
IRS applies manufacturing exception to branch of CFC deriving income from procurement activity

August 23, 2013

In brief

In private letter ruling (PLR) 201332007, the IRS addressed the application of the manufacturing exception to a CFC's branch. The PLR concludes that the branch's income derived in connection with the purchase of property on behalf of a related person is not foreign base company sales income (FBCSI) because the branch makes a substantial contribution to the manufacture of the products sold within the meaning of Treas. Reg. Sec. 1.954-3(a)(4)(iv), despite the fact that the regulation applies to property 'sold' by the CFC. Whereas PLR 201325005 (issued earlier this year and discussed in [*US Outbound Newsalert: IRS applies manufacturing exception to CFC that does not own and pass title to products sold*](#), June 26, 2013) addressed a case in which income derived from selling on behalf of a related person was excluded from FBCSI under Treas. Reg. Sec. 1.954-3(a)(4)(iv), PLR 201332007 addresses a case in which the income was derived solely from procurement activities and therefore provides helpful additional guidance on the applicable scope of the manufacturing exception from FBCSI (i.e., clarifying that it can apply to any case in which a CFC derives income from purchasing activities that would otherwise be FBCSI).

Let's talk

For a deeper discussion, please contact:

International Tax Services

Michael DiFronzo
202-312-7613
michael.a.difronzo@us.pwc.com

Ethan Atticks
202-414-4460
ethan.a.atticks@us.pwc.com

Phyllis Marcus
202-312-7565
phyllis.e.marcus@us.pwc.com