"second," as the case may be, in such degree of permanency as to remain on the product until the consummation of the consumer sale and of such conspicuousness as to be easily observed and read by the purchasing public.

B. Using any advertisement or promotional material in connection with the offering for sale of any such product unless it is disclosed therein that such article is an "irregular" or "second" as the case may be.

C. Using the words "first in quality" or words of a similar import on the package in which such product is sold or in reference to any such product in any advertisement or promotional material.

D. Representing in any other manner, directly or by implication, that such products are first quality or perfect quality.

It is further ordered, That the respondent herein shall, within sixty (60) days after service upon him of this order, file with the Commission a report in writing setting forth in detail the manner and form in which he has complied with this order.

Issued: June 7, 1966.

By the Commission.

[SEAL] JOSEPH W. SHEA, *Secretary.*

[F.R. Doc. 66-7560; Filed, July 11, 1966; 8:49 a.m.]

[Docket No. C-1073]

PART 13—PROHIBITED TRADE PRACTICES

Bobby G. Osborne and Bobby Osborne

Subpart—Misbranding or mislabeling: § 13.1295 *Quality or grade.* Subpart—Misrepresenting oneself and goods—Goods: § 13.1715 *Quality.* Subpart—Neglecting, unfairly or deceptively, to make material disclosure: § 13.1886 *Quality, grade or type.*

(Sec. 6, 38 Stat. 721; 15 U.S.C. 46. Interpret or apply sec. 5, 38 Stat. 719, as amended; 72 Stat. 1717; 15 U.S.C. 45, 70) [Cease and desist order, Bobby G. Osborne trading as Bobby Osborne, Dallas, Ga., Docket C-1073, June 7, 1966]

Consent order requiring a Dallas, Ga., finisher and wholesaler of men's and children's hosiery, to cease misrepresenting imperfect hosiery as first or perfect quality, failing to disclose their true quality, and misbranding such products in violation of the Textile Fiber Products Identification Act.

The order to cease and desist, including further order requiring report of compliance therewith, is as follows:

It is ordered, That respondent Bobby G. Osborne, an individual trading as Bobby Osborne or under any other name, and respondent's representatives, agents and employees, directly or through any corporate or other device, in connection with the introduction, delivery for introduction, sale, advertising, or offering for sale, in commerce, or the transportation or causing to be transported in commerce, or in the importation into the United States, of any textile fiber product; or in connection with the sale, offering for sale, advertising, delivery, transportation, or causing to be transported, of any textile fiber product which has been advertised or offered for sale in commerce; or in connection with the sale, offering for sale, advertising, delivery, transportation, or causing to be transported, after shipment in commerce, of any textile fiber product, whether in its orginal state or contained in other textile fiber products, as the terms "commerce" and "textile fiber product" are defined in the Textile Fiber Products Identification Act, do forthwith cease and desist from misbranding textile fiber products by failing to affix labels to such textile fiber products showing each element of information required to be disclosed by section 4(b) of the Textile Fiber Products Identification Act;

It is further ordered, That respondent Bobby G. Osborne, an individual trading as Bobby Osborne or under any other name, and respondent's agents, representatives and employees, directly or through any corporate or other device, in connection with the offering for sale, sale or distribution of hoisery, or other related "industry products," which are "irregulars," "seconds," or otherwise imperfect, as such terms are defined in Rule 4(c) of the Amended Trade Practice Rules for the Hosiery Industry (16 CFR 152.4(c)), in commerce, as "commerce" is defined in the Federal Trade Commission Act, do forthwith cease and desist from:

A. Selling or distributing any such product without clearly and conspicuously marking on each stocking, sock or other unit the words "irregular" or "second," as the case may be, in such degree of permanency as to remain on the product until the consummation of the consumer sale and of such conspicuousness as to be easily observed and read by the purchasing public.

B. Using any advertisement or promotional material in connection with the offering for sale of any such product unless it is disclosed therein that such article is an "irregular" or "second," as the case may be.

C. Using the words "First in quality" or words of similar import on the package in which such product is sold or in reference to any such product in any advertisement or promotional material.

D. Representing in any other manner, directly or by implication, that such products are first quality or perfect quality.

It is further ordered, That the respondent herein shall, within sixty (60) days after service upon him of this order, file with the Commission a report in writing setting forth in detail the manner and form in which he has complied with this order.

Issued: June 7, 1966.

By the Commission.

JOSEPH W. SHEA, *Secretary.*

[F.R. Doc. 66-7561; Filed, July 11, 1966; 8:49 a.m.]

Title 21—FOOD AND DRUGS

Chapter I—Food and Drug Administration, Department of Health, Education, and Welfare

SUBCHAPTER B—FOOD AND FOOD PRODUCTS

PART 120—TOLERANCES AND EXEMPTIONS FROM TOLERANCES FOR PESTICIDE CHEMICALS IN OR ON RAW AGRICULTURAL COMMODITIES

PART 121—FOOD ADDITIVES

Subpart D—Food Additives Permitted in Food for Human Consumption

DDT AND TOXAPHENE; TOLERANCES FOR COMBINED RESIDUES

1. Petitions were filed with the Food and Drug Administration by Hercules Powder Co., Inc., Wilmington, Del. 19899, requesting a tolerance of 1.5 parts per million for residues of DDT (PP 5F0435) and 2 parts per million for residues of toxaphene (PP 5F0436) in or on soybeans.

The Secretary of Agriculture has certified that these pesticide chemicals are useful for the purpose for which tolerances are being established.

After consideration of the data submitted in the petitions and other relevant material, it is concluded that the tolerances established in this order will protect the public health. Therefore, by virtue of the authority vested in the Secretary of Health, Education, and Welfare by the Federal Food, Drug, and Cosmetic Act (sec. 408(d)(2), 68 Stat. 512; 21 U.S.C. 346a(d)(2) and delegated by him to the Commissioner of Food and Drugs (21 CFR 2.120; 31 F.R. 3008), Part 120 is amended in the following respects:

a. In § 120.3, the introductory text of paragraph (e) is amended to read as follows:

§ 120.3 **Tolerances for related pesticide chemicals.**

* * * * *

(e) Except as noted in subparagraphs (1) and (2) of this paragraph, where residues from two or more chemicals in the same class are present in or on a raw agricultural commodity the tolerance for the total of such residues shall be the same as that for the chemical having the lowest numerical tolerance in this class, unless a higher tolerance level is specifically provided for the combined residues by a regulation in this part.

* * * * *

b. Section 120.138 is amended by adding, in numerical sequence, tolerances for residues in or on soybeans, as follows:

§ 120.138 Toxaphene; tolerances for residues.

* * * * *

3.5 parts per million combined residues of DDT and toxaphene in or on soybeans (dry form), of which residues DDT shall not exceed 1.5 parts per million and toxaphene shall not exceed 2 parts per million.

* * * * *

2 parts per million in or on soybeans (dry form).

c. Section 120.147 is amended by inserting after "3.5 parts per million in or on fresh vegetable * * *" two new tolerances, as follows:

§ 120.147 DDT; tolerances for residues.

* * * * *

3.5 parts per million combined residues of DDT and toxaphene in or on soybeans (dry form), of which residues DDT shall not exceed 1.5 parts per million and toxaphene shall not exceed 2 parts per million.

1.5 parts per million in or on soybeans (dry form).

* * * * *

2. The Commissioner of Food and Drugs, having evaluated the data submitted in petitions for residues of DDT (FAP 5H1772) and of toxaphene (FAP 5H1773) filed by Hercules Powder Co., Inc., Wilmington, Del. 19899, and other relevant material, has concluded that the food additive regulations should be amended as set forth below with respect to residues of the insecticides DDT and toxaphene in soybean oil. Such residues have been shown to occur in crude soybean oil from application of the pesticide chemicals to the growing agricultural crop under agricultural uses provided for by concurrent regulations (21 CFR Part 120) issued under section 408 of the act. However, recent studies show that these residues are substantially removed in commercial refining. Therefore, pursuant to the provisions of the Federal Food, Drug, and Cosmetic Act (sec. 409(c) (1), (4), 72 Stat. 1786; 21 U.S.C. 348(c) (1), (4)), and under the authority delegated to the Commissioner by the Secretary of Health, Education, and Welfare (21 CFR 2.120; 31 F.R. 3008), Part 121 is amended by revising § 121.1093 and by adding to Subpart D a new section, as follows:

§ 121.1093 DDT.

Tolerances are established for residues of the insecticide DDT (a mixture of 1, 1, 1-trichloro-2,2-bis(*p*-chlorophenyl) ethane and 1, 1, 1-trichloro-2-(*o*-chlorophenyl)-2-(*p*-chlorophenyl)ethane) in or on the following processed foods, when present therein as a result of the application of this insecticide to growing crops:

100 parts per million in or on peppermint oil and spearmint oil.
6 parts per million in or on crude soybean oil.

§ 121.1196 Toxaphene.

A tolerance of 6 parts per million is established for residues of the insecticide toxaphene (chlorinated camphene containing 67–69 percent chlorine) in crude soybean oil when present therein as a result of the application of this insecticide to the growing soybean crop.

Any person who will be adversely affected by the foregoing order may at any time within 30 days from the date of its publication in the FEDERAL REGISTER file with the Hearing Clerk, Department of Health, Education, and Welfare, Room 5440, 330 Independence Avenue SW., Washington, D.C. 20201, written objections thereto, preferably in quintuplicate. Objections shall show wherein the person filing will be adversely affected by the order and specify with particularity the provisions of the order deemed objectionable and the grounds for the objections. If a hearing is requested, the objections must state the issues for the hearing. A hearing will be granted if the objections are supported by grounds legally sufficient to justify the relief sought. Objections may be accompanied by a memorandum or brief in support thereof.

Effective date. This order shall become effective on the date of its publication in the FEDERAL REGISTER.

(Secs. 408(d)(2), 409(c) (1), (4), 68 Stat. 512, 72 Stat. 1786; 21 U.S.C. 346a(d)(2), 348 (c)(1), (4))

Dated: July 5, 1966.

J. K. KIRK,
Assistant Commissioner for Operations.

[F.R. Doc. 66-7540; Filed, July 11, 1966; 8:47 a.m.]

Title 26—INTERNAL REVENUE

Chapter I—Internal Revenue Service, Department of the Treasury

SUBCHAPTER A—INCOME TAX

[T.D. 6889]

PART 1—INCOME TAX; TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953

Rules for Determining Stock Ownership

On May 11, 1965, notice of proposed rule making was published in the FEDERAL REGISTER (30 F.R. 6486) regarding the amendment of the Income Tax Regulations (26 CFR Part 1) to conform to section 958 of the Internal Revenue Code of 1954, as added by section 12(a) of the Revenue Act of 1962 (76 Stat. 1006). After consideration of all such relevant matter as was presented by interested persons regarding the rules proposed, the amendment of the regulations as proposed is hereby adopted, subject to the changes set forth below. The amendment shall apply with respect to taxable years of foreign corporations beginning after December 31, 1962, and to taxable years of United States shareholders within which or with which such taxable years of such foreign corporations end.

PARAGRAPH 1. The historical note to § 1.958, as set forth in the notice of proposed rule making, is revised.

PAR. 2. Section 1.958–1, as set forth in the notice of proposed rule making, is amended by revising paragraph (c)(2), by revising example (3) of paragraph (d), and by adding an example (4) to paragraph (d).

PAR. 3. Section 1.958–2, as set forth in the appendix to the notice of proposed rule making, is amended by revising paragraph (d)(1)(iii) and example (3) of paragraph (g).

[SEAL] SHELDON S. COHEN,
Commissioner of Internal Revenue.

Approved: June 30, 1966.

STANLEY S. SURREY,
Assistant Secretary of the Treasury.

In order to conform the Income Tax Regulations (26 CFR Part 1) to section 958 of the Internal Revenue Code of 1954, as added by section 12(a) of the Revenue Act of 1962 (75 Stat. 1006), such regulations are amended as follows effective with respect to taxable years of foreign corporations beginning after December 31, 1962, and to taxable years of United States shareholders within which or with which such taxable years of such foreign corporations end:

§ 1.958 Statutory provisions; rules for determining stock ownership.

SEC. 958. *Rules for determining stock ownership*—(a) *Direct and indirect ownership*—(1) *General rule.* For purposes of this subpart (other than sections 955(b)(1) (A) and (B), 955(c)(2)(A)(ii), and 960(a)(1)), stock owned means—

(A) Stock owned directly, and

(B) Stock owned with the application of paragraph (2).

(2) *Stock ownership through foreign entities.* For purposes of subparagraph (B) of paragraph (1), stock owned, directly or indirectly, by or for a foreign corporation, foreign partnership, or foreign trust or foreign estate (within the meaning of section 7701 (a)(31)) shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries. Stock considered to be owned by a person by reason of the application of the preceding sentence shall, for purposes of applying such sentence, be treated as actually owned by such person.

(3) *Special rule for mutual insurance companies.* For purposes of applying paragraph (1) in the case of a foreign mutual insurance company, the term "stock" shall include any certificate entitling the holder to voting power in the corporation.

(b) *Constructive ownership.* For purposes of sections 951(b), 954(d)(3), and 957, section 318(a) (relating to constructive ownership of stock) shall apply to the extent that the effect is to treat any United States person as a United States shareholder within the meaning of section 951(b), to treat a person as a related person within the meaning of section 954(d)(3), or to treat a foreign corporation as a controlled foreign corporation under section 957, except that—

(1) In applying paragraph (1)(A) of section 318(a), stock owned by a nonresident alien individual (other than a foreign trust or foreign estate) shall not be considered as owned by a citizen or by a resident alien individual.

(2) In applying subparagraphs (A), (B), and (C) of section 318(a)(2), if a partnership, estate, trust, or corporation owns, directly or indirectly, more than 50 percent of the total combined voting power of all classes of stock entitled to vote of a corporation, it shall be considered as owning all the stock entitled to vote.

(3) In applying subparagraph (C) of section 318(a)(2), the phrase "10 percent" shall be substituted for the phrase "50 percent" used in subparagraph (C).

(4) Subparagraphs (A), (B), and (C) of section 318(a)(3) shall not be applied so as to consider a United States person as owning stock which is owned by a person who is not a United States person.

[Sec. 958 as added by sec. 12(a), Rev. Act 1962 (76 Stat. 1006); as amended by sec. 4(b)(5), Act of Aug. 31, 1964 (Pub. Law 88-554, 78 Stat. 763)]

§ 1.958-1 Direct and indirect ownership of stock.

(a) *In general.* Section 958(a) provides that, for purposes of sections 951 to 964 (other than sections 955(b)(1)(A) and (B), 955(c)(2)(A)(ii), and 960(a)(1)), stock owned means—

(1) Stock owned directly; and

(2) Stock owned with the application of paragraph (b) of this section.

The rules of section 958(a) and this section provide a limited form of stock attribution primarily for use in determining the amount taxable to a United States shareholder under section 951(a). These rules also apply for purposes of other provisions of the Code and regulations which make express reference to section 958(a).

(b) *Stock ownership through foreign entities.* For purposes of paragraph (a)(2) of this section, stock owned, directly or indirectly, by or for a foreign corporation, foreign partnership, or foreign trust or foreign estate (within the meaning of section 7701(a)(31)) shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries, respectively. Stock considered to be owned by reason of the application of this paragraph shall, for purposes of reapplying this paragraph, be treated as actually owned by such person. Thus, this rule creates a chain of ownership; however, since the rule applies only to stock owned by a foreign entity, attribution under the rule stops with the first United States person in the chain of ownership running from the foreign entity. The application of this paragraph may be illustrated by the following example:

Example. Domestic corporation M owns 75 percent of the one class of stock in foreign corporation R, which in turn owns 80 percent of the one class of stock in foreign corporation S, which in turn owns 90 percent of the one class of stock in foreign corporation T. Under this paragraph, R Corporation is considered as owning 80 percent of the 90 percent of the stock which S Corporation owns in T Corporation, or 72 percent. Corporation M is considered as owning 75 percent of such 72 percent of the stock in T Corporation, or 54 percent. Since M Corporation is a domestic corporation, the attribution under this paragraph stops with M Corporation, even though, illustratively, such corporation is wholly owned by domestic corporation N.

(c) *Rules of application*—(1) *Special rule for mutual insurance companies.* For purposes of applying paragraph (a) of this section in the case of a foreign mutual insurance company, the term "stock" shall include any certificate entitling the holder to voting power in the corporation.

(2) *Amount of interest in foreign corporation, foreign partnership, foreign trust, or foreign estate.* The determination of a person's proportionate interest in a foreign corporation, foreign partnership, foreign trust, or foreign estate will be made on the basis of all the facts and circumstances in each case. Generally, in determining a person's proportionate interest in a foreign corporation, the purpose for which the rules of section 958(a) and this section are being applied will be taken into account. Thus, if the rules of section 958(a) are being applied to determine the amount of stock owned for purposes of section 951(a), a person's proportionate interest in a foreign corporation will generally be determined with reference to such person's interest in the income of such corporation. If the rules of section 958(a) are being applied to determine the amount of voting power owned for purposes of section 951(b) or 957, a person's proportionate interest in a foreign corporation will generally be determined with reference to the amount of voting power in such corporation owned by such person. However, any arrangement which artificially decreases a United States person's proportionate interest will not be recognized. See §§ 1.951-1 and 1.957-1.

(d) *Illustration.* The application of this section may be illustrated by the following examples:

Example (1). United States persons A and B own 25 percent and 50 percent, respectively, of the one class of stock in foreign corporation M. Corporation M owns 80 percent of the one class of stock in foreign corporation N, and N Corporation owns 60 percent of the one class of stock in foreign corporation P. Under paragraph (b) of this section, M Corporation is considered to own 48 percent (80 percent of 60 percent) of the stock in P Corporation; such 48 percent is treated as actually owned by M Corporation for the purpose of again applying paragraph (b) of this section. Thus, A and B are considered to own 12 percent (25 percent of 48 percent) and 24 percent (50 percent of 48 percent), respectively, of the stock in P Corporation.

Example (2). United States person C is a 60-percent partner in foreign partnership X. Partnership X owns 40 percent of the one class of stock in foreign corporation Q. Corporation Q is a 50-percent partner in foreign partnership Y, and partnership Y owns 100 percent of the one class of stock in foreign corporation R. By the application of paragraph (b) of this section, C is considered to own 12 percent (60 percent of 40 percent of 50 percent of 100 percent) of the stock in R Corporation.

Example (3). Foreign trust Z was created for the benefit of United States persons D, E, and F. Under the terms of the trust instrument, the trust income is required to be divided into three equal shares. Each beneficiary's share of the income may either be accumulated for him or distributed to him in the discretion of the trustee. In 1970, the trust is to terminate and there is to be paid over to each beneficiary the accumulated income applicable to his share and one-third of the corpus. The corpus of trust Z is composed of 90 percent of the one class of stock in foreign corporation S. By the application of this section, each of D, E, and F is considered to own 30 percent (⅓ of 90 percent) of the stock in S Corporation.

Example (4). Among the assets of foreign estate W are Blackacre and a block of stock, consisting of 75 percent of the one class of stock of foreign corporation T. Under the terms of the will governing estate W, Blackacre is left to G, a nonresident alien, for life, remainder to H, a nonresident alien, and the block of stock is left to United States person K. By the application of this section, K is considered to own the 75 percent of the stock of T Corporation, and G and H are not considered to own any of such stock.

§ 1.958-2 Constructive ownership of stock.

(a) *In general.* Section 958(b) provides that, for purposes of sections 951(b), 954(d)(3), and 957, the rules of section 318(a) as modified by section 958(b) and this section shall apply to the extent that the effect is to treat a United States person as a United States shareholder within the meaning of section 951(b), to treat a person as a related person within the meaning of section 954(d)(3), or to treat a foreign corporation as a controlled foreign corporation under section 957. The rules contained in this section also apply for purposes of other provisions of the Code and regulations which make express reference to section 958(b).

(b) *Members of family*—(1) *In general.* Except as provided in subparagraph (3) of this paragraph, an individual shall be considered as owning the stock owned, directly or indirectly, by or for—

(i) His spouse (other than a spouse who is legally separated from the individual under a decree of divorce or separate maintenance); and

(ii) His children, grandchildren, and parents.

(2) *Effect of adoption.* For purposes of subparagraph (1)(ii) of this paragraph, a legally adopted child of an individual shall be treated as a child of such individual by blood.

(3) *Stock owned by nonresident alien individual.* For purposes of this paragraph, stock owned by a nonresident alien individual (other than a foreign trust or foreign estate) shall not be considered as owned by a United States citizen or a resident alien individual. See section 958(b)(1).

(c) *Attribution from partnerships, estates, trusts, and corporations*—(1) *In*

general. Except as provided in subparagraph (2) of this paragraph—

(i) *From partnerships and estates.* Stock owned, directly or indirectly, by or for a partnership or estate shall be considered as owned proportionately by its partners or beneficiaries.

(ii) *From trusts—(a) To beneficiaries.* Stock owned, directly or indirectly, by or for a trust (other than an employees' trust described in section 401(a) which is exempt from tax under section 501(a)) shall be considered as owned by its beneficiaries in proportion to the actuarial interest of such beneficiaries in such trust.

(b) To owner. Stock owned, directly or indirectly, by or for any portion of a trust of which a person is considered the owner under sections 671 to 678 (relating to grantors and others treated as substantial owners) shall be considered as owned by such person.

(iii) *From corporations.* If 10 percent or more in value of the stock in a corporation is owned, directly or indirectly, by or for any person, such person shall be considered as owning the stock owned, directly or indirectly, by or for such corporation, in that proportion which the value of the stock which such person so owns bears to the value of all the stock in such corporation. See section 958 (b)(3).

(2) *Rules of application.* For purposes of subparagraph (1) of this paragraph, if a partnership, estate, trust, or corporation owns, directly or indirectly, more than 50 percent of the total combined voting power of all classes of stock entitled to vote in a corporation, it shall be considered as owning all the stock entitled to vote. See section 958(b)(2).

(d) *Attribution to partnerships, estates, trusts, and corporations*—(1) *In general.* Except as provided in subparagraph (2) of this paragraph—

(i) *To partnerships and estates.* Stock owned, directly or indirectly, by or for a partner or a beneficiary of an estate shall be considered as owned by the partnership or estate.

(ii) *To trusts—(a) From beneficiaries.* Stock owned, directly or indirectly, by or for a beneficiary of a trust (other than an employees' trust described in section 401(a) which is exempt from tax under section 501(a)) shall be considered as owned by the trust, unless such beneficiary's interest in the trust is a remote contingent interest. For purposes of the preceding sentence, a contingent interest of a beneficiary in a trust shall be considered remote if, under the maximum exercise of discretion by the trustee in favor of such beneficiary, the value of such interest, computed actuarially, is 5 percent or less of the value of the trust property.

(b) From owner. Stock owned, directly or indirectly, by or for a person who is considered the owner of any portion of a trust under sections 671 to 678 (relating to grantors and others treated as substantial owners) shall be considered as owned by the trust.

(iii) *To corporations.* If 50 percent or more in value of the stock in a corporation is owned, directly or indirectly, by or for any person, such corporation shall be considered as owning the stock owned, directly or indirectly, by or for such person. This subdivision shall not be applied so as to consider a corporation as owning its own stock.

(2) *Limitation.* Subparagraph (1) of this paragraph shall not be applied so as to consider a United States person as owning stock which is owned by a person who is not a United States person. See section 958(b)(4).

(e) *Options.* If any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of the preceding sentence, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

(f) *Rules of application.* For purposes of this section—

(1) *Stock treated as actually owned*—(i) *In general.* Except as provided in subdivisions (ii) and (iii) of this subparagraph, stock constructively owned by a person by reason of the application of paragraphs (b), (c), (d), and (e) of this section shall, for purposes of applying such paragraphs, be considered as actually owned by such person.

(ii) *Members of family.* Stock constructively owned by an individual by reason of the application of paragraph (b) of this section shall not be considered as owned by him for purposes of again applying such paragraph in order to make another the constructive owner of such stock.

(iii) *Partnerships, estates, trusts, and corporations.* Stock constructively owned by a partnership, estate, trust, or corporation by reason of the application of paragraph (d) of this section shall not be considered as owned by it for purposes of applying paragraph (c) of this section in order to make another the constructive owner of such stock.

(iv) *Option rule in lieu of family rule.* For purposes of this subparagraph, if stock may be considered as owned by an individual under paragraph (b) or (e) of this section, it shall be considered as owned by him under paragraph (e).

(2) *Coordination of different attribution rules.* For purposes of any one determination, stock which may be owned under more than one of the rules of § 1.958–1 and this section, or by more than one person, shall be owned under that attribution rule which imputes to the person, or persons, concerned the largest total percentage of such stock. The application of this subparagraph may be illustrated by the following examples:

Example (1). (a) United States persons A and B, and domestic corporation M, own 9 percent, 32 percent, and 10 percent, respectively, of the one class of stock in foreign corporation R. A also owns 10 percent of the one class of stock in M Corporation. For purposes of determining whether A is a United States shareholder with respect to R Corporation, 10 percent of the 10-percent interest of M Corporation in R Corporation is considered as owned by A. See paragraph (c)(1)(iii) of this section. Thus, A owns 10 percent (9 percent plus 10 percent of 10 percent) of the stock in R Corporation and is a United States shareholder with respect to such corporation. Corporation M and B, by reason of owning 10 percent and 32 percent, respectively, of the stock in R Corporation are United States shareholders with respect to such corporation.

(b) For purposes of determining whether R Corporation is a controlled foreign corporation, the 1 percent of the stock in R Corporation directly owned by M Corporation and considered as owned by A cannot be counted twice. Therefore, the total amount of stock in R Corporation owned by United States shareholders is 51 percent, determined as follows:

	Stock ownership in R Corporation (percent)
A	9
B	32
M Corporation	10
Total	51

Example (2). United States person C owns 10 percent of the one class of stock in foreign corporation N, which owns 60 percent of the one class of stock in foreign corporation S. Under paragraph (a)(2) of § 1.958–1, C is considered as owning 6 percent (10 percent of 60 percent) of the stock in S Corporation. Under paragraph (c)(1)(iii) and (2) of this section N Corporation is considered as owning 100 percent of the stock in S Corporation and C is considered as owning 10 percent of such 100 percent, or 10 percent of the stock in S Corporation. Thus, for purposes of determining whether C is a United States shareholder with respect to S Corporation, the attribution rules of paragraph (c)(1)(iii) and (2) of this section are used inasmuch as C owns a larger total percentage of the stock of S Corporation under such rules.

(g) *Illustration.* The application of this section may be illustrated by the following examples:

Example (1). United States persons A and B own 5 percent and 25 percent, respectively, of the one class of stock in foreign corporation M. Corporation M owns 60 percent of the one class of stock in foreign corporation N. Under paragraph (a)(2) of § 1.958–1, A and B are considered as owning 3 percent (5 percent of 60 percent) and 15 percent (25 percent of 60 percent), respectively, of the stock in N Corporation. Under paragraph (c)(2) of this section, M Corporation is treated as owning all the stock in N Corporation, and, under paragraph (c)(1)(iii) of this section, B is considered as owning 25 percent of such 100 percent, or 25 percent of the stock in N Corporation. Inasmuch as A owns less than 10 percent of the stock in M Corporation, he is not considered as owning, under paragraph (c)(1)(iii) of this section, any of the stock in N Corporation owned by M Corporation. Thus, the attribution rules of paragraph (a)(2) of § 1.958–1 are used with respect to A inasmuch as he owns a larger total percentage of the stock of N Corporation under such rules; and the attribution rules of paragraph (c)(1)(iii) and (2) of this section are used with respect to B inasmuch as he owns

a larger total percentage of the stock of N Corporation under such rules.

Example (2). United States person C owns 60 percent of the one class of stock in domestic corporation P; corporation P owns 60 percent of the one class of stock in foreign corporation Q; and corporation Q owns 60 percent of the one class of stock in foreign corporation R. Under paragraph (a)(2) of § 1.958-1, P Corporation is considered as owning 36 percent (60 percent of 60 percent) of the stock in R Corporation, and C is considered as owning none of the stock in R Corporation inasmuch as the chain of ownership stops at the first United States person and P Corporation is such a person. Under paragraph (c)(2) of this section, Q Corporation is treated as owning 100 percent of the stock in R Corporation, and under paragraph (c)(1)(iii) of this section, P Corporation is considered as owning 60 percent of such 100 percent, or 60 percent of the stock in R Corporation. For purposes of determining the amount of stock in R Corporation which C is considered as owning, P Corporation is treated under paragraph (c)(2) of this section as owning 100 percent of the stock in R Corporation; therefore, C is considered as owning 60 percent of the stock in R Corporation. Thus, the attribution rules of paragraph (c)(1)(iii) and (2) of this section are used with respect to C and P Corporation inasmuch as they each own a larger total percentage of the stock of R Corporation under such rules.

Example (3). United States person D owns 25 percent of the one class of stock in foreign corporation S. D is also a 40-percent partner in domestic partnership X, which owns 50 percent of the one class of stock in domestic corporation T. Under paragraph (d)(1)(i) of this section, the 25 percent of the stock in S Corporation owned by D is considered as being owned by partnership X; since such stock is treated as actually owned by partnership X under paragraph (f)(1)(i) of this section, such stock is in turn considered as being owned by T Corporation under paragraph (d)(1)(iii) of this section. Thus, under paragraphs (d)(1) and (f)(1)(i) of this section, T Corporation is considered as owning 25 percent of the stock in S Corporation.

Example (4). Foreign corporation U owns 100 percent of the one class of stock in domestic corporation V and also 100 percent of the one class of stock in foreign corporation W. By virtue of paragraph (d)(2) of this section, V Corporation may not be considered under paragraph (d)(1) of this section as owning the stock owned by its sole shareholder, U Corporation, in W Corporation.

Example (5). United States citizen E owns 15 percent of the one class of stock in foreign corporation Y, and United States citizen F, E's spouse, owns 5 percent of such stock. E and F's four nonresident alien grandchildren each own 20 percent of the stock in Y Corporation. Under paragraph (b)(1) of this section, E is considered as owning the stock owned by F in Y Corporation; however, by virtue of paragraph (b)(3) of this section, E may not be considered under paragraph (b)(1) of this section as owning any of the stock in Y Corporation owned by such grandchildren.

Example (6). United States person F owns 10 percent of the one class of stock in foreign corporation Z; corporation Z owns 10 percent of the one class of stock in foreign corporation K; and corporation K owns 100 percent of the one class of stock in foreign corporation L. United States person G, F's spouse, owns 9 percent of the stock in K Corporation. Under paragraph (c)(1)(iii) of this section or paragraph (a)(2) of § 1.958-1, F is considered as owning 1 percent (10 percent of 10 percent of 100 percent) of the stock in L Corporation by reason of his ownership of stock in Z Corporation, and, under paragraph (b)(1) of this section, G is considered as owning such 1 percent of the stock in L Corporation. Under paragraph (a)(2) of § 1.958-1, G is considered as owning 9 percent (9 percent of 100 percent) of the stock in L Corporation by reason of her ownership of stock in K Corporation, and, under paragraph (b)(1) of this section, F is considered as owning such 9 percent of the stock in L Corporation. Thus, for the purpose of determining whether F or G is a United States shareholder with respect to L Corporation, each of F and G is considered as owning a total of 10 percent of the stock in L Corporation by applying the rules of paragraph (a)(2) of § 1.958-1 and paragraphs (b)(1) and (c)(1)(iii) of this section.

(Sec. 7805, Internal Revenue Code of 1954; 68A Stat. 917; 26 U.S.C. 7805)

[F.R. Doc. 66-7377; Filed, July 11, 1966; 8:45 a.m.]

Title 41—PUBLIC CONTRACTS AND PROPERTY MANAGEMENT

Chapter 11—Coast Guard, Department of the Treasury

[CGFR 66-27]

MISCELLANEOUS AMENDMENTS TO CHAPTER

Pursuant to authority vested in me as Commandant, U.S. Coast Guard, by Treasury Department Order 167-17 (20 F.R. 4976) and Treasury Department Order 167-50 (28 F.R. 530):

PART 11-1—GENERAL

Subpart 11-1.6—Debarred and Ineligible Bidders

1. In § 11-1.606, paragraphs (a) and (c) are amended by changing the reference to "§ 1-1.605(a)" to read "§ 1-1.604(a)".

PART 11-3—PROCUREMENT BY NEGOTIATION

Subpart 11-3.2—Circumstances Permitting Negotiation

1. Section 11-3.211(c) is revised to read as follows:

§ 11-3.211 Experimental, development, or research work.

* * * * *

(c) *Reporting requirement.* (1) Reports required by section 2304(e), 10 U.S.C. to be made to Congress on May 19 and November 19 of each year will be made by Commandant (FS) to the Secretary of Treasury by May 1 and November 1 of each year of the purchases and contracts made under this § 11-3.211 since the date of last report.

(2) Reports will contain the following information:

(i) Name of contractor;

(ii) Dollar amount of contract (including amendments); and

(iii) Brief description of the work required to be performed under the contract (when necessary, because of the national security, the word "classified" may be used in lieu of the description).

Subpart 11-3.6—Small Purchases

1. Section 11-3.607 is added, reading as follows:

§ 11-3.607 Interagency use of local term contracts.

(a) General: The Commandant (FS), district commanders, and commanding officers of Headquarters units may authorize the use of Coast Guard term contracts by other Federal agencies when the contracts permit or may be amended to permit such use. Authority to permit participation in Coast Guard term contracts by other Federal agencies shall be limited to contracts executed by the command concerned. Requests received for participation in term contracts executed by a separate command will be forwarded to that command for action and the requesting agencies informed accordingly. After permission has been granted for use of Coast Guard term contracts, copies of the contracts, pertinent amendments, and/or contract bulletins shall be furnished the participating agencies to permit placement of orders, inspection, payment of invoices, etc.

(b) See chapter 1 of this title.

(c) Use of existing contracts: When agreeable to the contractors concerned, and provided there are no contract provisions to the contrary, existing Coast Guard term contracts may be amended to permit their use by specific Federal agencies. The contract amendments shall list the additional agencies allowed to participate in the contracts and will clearly state that the participating agencies are responsible for placing orders directly with the contractors, arranging for inspection and acceptance of supplies or services, and settlement of the contractors' invoices.

(d) Multiple use contracts: When the Coast Guard has assumed responsibility for contracting for the requirements of other agencies in given areas, the requirements of the participating agencies shall be combined with those of the Coast Guard and included in a single contract for each category of supplies or services. In those instances where a recurring need arises for the use of Coast Guard term contracts by units of other agencies, such as visiting Navy or Coast and Geodetic Survey vessels, etc., local term contracts lending themselves to use by other agencies should be worded to permit such use without specific amendment.

(e) See chapter 1 of this title.

(f) Responsibilities of contracting office and participating offices: It is the responsibility of Federal agencies using Coast Guard term contracts to place orders with the contractors, arrange for inspection and acceptance of supplies or services, determine whether performance meets the contract terms, and effect settlement of contractors' invoices; however, general supervision over such contracts rests with the Coast Guard. Subject to