§ 1.883–0

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elected to use the separate currency pools method provided in paragraph (e) of this section.

(ii) Determination of interest expense. Z determines the interest expense attributable to its U.S.-connected liabilities according to the steps described below.

(A) First, Z separates its U.S. assets into two currency pools, one denominated in U.S. dollars ($20,000) and the other denominated in U ($5,000).

(B) Second, Z multiplies each pool of assets by the applicable ratio of worldwide liabilities to assets, which in this case is 95%. Thus, Z has U.S.-connected liabilities of $19,000 ($20,000 x 95%), and U$4750 ($5,000 x 95%).

(C) Third, Z calculates its interest expense by multiplying each pool of its U.S-connected liabilities by the relevant interest rates. Accordingly, Z’s allocable interest expense for the year is $1140 ($19,000 x 6%), the sum of the expense associated with its U.S. dollar liabilities, plus U$570 ($4750 x 12%), the interest expense associated with its liabilities denominated in U. Z must translate its interest expense denominated in U in accordance with the rules provided in section 988, and then must determine whether it is subject to any other provision of the Code that would disallow or defer any portion of its interest expense so determined.

Example 2. [Reserved]

(f)(1) Effective/applicability date
This section is applicable for taxable years ending on or after August 15, 2009. A taxpayer, however, may choose to apply §1.882–5T, rather than applying the final regulations, for any taxable year beginning on or after August 16, 2008 but before August 15, 2009.

(2) Special rules for financial products. [Reserved]


§ 1.883–0 Outline of major topics.
This section lists the major paragraphs contained in §§1.883–1 through 1.883–5.

§ 1.883–1 Exclusion of income from the international operation of ships or aircraft.

(a) General rule.
(b) Qualified income.
(c) Qualified foreign corporation.
(d) Qualified foreign country.
(e) Reserve shareholder.
(f) Stock ownership test.
(g) Substantiation and reporting requirements.
(h) Commissioner’s discretion to cure defects in documentation.
(i) General rule.
(j) Names and permanent addresses of certain shareholders.
(k) Operation of ships or aircraft.
(l) General rule.
(m) Pool, partnership, strategic alliance, joint operating agreement, code-sharing arrangement or other joint venture.
(n) Activities not considered operation of ships or aircraft.
(o) General rule.
(p) Commissioner’s discretion to cure defects in documentation.
(q) General rule.
(r) Qualified foreign country.
(s) Operation of ships or aircraft.
(iii) Participation in certain joint ventures.
(iv) Independent interpretation of income tax conventions.
(4) Exemptions not qualifying as equivalent exemptions.
(i) General rule.
(ii) Reduced tax rate or time limited exemption.
(iii) Inbound or outbound freight tax.
(iv) Exemptions for limited types of cargo.
(vi) Countries that tax on a residence basis.
(vii) Exemptions within categories of income.
(i) Treatment of possessions.
(j) Expenses related to qualified income.

§ 1.883–2 Treatment of publicly-traded corporations.

(a) General rule.
(b) Established securities market.
(1) General rule.
(2) Exchanges with multiple tiers.
(3) Computation of dollar value of stock traded.
(4) Over-the-counter market.
(5) Discretion to determine that an exchange does not qualify as an established securities market.
(c) Primarily traded.
(d) Regularly traded.
(1) General rule.
(2) Classes of stock traded on a domestic established securities market treated as meeting trading requirements.
(3) Closely-held classes of stock not treated as meeting trading requirements.
(i) General rule.
(ii) Exception.
(iii) Five-percent shareholders.
(A) Related persons.
(B) Investment companies.
(d) Anti-abuse rule.
(5) Example.
(e) Substantiation that a foreign corporation is publicly traded.
(1) General rule.
(2) Availability and retention of documents for inspection.
(f) Reporting requirements.

§ 1.883–3 Treatment of controlled foreign corporations.

(a) General rule.
(b) Qualified U.S. person ownership test.
(1) General rule.
(2) Qualified U.S. person.
(3) Treatment of bearer shares.
(4) Ownership attribution through certain domestic entities.
(5) Examples.
(c) Substantiation of CFC stock ownership.
(1) In general.
(2) Ownership statements from qualified U.S. persons.
(3) Ownership statements from intermediaries.
(4) Three-year period of validity.
(5) Availability and retention of documents for inspection.
(d) Reporting requirements.

§ 1.883–4 Qualified shareholder stock ownership test.

(a) General rule.
(b) Qualified shareholder.
(1) General rule.
(2) Residence of individual shareholders.
(i) General rule.
(ii) Tax home.
(3) Certain income tax convention restrictions applied to shareholders.
(4) Not-for-profit organizations.
(5) Pension funds.
(i) Pension fund defined.
(ii) Government pension funds.
(iii) Nongovernment pension funds.
(iv) Beneficiary of a pension fund.
(c) Rules for determining constructive ownership.
(1) General rules for attribution.
(2) Partnerships.
(i) General rule.
(ii) Partners resident in the same country.
(3) Examples.
(3) Trusts and estates.
(i) Beneficiaries.
(ii) Grantor trusts.
(4) Corporations that issue stock.
(5) Taxable nonstock corporations.
(6) Mutual insurance companies and similar entities.
(7) Computation of beneficial interests in nongovernment pension funds.
(d) Substantiation of stock ownership.
(1) General rule.
(2) Application of general rule.
(i) Ownership statements.
(ii) Three-year period of validity.
(3) Special rules.
(i) Substantiating residence of certain shareholders.
(ii) Special rule for registered shareholders owning less than one percent of widely-held corporations.
(iii) Special rule for beneficiaries of pension funds.
(A) Government pension fund.
(B) Nongovernment pension fund.
(iv) Special rule for stock owned by publicly-traded corporations.
(v) Special rule for not-for-profit organizations.
(vi) Special rule for a foreign airline covered by an air services agreement.
(vii) Special rule for taxable nonstock corporations.
(viii) Special rule for closely-held corporations traded in the United States.
(4) Ownership statements from shareholders.
(i) Ownership statements from individuals.
(ii) Ownership statements from foreign governments.
§ 1.883–1 Exclusion of income from the international operation of ships or aircraft.

(a) General rule. Qualified income derived by a qualified foreign corporation from its international operation of ships or aircraft is excluded from gross income and exempt from United States Federal income tax. Paragraph (b) of this section defines the term qualified income. Paragraph (c) of this section defines the term qualified foreign corporation. Paragraph (f) of this section defines the term international operation of ships or aircraft. To be a qualified foreign corporation, the corporation must satisfy the stock ownership test of paragraph (c)(2) of this section and satisfy the substantiation and reporting requirements described in paragraph (c)(3) of this section.

(b) Qualified income. Qualified income is income derived from the international operation of ships or aircraft that—

(1) Is properly includible in any of the income categories described in paragraph (b)(2) of this section; and

(2) Is the subject of an equivalent exemption, as defined in paragraph (h) of this section, granted by the qualified foreign country, as defined in paragraph (d) of this section, in which the foreign corporation seeking qualified foreign corporation status is organized.

(c) Qualified foreign corporation—(1) General rule. A qualified foreign corporation is a corporation that is organized in a qualified foreign country and considered engaged in the international operation of ships or aircraft. The term corporation is defined in section 7701(a)(3) and the regulations thereunder. Paragraph (d) of this section defines the term qualified foreign country. Paragraph (e) of this section defines the term operation of ships or aircraft, and paragraph (f) of this section defines the term international operation of ships or aircraft. To be a qualified foreign corporation, the corporation must satisfy the stock ownership test of paragraph (c)(2) of this section and satisfy the substantiation and reporting requirements described in paragraph (c)(3) of this section. A corporation may be a qualified foreign corporation with respect to one category of qualified income but not with respect to another such category. See paragraph (h)(2) of this section for a discussion of the categories of qualified income.

(2) Stock ownership test. To be a qualified foreign corporation, a foreign corporation must satisfy the publicly-traded test of §1.883–2(a), the CFC stock ownership test of §1.883–3(a), or the qualified shareholder stock ownership test of §1.883–4(a).

(3) Substantiation and reporting requirements—(i) General rule. To be a qualified foreign corporation, a foreign corporation must include the following information in its Form 1120-F, “U.S. Income Tax Return of a Foreign Corporation,” in the manner prescribed by such form and its accompanying instructions—

(A) The corporation’s name and address (including mailing code);

(B) The corporation’s U.S. taxpayer identification number;

(C) The foreign country in which the corporation is organized;

(D) The applicable authority for an equivalent exemption, for example, the citation of a statute in the country where the corporation is organized, a diplomatic note between the United States and such country, or an income tax convention between the United States and such country in the case of...