

These principles in respect of income described in paragraph (2) from U.S. sources may be illustrated by the following examples:

*Example (1).*—M is a foreign corporation engaged in industrial manufacturing in a foreign country. Corporation M maintains a branch in the United States which acts as importer and distributor of the merchandise manufactured abroad; by reason of such branch activities, M corporation is engaged in business in the United States. The branch in the United States is required to hold a large current cash balance for business purposes, but the amount of the cash balance required varies because of the fluctuating seasonal nature of the branch's business. During periods when large cash balances are not required the branch invests the surplus amount in U.S. Treasury bills. These Treasury bills are considered assets used in, or held for use in, the U.S. business, irrespective of where the bills are physically located and irrespective to which office of M corporation the interest thereon is paid. Accordingly, such interest is income effectively connected with the conduct of the business in the United States.

*Example (2).*—The facts are the same as in example (1) except that M corporation also receives interest on overdue accounts receivable which it acquired on the sale of goods through the U.S. branch. Such interest is effectively connected with the conduct of the business within the United States since the activities of the U.S. branch were a material factor in the realization of such income.

*Example (3).*—O, a foreign corporation engaged in the manufacture of goods, maintains a factory in the United States and by reason of its activities therein is engaged in business in the United States. Corporation O owns securities of domestic corporations, such securities having been purchased with funds from O corporation's general surplus reserves, and engages a stock brokerage firm in the United States to manage such securities. The brokerage firm is engaged by the U.S. factory and is instructed to deposit all income and gains derived from such securities in the New York bank account of the factory in the United States. This account is not needed to meet such factory's operating expenses. All such income and gains are not effectively connected with the conduct of the business within the United States because the assets giving rise to such income and gains are not held for use in such business.

*Example (4).*—X, a foreign corporation engaged in the manufacture of goods in a foreign country, maintains a branch in the United States and by reason of the activities of such branch is engaged in business in the United States. Corporation X invests excess cash, which is generated by the branch and not needed in its business, in securities issued by domestic corporations. The securities are held in the name of X corporation in a brokerage office in the United States, which office receives and remits all income from the securities to X corporation's home office abroad. The officers of the U.S. branch have authority to manage the securities held in X corporation's brokerage account. The dividends and interest paid on the securities, and any gain or loss resulting from the sale or exchange of the securities, are not effectively connected with the conduct of the business within the United States, because such assets are not used in, or held for use in, such business.