

- (v) Territorial tax systems.
- (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.
  - (4) 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) Income inclusion test.
  - (1) General rule.
  - (2) Examples.
- (c) Substantiation of CFC stock ownership.
  - (1) General rule.
  - (2) Documentation from certain United States shareholders.
    - (i) General rule.
    - (ii) 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.
- (iii) 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.
      - (iii) Ownership statements from publicly-traded corporate shareholders.
      - (iv) Ownership statements from not-for-profit organizations.
      - (v) Ownership statements from intermediaries.
        - (A) General rule.
        - (B) Ownership statements from widely-held intermediaries with registered shareholders owning less than one percent of such widely-held intermediary.
      - (C) Ownership statements from pension funds.
        - (1) Ownership statements from government pension funds.
        - (2) Ownership statements from nongovernment pension funds.
        - (3) Time for making determinations.
        - (D) Ownership statements from taxable nonstock corporations.
        - (5) Availability and retention of documents for inspection.
        - (e) Reporting requirements.

#### **§ 1.883-5 Effective dates.**

- (a) General rule.
- (b) Election for retroactive application.
- (c) Transitional information reporting rule.

■ **Par. 3.** § 1.883-1 is revised to read as follows:

#### **§ 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*.

(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 (h)(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