(1) The term eligible vessel means any vessel—
(i) Constructed in the United States, and if reconstructed, reconstructed in the United States,
(ii) Documented under the laws of the United States, and
(iii) Operated in the foreign or domestic commerce of the United States or in the fisheries of the United States. Any vessel which was constructed outside of the United States but documented under the laws of the United States on April 15, 1970, or constructed outside the United States for use in the U.S. foreign trade pursuant to a contract entered into before April 15, 1970, shall be treated as satisfying the requirements of subdivision (i) of this subparagraph and the requirements of subparagraph (2)(i) of this section.

(2) The term qualified vessel means any vessel—
(i) Constructed in the United States and, if reconstructed, reconstructed in the United States,
(ii) Documented under the laws of the United States, and
(iii) Which the person maintaining the fund agrees with the Secretary of Commerce will be operated in the U.S. foreign, Great Lakes, or noncontiguous domestic trade or in the fisheries of the United States.

(3) The term agreement vessel means any eligible vessel or qualified vessel which is subject to an agreement entered into under section 607 of the Act.

(4) The term vessel includes cargo handling equipment which the Secretary of Commerce determines is intended for use primarily on the vessel. The term “vessel” also includes an ocean-going towing vessel or an ocean-going barge or comparable towing vessel or barge operated in the Great Lakes.

(b) Insofar as the computation and collection of taxes are concerned, other terms used in the regulations in this part, except as otherwise provided in the Act or this part, have the same meaning as in the Code and the regulations thereunder.
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(7) Additional items of adjusted net foreign base company income or adjusted net insurance income by reason of section 952(c).

(b) Computation of adjusted gross foreign base company income and adjusted gross insurance income.

(1) De minimus rule and full inclusion rule.
(2) Character of items of adjusted gross foreign base company income.

(3) Coordination with section 952(c).

(4) Anti-abuse rule.

(b) Computation of adjusted gross foreign base company income and adjusted gross insurance income.

(1) Application of high tax exception.

(2) Effective rate at which taxes are imposed.

(3) Taxes paid or accrued with respect to an item of income.

(i) Income other than foreign personal holding company income.

(ii) Foreign personal holding company income.

(4) Definition of an item of income.

(i) Income other than foreign personal holding company income.

(ii) Foreign personal holding company income.

(c) Computation of net foreign base company income.

(d) Computation of adjusted net foreign base company income or adjusted net insurance income.

(1) Application of high tax exception.

(2) Effective rate at which taxes are imposed.

(3) Taxes paid or accrued with respect to an item of income.

(i) Income other than foreign personal holding company income.

(ii) Foreign personal holding company income.

(4) Definition of an item of income.

(i) Income other than foreign personal holding company income.

(ii) Foreign personal holding company income.

(A) In general.

(B) Consistency rule.

(C) Procedure.

(D) Illustrations.

(E) Character of an item of income.

(i) Substance of the transaction.

(ii) Separable character.

(iii) Predominant character.

(iv) Coordination of categories of gross foreign base company income or gross insurance income.

(III) § 4.954–2 Foreign Personal Holding Company Income.

(a) Computation of foreign personal holding company income.

(1) In general.

(2) Coordination of overlapping definitions.

(3) Changes in use or purpose with which property is held.

(i) In general.

(ii) Illustrations.

(iii) Definitions.

(i) Interest.

(ii) Inventory and similar property.

(iii) Regular dealer.

(iv) Dealer property.

(v) Debt instrument.

(b) Dividends, etc.

(i) In general.

(2) Exclusion of certain export financing.

(i) In general.

(ii) Conduct of a banking business.

(iii) Illustration.

(3) Exclusion of dividends and interest from related persons.

(i) Excluded dividends and interest.

(ii) Interest paid out of adjusted foreign base company income or insurance income.

(iii) Dividends paid out of prior years' earnings.

(iv) Fifty percent substantial assets test.

(v) Value of assets.

(vi) Location of tangible property used in a trade or business.

(A) In general.

(B) Exception.

(vii) Location of intangible property used in a trade or business.

(A) In general.

(B) Property located in part in the payor's country of incorporation and in part in other countries.

(viii) Location of property held for sale to customers.

(A) In general.

(B) Inventory located in part in the payor's country of incorporation and in part in other countries.

(ix) Location of debt instruments.

(x) Treatment of certain stock interests.

(xi) Determination of period during which property is used in a trade or business.

(xii) Treatment of banks and insurance companies [Reserved]

(4) Exclusion of rents and royalties derived from related persons.

(i) In general.

(ii) Rents or royalties paid out of adjusted foreign base company income or insurance income.

(iii) Exclusion of rents and royalties derived in the active conduct of a trade or business.

(iv) Adjusted leasing profits.

(v) Exclusion of rents and royalties derived from related persons.

(1) Trade or business cases.

(2) Special rules.

(i) Adding substantial value.

(ii) Substantiality of foreign organization.

(iii) Definition of active leasing expense.

(iv) Adjusted leasing profits.

(3) Illustrations.

(d) Excluded royalties.

(1) Trade or business cases.

(2) Special rules.

(i) Adding substantial value.

(ii) Substantiality of foreign organization.

(iii) Definition of active licensing expense.

(iv) Definition of adjusted licensing profit.

(3) Illustrations.

(e) Certain property transactions.

(1) In general.

(i) Inclusion of FPHC income.

(ii) Dual character property.

(2) Property that gives rise to certain income.

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(i) In general.
(ii) Exception.
(iii) Property that does not give rise to income.
(iv) Classification of gain or loss from the disposition of a debt instrument or on a deferred payment sale.

(1) Gain.
(ii) Loss.
(iii) Classification of options and other rights to acquire or transfer property.
(iv) Classification of certain interests in pass-through entities.

(f) Commodities transactions.

(1) In general.
(ii) Definitions.
(iii) Commodity.
(iv) Commodities transaction.
(v) Definition of the term "qualified active sales".

(1) In general.
(ii) Sale of commodities.
(iii) Active conduct of a commodities business.
(iv) Definition of the term "substantially all".
(v) Definition of the term "qualified hedging transaction".

(g) Foreign currency gain.

(1) In general.
(ii) Exceptions.
(iii) Qualified business units using the dollar approximate separate transactions method.
(iv) Tracing to exclude foreign currency gain or loss from qualified business and hedging transactions.
(v) Election out of tracing.

(3) Definition of the term "qualified business transaction".

(i) In general.
(ii) Specific section 968 transactions attributable to the sale of goods or services.
(A) Acquisition of debt instruments.
(B) Becoming the obligor under debt instruments.

(C) Accrual of any item of gross income.
(D) Accrual of any item of expense.
(E) Entering into forward contracts, futures contracts, options, and similar instruments.

(F) Disposition of nonfunctional currency.

(4) Definition of the term "qualified hedging transaction".

(i) In general.
(ii) Change in purpose of hedging transaction.

(5) Income equivalent to interest from factoring.

(i) General rule.
(ii) Exceptions.

(3) Income equivalent to interest from factoring.

(i) General rule.
(ii) Exceptions.
(iii) Factored receivable.
(iv) Illustrations.

(iv) Illustrations.

(5) Receivables arising from performance of services.


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Foreign base company income; taxable years beginning after December 31, 1986.

(a) In general—(1) Purpose and scope.

Section 954 (b) through (g) and §§ 1.954–1T and 1.954–2T provide rules for computing the foreign base company income of a controlled foreign corporation. Foreign base company income is included in the subpart F income of a controlled foreign corporation under the rules of section 952 and the regulations thereunder. Subpart F income is included in the gross income of a United States shareholder of a controlled foreign corporation under the rules of section 951 and the regulations thereunder, and thus is subject to current taxation under section 1 or 11 of the Code. The determination of whether a foreign corporation is a controlled foreign corporation, the subpart F income of which is included currently in the gross income of its United States shareholders, is made under the rules of section 957 and the regulations thereunder.

(2) Gross foreign base company income.

For taxable years of a controlled foreign corporation beginning after December 31, 1986, the gross foreign base company income of a controlled foreign corporation consists of the following categories of gross income:

(i) Its foreign personal holding company income, as defined in section 954(c) and § 1.954–2T.

(ii) Its foreign base company sales income, as defined in section 954(d) and the regulations thereunder.

(iii) Its foreign base company services income, as defined in section 954(e) and the regulations thereunder.

(iv) Its foreign base company shipping income, as defined in section 954(f) and the regulations thereunder, and