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FOREIGN TAX

1. F Sub Corporation is incorporated in Canada. It buys footballs from an unrelated Canadian manufacturer and sells the footballs on a wholesale basis in Canada, Germany, and the United States. All sales are shipped FOB. buyer with a shipping point of Victoria British Columbia--except for the German sales which are shipped FOB. destination buyer. F Sub Corporation has a United States sales office that supervises the selling activities in all three countries but all sales orders must be approved at the Canadian home office of the company. All shipping arrangements are made at the Canadian home office together with the approval of prices fixed.

F Sub Corporation's selling activities have been exactly the same for the last 48 month period:

GER. Sales Gross Income	CAN. Sales Gross Income	U.S. Sales Gross Income	Addition to Accum. E&P	CAN. Tax	GER. Tax
25	25	50	20*	30	10

* (Gross income minus expenses of 30% of gross and minus all taxes including any U.S. taxes).

F Sub Corporation is owned entirely by P Co. Corporation, a U.S. Corporation. In 1972, P Company's only income was a $20,000 dividend received from F Sub Corporation. Compute P Co. Corporation's U.S. tax liability for 1972.

(a) What change would result in F Sub Corporation's income, subject to U.S. tax, if F Sub Corporation manufactured the footballs in Canada but could show an independent factory price totaling $25,000 for the balls sold in the U.S. in 1972? Assume for purposes of the problem that U.S. office expenses ran 20% of the wholesale price. ($10,000 for U.S. sales)

2. Throughout 1972, domestic corporation P owns all of the one class of stock of A, a foreign corporation but not a less developed country corporation. A in turn owns 10% of Corporation B, a foreign corporation which is a less developed country corporation. All corporations use the calendar year as the taxable year.

In 1972, B Corporation had gains, profits, and income of $150,000 and paid foreign income taxes of $45,000 on those gains. On December 31, 1972, B paid a dividend of $10,500 to A Corporation.

In 1972, A Corporation has $200,000 of gains, profits, and income made up of $189,500 from its own business and $10,500 from dividends received from B Corporation. A Corporation paid $50,000 of foreign income tax on those gains and profits and on December 31, 1972, A paid a $75,000 dividend to P. A Corporation withheld a tax of $20,000 on the payment of the dividend to P Corporation.

Assuming P Corporation had no other income, what is P Corporation's taxable income and net U.S. tax liability?

3. A Corporation, a domestic corporation, manufactures watches. The watches are sold on a wholesale basis in Canada, England, and on the continent of Europe. A Corporation has a branch office in Montreal, London, and Paris. The Paris office supervises sales throughout Europe, 40% in France, 20% in Italy, 30% in Germany, and 10% in Sweden. Prepare a short memorandum setting forth your initial ideas about changing the corporate structure for carrying out the present operation.

4. A and his father F, both of whom are citizens and residents of Canada, own equally all of the shares in X Corporation, a Canadian corporation. X Corporation is engaged in real estate rental operations in Canada. X Corporation has gross income from the Canadian rentals in the amount of $500,000. It nets from the rentals approximately $125,000.

The X Corporation has annual dividend receipts in the amount of $50,000 and another $20,000 in gains from the sale of securities. Exactly one half of these dividends for the taxable year were from U.S. corporations and one half of the sales receipts resulted from sales in U.S. of U.S. securities. All U.S. source dividends and sales were handled entirely by a U.S. broker. What are the U.S. tax consequences as a result of the above transaction? Suppose X Corporation had no receipts from sales in the U.S. and no dividends from U.S. Corporations, but that in the middle of the taxable year A became a resident of the U.S.? What if both A and F became residents of the U.S. in the middle of the taxable year?