

because of incidental investments held by it. Thus, a foreign corporation whose principal activity is holding stocks or securities of corporations in which it owns a significant percentage of the outstanding voting stock will generally not be considered to have as its principal business trading in stocks or securities.

*Example.*—M, a foreign corporation, owns voting stock in corporations A, B, and C, its holdings in such corporations constituting 15, 20, and 100 percent, respectively, of their outstanding voting stock. Each of such stock holdings by M corporation represents approximately 20 percent of M corporation's total assets. The remaining 40 percent of M corporation's assets consist of other investments, 20 percent being invested in foreign government securities and stocks and bonds of other corporations in which M corporation does not own a significant percentage of the voting stock, and 20 percent being invested in bonds issued by B corporation. None of the assets of M corporation are held for sale, but, if the officers of such corporation were to believe another investment would be preferable to its holdings of such securities of foreign governments and such other corporations, M corporation would sell such securities and reinvest the proceeds therefrom. For purposes of section 864(c) (4) (B) (ii), M corporation is not engaged in the active conduct of a banking, financing, or similar business and does not have for its principal business trading in stocks or securities for its own account.

*Sales of inventory through United States office*

Clause (iii) of subparagraph (B) applies to income derived from the sale outside the United States of personal property described in section 1221(1) of the code (inventory items and property held primarily for sale to customers in the ordinary course of business) if the sale was made through the business office or other fixed place of business maintained in the United States by the nonresident alien individual or foreign corporation. For this purpose, a sale is to be considered as made through a business office or other fixed place of business in the United States only if such office or other fixed place of business actively participates in soliciting, negotiating, or performing other activities required to arrange for such sale. Sales made as a result of an order solicited by, or received in, a business office or other fixed place of business in the United States are to be considered as made through such office or other fixed place of business except where an order is received unsolicited in the office or other fixed place of business and such office or other fixed place of business is not held out to potential customers as the place to which orders directed to the nonresident alien individual or foreign corporation should be sent. In determining whether a sale of personal property is made through a business office or fixed place of business within the United States, section 2(e) of the bill (relating to effective dates) provides that activities conducted in the United States on or before February 24, 1966, in negotiating or carrying out a binding contract entered into on or before such date are not to be taken into account.

If a sale is made through a business office or other fixed place of business in the United States, the amount of income realized on the sale which will be treated as attributable to such office or other fixed place of business in the United States shall not exceed the amount