).

(iii) *Direct 25-percent foreign shareholder.* A foreign person is a direct 25-percent foreign shareholder if it owns directly at least 25 percent of the stock of the reporting corporation, either by vote or by value.

(iv) *Indirect 25-percent foreign shareholder.* A foreign person is an indirect 25-percent foreign shareholder if it owns indirectly (or under the attribution rules of section 318 is considered to own indirectly) at least 25 percent of the stock of the reporting corporation, either by vote or by value.

(4) *Application to prior open years.* For taxable years beginning before July 11, 1989, the definition of a reporting corporation under this paragraph applies in determining whether a foreign-owned corporation is a reporting corporation. An examination may be reopened if the statute of limitations period for that taxable year has not expired. A taxable year may not be reopened under section 6038A for examination purposes if the taxable year is open under section 6511 only for purposes of the carryback of net operating losses or net capital losses.

(5) *Exceptions—(i) Treaty country residents having no permanent establishment.* A foreign corporation that has no permanent establishment in the United States under an applicable income tax convention is not a reporting corporation for purposes of section 6038A and this section. Accordingly, such a foreign corporation is not subject to §§1.6038A-2, 1.6038A-3, and 1.6038A-5. It must timely and fully provide the required notice to the Commissioner under section 6114. See section 6114 and the regulations thereunder for the notice that such a corporation must file and the applicable penalties for failure to file such notice.

(ii) *Qualified exempt shipping income.* A foreign corporation whose gross income is exempt from U.S. taxation under section 883 is not a reporting corporation provided that it timely and fully complies with the reporting requirements required to claim such exemption. In the event that such a corporation does not timely and fully

comply with the reporting requirements under sections 887 and 883, it will be a reporting corporation subject to section 6038A, including the application of the monetary penalty for failure to file required information.

(iii) *Status as foreign related party.* Nothing in this paragraph affects the determination of whether a person is a foreign related party as defined in paragraph (g) of this section.

(d) *Related party.* The term “related party” means—

(1) Any direct or indirect 25-percent foreign shareholder of the reporting corporation,

(2) Any person who is related within the meaning of sections 267(b) or 707(b)(1) to the reporting corporation or to a 25-percent foreign shareholder of the reporting corporation, or

(3) Any other person who is related to the reporting corporation within the meaning of section 482 and the regulations thereunder. However, the term “related party” does not include any corporation filing a consolidated federal income tax return with the reporting corporation.

(e) *Attribution rules—(1) Attribution under section 318.* For purposes of determining whether a corporation is 25-percent foreign-owned and whether a person is a related party under section 6038A, the constructive ownership rules of section 318 shall apply, and the attribution rules of section 267(c) also shall apply to the extent they attribute ownership to persons to whom section 318 does not attribute ownership. However, “10 percent” shall be substituted for “50 percent” in section 318(a)(2)(C), and section 318(a)(3) (A), (B), and (C) shall not be applied so as to consider a U.S. person as owning stock that is owned by a person who is not a U.S. person. Additionally, section 318(a)(3)(C) and § 1.318-1(b) shall not be applied so as to consider a U.S. corporation as being a reporting corporation if, but for the application of such sections, the U.S. corporation would not be 25-percent foreign owned.

(2) *Attribution of transactions with related parties engaged in by a partnership.* The transactions in which a domestic or foreign partnership engages shall be attributed to any reporting corporation whose interest in the capital or

profits of the partnership, either directly or indirectly, combined with the interests of all related parties of the reporting corporation partner, equals 25 percent or more of the total partnership interests. Attribution of such transactions shall be made only to the extent of the partnership interest held by that reporting corporation partner. See sections 875 and 702(a) and the regulations thereunder. (Attribution shall not be made however, of transactions directly between the partnership and a reporting corporation.) Accordingly, a reporting corporation partner that is deemed to engage in transactions with related parties under this rule is subject to the information reporting requirements of § 1.6038A-2, to the record maintenance requirements of § 1.6038A-3, to the monetary penalty under § 1.6038A-4, to the requirement of authorization of agent under § 1.6038A-5, to the rules of § 1.6038A-6 relating to the requirement to produce records, and to the noncompliance penalty adjustment under § 1.6038A-7.

(f) *Foreign person.* For purposes of section 6038A, a foreign person is—

(1) Any individual who is not a citizen or resident of the United States, but not including any individual for whom an election under section 6013 (g) or (h) (relating to an election to file a joint return) is in effect;

(2) Any individual who is a citizen of any possession of the United States and who is not otherwise a citizen or resident of the United States;

(3) Any partnership, association, company, or corporation that is not created or organized in the United States or under the law of the United States or any State thereof;

(4) Any foreign trust or foreign estate, as defined in section 7701(a)(31); or

(5) Any foreign government (or agency or instrumentality thereof). To the extent that a foreign government is engaged in the conduct of commercial activity as defined under section 892 and the regulations thereunder, it will be treated as a foreign person under section 6038A and this section only for purposes of the information reporting requirements of § 1.6038A-2. A foreign government will not be treated as a foreign related party for purposes of §§ 1.6038A-3 and 1.6038A-5.

For purposes of section 6038A, a possession of the United States shall be considered to be a foreign country.

(g) *Foreign related party.* A foreign related party is a foreign person as defined under paragraph (f) of this section that is also a related party as defined under paragraph (d) of this section.

(h) *Small corporation exception.* A reporting corporation that has less than \$10,000,000 in U.S. gross receipts for a taxable year is not subject to §§ 1.6038A-3 and 1.6038A-5 for that taxable year. Such a corporation, however, remains subject to the information reporting requirements of § 1.6038A-2 and the general record maintenance requirements of section 6001. For purposes of this paragraph, U.S. gross receipts includes all amounts received or accrued to the extent that such amounts are taken into account for the determination and computation of the gross income of the corporation. For purposes of this test, the U.S. gross receipts of all related reporting corporations shall be aggregated.

(i) *Safe harbor for reporting corporations with related party transactions of de minimis value—(1) In general.* A reporting corporation is not subject to §§ 1.6038A-3 and 1.6038A-5 for any taxable year in which the aggregate value of all gross payments it makes to and receives from foreign related parties with respect to related party transactions (including monetary consideration, nonmonetary consideration, and the value of transactions involving less than full consideration), is not more than \$5,000,000 and is less than 10 percent of its U.S. gross income. Such a corporation, however, remains subject to the information reporting requirements of § 1.6038A-2 and the general record maintenance requirements of section 6001. For purposes of this paragraph, U.S. gross income means the gross income reportable by the reporting corporation (or the aggregate gross income reportable by all related reporting corporations) for U.S. income tax purposes. Gross payments made to or received from foreign related parties cannot be netted; rather, the gross payments made to and received from foreign related parties are to be aggregated. Thus, for example, if a reporting

corporation receives \$4,700,000 of gross payments from a related party and makes \$500,000 of gross payments to the same related party, it has aggregate gross payments of \$5,200,000, and, therefore, does not qualify for the safe harbor under this paragraph.

(2) *Aggregate value of gross payments made or received.* The aggregate value of gross payments made to (or received from) a foreign related party with respect to foreign related party transactions is determined by totaling the dollar amounts of foreign related party transactions as described in § 1.6038A-2(b) (3) and (4) on all Forms 5472 filed by the reporting corporation or related reporting corporations.

(j) *Related reporting corporations.* A reporting corporation is related to another reporting corporation if it is related to that other reporting corporation under the principles described in paragraphs (d) and (e) of this section.

(k) *Consolidated return groups—(1) Required information.* If a reporting corporation is a member of an affiliated group for which a U.S. consolidated income tax return is filed, the return requirement of § 1.6038A-2 may be satisfied by filing a consolidated Form 5472. The common parent, as identified on Form 851, must attach a schedule to the consolidated Form 5472 stating which members of the U.S. affiliated group are reporting corporations under section 6038A, and which of those are joining in the consolidated Form 5472. The schedule must provide the name, address, and taxpayer identification number of each member whose transactions are included on the consolidated Form 5472. A member is not required to join in filing a consolidated Form 5472 merely because other members of the group choose to file one or more Forms 5472 on a consolidated basis.

(2) *Maintenance of records and authorization of agent.* Either the common parent or the principal operating company of an affiliated group filing a consolidated income tax return may be authorized under § 1.6038A-5 to act as the agent for foreign related persons engaged in transactions with members of the group solely for purposes of section 7602, 7603, and 7604 under section

6038A(e)(1) and § 1.6038A-5. Each member of the group, however, must maintain the records required under section 6038A (a) and § 1.6038A-3 relating to its related party transactions.

(3) *Monetary penalties.* The common parent (or principal operating company) and all reporting corporations that join in the filing of a consolidated Form 5472 are liable jointly and severally for penalties for failure to file Form 5472 and for failure to maintain records under section 6038A(d) and § 1.6038A-4(e). See § 1.1502-77(a) regarding the scope of agency of the common parent corporation.

(l) *District Director.* For purposes of the regulations under section 6038A, the term “District Director” means any District Director, or the Assistant Commissioner (International) when performing duties similar to those of a District Director with respect to any person over which the Assistant Commissioner (International) has appropriate jurisdiction.

(m) *Examples.* The following examples illustrate the rules of this section.

Example 1. P, a U.S. partnership that is engaged in a U.S. trade or business, is 75 percent owned by FC1, a foreign corporation that, in turn, is wholly owned by another foreign corporation, FC2. The remaining 25 percent of P is owned by Corp, a domestic corporation, that is wholly owned by FC3. P engages in transactions solely with FC2 and FC3. These transactions are attributed to FC1 and Corp. Under section 875, FC1 is considered as being engaged in a U.S. trade or business. For purposes of section 6038A and this section, FC1 and Corp are reporting corporations and must report their pro rata shares of the value of the transactions with FC2 and FC3. Thus, Corp must report 25 percent of P’s transactions with FC3 and FC1 must report 75 percent of P’s transactions with FC2.

Example 2. FC2 and FC3 are both foreign corporations that are wholly owned by FC1, also a foreign corporation. FC2 engages in a trade or business in the United States through a branch. The branch engages in related party transactions with FC1. FC2 is a reporting corporation. FC3 is a foreign related party. FC1 is a direct 25-percent foreign shareholder of both FC2 and FC3. Neither FC1 nor FC3 is a reporting corporation.

Example 3. FC1 owns 25 percent of total voting power in each of FC2 and FC3. FC2 and FC3 each own 20 percent of the total voting power of Corp, a domestic corporation. The remaining stock of Corp is owned by an unrelated domestic corporation. Neither FC2 nor

FC3 is engaged in a U.S. trade or business. Under section 318(a)(2)(C) and paragraph (e) of this section, FC1 constructively owns its proportionate share of the stock of Corp owned directly by FC2 and FC3. Thus, FC1 is treated as constructively owning five percent of Corp through each of FC2 and FC3 or a total of 10 percent of the Corp stock. Consequently, Corp is not a reporting corporation because no 25 percent shareholder exists.

Example 4. FP owns 100 percent of FC1 which, in turn, owns 100 percent of FC2. FC2 owns 100 percent of FC3 which owns 100 percent of RC. FP, FC1, and FC2 are indirect 25-percent foreign shareholders of RC, and FC3 is a direct 25-percent foreign shareholder.

Example 5. FP owns 100 percent of USS, a U.S. corporation, and 25 percent of FS, a foreign corporation. The remaining 75 percent of FS is publicly owned by numerous small shareholders. Sales transactions occur between USS and FS. Applying the rules of this section, USS is a reporting corporation. It is determined that USS and FS are each controlled by FP under section 482 and the regulations thereunder. Therefore, FS is related to USS within the meaning of section 482 and is a related party to USS. Accordingly, the sales transactions between USS and FS are subject to section 6038A.

Example 6. The facts are the same as in *Example 5*, except that the remaining 75 percent of FS is owned by one shareholder that is unrelated to the FP group and it is determined that FS is not controlled by FP for purposes of section 482. Under these facts, FS is not a related party of either FP or USS. Accordingly, section 6038A does not apply to the sales transactions between FS and USS.

Example 7. P, a U.S. multinational, is a holding company that wholly owns X, a U.S. operating company, which in turn wholly owns FS, a controlled foreign corporation. Applying the rule of section 318(a)(3)(C), FS is deemed to own the stock of X that is actually held by P. However, under the rules of paragraph (e) of this section, X will not be a reporting corporation by reason of section 318.

(n) *Effective dates—(1) Section 1.6038A-1.* Paragraphs (c) (relating to the definition of a reporting corporation), (d) (relating to the definition of a related party), (e)(1) (relating to the application of section 318), and (f) (relating to the definition of a foreign person) of this section are effective for taxable Years beginning after July 10, 1989. The remaining paragraphs of this section are effective December 10, 1990, without regard to when the taxable year began.

(2) *Section 1.6038A-2.* Section 1.6038A-2 (relating to the requirement to file

Form 5472) is generally effective for taxable years beginning after July 10, 1989. However, § 1.6038A-2 as it applies to reporting corporations whose sole trade or business in the United States is a banking, financing, or similar business as defined in § 1.864-4(c)(5)(i) is effective for taxable years beginning after December 10, 1990.

(3) *Section 1.6038A-3.* Section 1.6038A-3 (relating to the record maintenance requirement) is generally effective December 10, 1990. However, records described in § 1.6038A-3 in existence on or after March 20, 1990, must be maintained, without regard to when the taxable year to which the records relate began.

(4) *Section 1.6038A-4.* Section 1.6038A-4 (relating to the monetary penalty) is generally effective for taxable years beginning after July 10, 1989, for the failure to file Form 5472. For the failure to maintain records or the failure to produce documents under § 1.6038A-4(f)(2), the section is effective December 10, 1990, without regard to when the taxable year to which the records relate began.

(5) *Section 1.6038A-5.* Section 1.6038A-5 (relating to the authorization of agent requirement) is effective December 10, 1990, without regard to when the taxable year to which the records relate began.

(6) *Section 1.6038A-6.* Section 1.6038A-6 (relating to the failure to furnish information under a summons) is effective November 6, 1990, without regard to when the taxable year to which the summons relates began.

(7) *Section 1.6038A-7.* Section 1.6038A-7 (relating to the noncompliance penalty adjustment) is effective December 10, 1990, without regard to when the taxable year began.

[T.D. 8353, 56 FR 28061, June 19, 1991; T.D. 8353, 56 FR 41792, Aug. 23, 1991]

§ 1.6038A-2 Requirement of return.

(a) *Form 5472 required—(1) In general.* Each reporting corporation as defined in § 1.6038A-1(c) (or members of an affiliated group filing together as described in § 1.6038A-1(k)) shall make a separate annual information return on Form 5472 with respect to each related party as defined in § 1.6038A-1(d) with which the reporting corporation (or

any group member joining in a consolidated Form 5472) has had any reportable transaction during the taxable year. The information required by section 6038A and this section must be furnished even though it may not affect the amount of any tax due under the Code.

(2) *Reportable transaction.* A reportable transaction is any transaction of the types listed in paragraphs (b) (3) and (4) of this section. However, if neither party to the transaction is a United States person as defined in section 7701(a)(30) and the transaction—

(i) Will not generate in any taxable year gross income from sources within the United States or income effectively connected, or treated as effectively connected, with the conduct of a trade or business within the United States, and

(ii) Will not generate in any taxable year any expense, loss, or other deduction that is allocable or apportionable to such income, the transaction is not a reportable transaction.

(b) *Contents of return—(1) Reporting corporation.* Form 5472 must provide the following information in the manner the form prescribes with respect to each reporting corporation:

(i) Its name, address (including mailing code), and U.S. taxpayer identification number; each country in which the reporting corporation files an income tax return as a resident under the tax laws of that country; its country or countries of organization, and incorporation; its total assets for U.S. reporting corporation; the places where it conducts its business; and its principal business activity.

(ii) The name, address, and U.S. taxpayer identification number, if applicable, of all its direct and indirect 25-percent foreign shareholders (for an indirect 25-percent foreign shareholder, explain the attribution of ownership); each country in which each 25-percent foreign shareholder files an income tax return as a resident under the tax laws of that country; the places where each 25-percent shareholder conducts its business; and the country or countries of organization, citizenship, and incorporation of each 25-percent foreign shareholder.