AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

Example 4. The facts are the same as in example 1 except that on September 30, 1965, M Corporation sells 40 percent of the only class of stock of A Corporation to N Corporation, a domestic corporation. Corporation N uses the calendar year as a taxable year. Corporation A remains a controlled foreign corporation immediately after such sale of its stock. Corporation A's qualified investments in less developed countries at December 31, 1966, amount to $90,000. The changes in A Corporation's qualified investments in less developed countries occurring in its taxable year 1965 are considered to be zero with respect to the 40-percent stock interest acquired by N Corporation. The entire $20,000 reduction in A Corporation's qualified investments in less developed countries which occurs during the taxable year 1965 is taken into account by M Corporation for purposes of paragraph (a)(1) of this section in determining its tax liability for the taxable year 1964. Corporation A's increase in qualified investments in less developed countries for the taxable year 1965 with respect to the 60-percent stock interest retained by M Corporation is $6,000 and is determined by ascertaining M Corporation's pro rata share (60 percent) of the amount by which A Corporation's qualified investments in less developed countries at December 31, 1968 ($90,000) exceed its qualified investments in less developed countries at December 31, 1965 ($80,000). Corporation N does not make an election under section 955(b)(3) in its return for its taxable year 1966. Corporation A's increase in qualified investments in less developed countries for the taxable year 1966 with respect to the 40-percent stock interest acquired by N Corporation is $4,000.

[T.D. 6683, 28 FR 11180, Oct. 18, 1963, as amended by T.D. 7893, 48 FR 22509, May 19, 1983; T.D. 7894, 48 FR 22530, May 19, 1983]

§ 1.955–4 Definition of less developed country.

(a) *Designation by Executive order.* For purposes of sections 951 through 964, the term ''less developed country'' means any foreign country (other than an area within the Sino-Soviet bloc) or any possession of the United States with respect to which, on the first day of the foreign corporation's taxable year, there is in effect an Executive order by the President of the United States designating such country or possession as an economically less developed country for purposes of such sections. Each territory, department, province, or possession of any foreign country other than a country within the Sino-Soviet bloc may be treated as a separate foreign country for purposes of such designation if the territory, department, province, or possession is overseas from the country of which it is a territory, department, province, or possession. Thus, for example, an overseas possession of a foreign country may be designated by Executive order as an economically less developed country even though the foreign country itself has not been designated as an economically less developed country; or the foreign country may be so designated even though the overseas possessions of such country have not been designated as economically less developed countries. The term ''possession of the United States'', for purposes of section 955(c)(3) and this section, shall be construed to have the same meaning as that contained in paragraph (b)(2) of § 1.957–3.

(b) *Countries not eligible for designation.* Section 955(c)(3) provides that no designation by Executive order may be made under section 955(c)(3) and paragraph (a) of this section with respect to—

Australia	Luxembourg
Austria	Monaco
Belgium	Netherlands
CanadaDenmark	New Zealand
France	Norway
Germany (Federal Republic)	Union of South Africa
Hong Kong	San Marino
Italy	Sweden
Japan	Switzerland
Liechtenstein	United Kingdom.

(c) *Termination of designation.* Section 955(c)(3) provides that, after the President has designated any foreign country or possession of the United States as an economically less developed country for purposes of sections 951 through 964, he may not terminate such designation (either by issuing an Executive order for the purpose of terminating such designation or by issuing an Executive order which has the effect of terminating such designation) unless, at least 30 days prior to such termination, he has notified the Senate and the House of Representatives of his intention to terminate such designation. If such 30-day notice is given, no action by the Congress of the United States is necessary to effectuate the termination. The requirement for giving 30-day notice to the

Senate and House of Representatives applies also to the termination of a designation with respect to an overseas territory, department, province, or possession of a foreign country. See paragraph (c) of §1.955–2 for the effect of a termination of a Presidential designation upon property which would be a qualified investment in a less developed country but for the fact of such termination.

[T.D. 6683, 28 FR 11182, Oct. 18, 1963]

§ 1.955–5 Definition of less developed country corporation.

(a) *Less developed country corporation*—(1) *In general.* For purposes of sections 951 through 964, the term ''less developed country corporation'' means a foreign corporation described in paragraph (b) of this section and also any foreign corporation—

(i) Which is engaged in the active conduct of one or more trades or businesses during the entire taxable year;

(ii) Which derives 80 percent or more of its gross income, if any, for such taxable year from sources within less developed countries, as determined under the provisions of §1.955–6; and

(iii) Which has 80 percent or more in value (within the meaning of paragraph (d) of this section) of its assets on each day of such taxable year consisting of one or more of the following items of property:

(*a*) Property (other than property described in (*b*) through (*h*) of this subdivision) which is used, or held for use, in such trades or businesses and is located in one or more less developed countries;

(*b*) Money;

(*c*) Deposits with persons carrying on the banking business;

(*d*) Stock of any other less developed country corporation;

(*e*) Obligations (within the meaning of paragraph (b)(3) of §1.955–2) of another less developed country corporation which at the time of their acquisition (within the meaning of paragraph (b)(4) of §1.955–2) by the foreign corporation have a maturity of one year or more;

(*f*) Obligations (within the meaning of paragraph (b)(3) of §1.955–2) of any less developed country;

(*g*) Investments which are required to be made or held because of restrictions imposed by the government of any less developed country; and

(*h*) Property described in section 956(b)(2).

For purposes of this subparagraph, if a foreign corporation is a partner in a foreign partnership, as defined in section 7701(a)(2) and (5) and the regulations thereunder, such corporation will be considered to be engaged in the active conduct of a trade or business to the extent and in the manner in which the partnership is so engaged and to own directly its proportionate share of each of the assets of the partnership. For purposes of subdivision (i) of this subparagraph, a newly-organized foreign corporation will be considered engaged in the active conduct of a trade or business from the date of its organization if such corporation commences business operations as soon as practicable after such organization. In the absence of affirmative evidence showing that the 80-percent requirement of subdivision (iii) of this subparagraph has not been satisfied on each day of the taxable year, such requirement will be considered satisfied if it is established to the satisfaction of the district director that such requirement has been satisfied on the last day of each quarter of the taxable year of the foreign corporation. For purposes of subdivision (iii) of this subparagraph, property (other than stock in trade or other property of a kind which would properly be included in inventory of the foreign corporation if on hand at the close of the taxable year, or property held primarily for sale to customers in the ordinary course of the trade or business of the foreign corporation) purchased for use in a trade or business and temporarily located outside less developed countries will be considered located in less developed countries if, but only if, such property is shipped to and received in less developed countries promptly after such purchase.

(2) *Special rules.* For purposes of subparagraph (1)(iii)(*a*) of this paragraph—

(i) *Treatment of receivables.* Bills receivable, accounts receivable, notes receivable and open accounts shall be considered to be used in the trade or