

fact that salesmen, employees of a French enterprise, promote the sale of its products in the United States does not mean that such enterprise has a permanent establishment therein. However, a French insurance enterprise which insures risks within the United States or receives premiums from sources within the United States is deemed to have a permanent establishment within the United States.

(2) The term "enterprise" means any commercial or industrial undertaking, whether conducted by an individual, partnership, corporation, or other entity. It includes such activities as manufacturing, merchandising, mining, banking, and insurance. It does not include the operation of, or the trading in, real property located in the United States. It does not include the rendition of personal services. Hence, a nonresident alien individual who is a resident of France, rendering personal services within the United States is not, merely by reason of such services, engaged in an enterprise within the meaning of the convention, and his liability to United States income tax is unaffected by Article 3 of the Convention.

(3) The term "French enterprise" means an enterprise carried on in France by a nonresident alien individual resident of France or by a French corporation or other French entity. The term "corporation or other entity" means a partnership, corporation, or other entity created or organized in France or under the laws of France. For example, an enterprise carried on wholly outside France by a French corporation is not a French enterprise within the meaning of the convention. Whether a French entity is a corporation, a partnership, or a trust is to be determined in accordance with the principles of existing law relating to the taxation of nonresident aliens and foreign corporations.

(4) The term "industrial and commercial profits" means the profits arising from the industrial, mercantile, manufacturing, or like activities of a French enterprise as defined in this section. Such term does not include income from real property, interest, dividends, rentals and royalties, gains from the sale or exchange of capital assets, or

compensation for labor or personal service. Such enumerated items of income are not governed by the provisions of Article 3 but, to the extent covered by the convention, are subject to the rules elsewhere set forth therein and in this subpart.

(5) The term "Secretary" means the Secretary of the Treasury and the term "Minister" means the Minister of Finance of France.

§514.105 Scope of convention with respect to determination of "industrial and commercial profits" of a nonresident alien individual resident of France, or of a French corporation or other entity carrying on a French enterprise in the United States.

(a) *General.* Article 3 of the convention adopts the principle that an enterprise of one of the contracting States shall not be taxable in the other contracting State in respect of its industrial and commercial profits unless it has a permanent establishment in the latter State. Hence, a French enterprise is subject to United States tax upon its industrial and commercial profits from sources within the United States only if it has a permanent establishment within the United States. From the standpoint of Federal income taxation, the article has application only to a French enterprise and to the industrial and commercial income thereof from sources within the United States. It has no application, for example, to compensation for labor or personal services performed in the United States, to income derived from real property located in the United States or any interest therein, including rentals and royalties, to gains from the sale or other disposition of such real property or interest, to dividends and interest, to rentals and royalties arising from leasing personal property or any interest in such property, including rentals and royalties for the use of patents, copyrights, secret processes and formulae, good will, trade marks, trade brands, franchises, and other like property, or to profits from the sale or exchange of capital assets. Such enumerated items of income, to the extent covered by the convention, are treated separately elsewhere in this subpart and are subject to the rules laid down

in the sections having specific references to the respective items of income.

(b) *No United States permanent establishment.* A nonresident alien individual who is a resident of France, or a French corporation or other French entity carrying on a French enterprise, but having no permanent establishment in the United States, is not subject to United States income tax upon industrial and commercial profits from sources within the United States. For example, if such French corporation sells stock in trade, such as wines or perfumery or cheese, through a bona fide commission agent or broker in the United States, the resulting profit is, under the terms of Article 3 of the convention, exempt from United States income tax. Such French corporation, however, remains subject to tax upon all other items of income from sources within the United States which are not expressly exempted from such tax under the convention.

(c) *United States permanent establishment.* A nonresident alien individual who is a resident of France, or a French corporation or other entity, carrying on a French enterprise having a permanent establishment in the United States is subject to tax upon his or its industrial and commercial profits from sources within the United States. In the determination of the income of such resident of France or French corporation or other entity from sources within the United States, all industrial and commercial profits from such sources shall be deemed to be allocable to the permanent establishment within the United States. Hence, for example, if a French enterprise, having a permanent establishment in the United States, sells directly in the United States through a commission agent or broker therein goods produced in France, the resulting profits derived from United States sources from the latter transactions are allocable to such permanent establishment. The net income from sources within the United States, including the industrial and commercial profits, shall be determined in accordance with the provisions of section 119 of the Internal Revenue Code and the regulations thereunder. In determining indus-

trial and commercial profits no account shall be taken of the mere purchase of merchandise effected in the United States by such French enterprise. A nonresident alien who is a resident of France, a member of a French partnership having a permanent establishment within the United States, shall by reason of such fact be deemed to have a permanent establishment within the United States.

§514.106 Control of a domestic enterprise by a French enterprise.

Article 5 of the convention provides that if a French enterprise by reason of its control of a domestic business imposes conditions different from those which would result from normal business relations between independent enterprises, the accounts between the enterprises will be adjusted so as to ascertain the true net income of the domestic enterprise. The purpose is to place the controlled domestic enterprise on a tax parity with an uncontrolled domestic enterprise by determining, according to the standard of an uncontrolled enterprise, the true net income from the property and business of the controlled enterprise. The convention contemplates that if the accounting records do not truly reflect the net income from the property and business of such domestic enterprise the Commissioner of Internal Revenue shall intervene and, by making such distributions, apportionments, or allocations as he may deem necessary of gross income or deductions of any item or element affecting net income as between such domestic enterprise and the French enterprise by which it is controlled or directed, determine the true net income of the domestic enterprise. The provisions of §29.45-1 of Regulations 111 (26 CFR 1949 ed. Supps. 29.45-1) [and §39.45-1 of Regulations 118 (26 CFR, Rev. 1953, Parts 1-79, and Supps.)], shall, in so far as applicable, be followed in the determination of the net income of the domestic business.

§514.107 Income from operation of ships or aircraft.

The income derived by a French enterprise from the operation of ships documented under the laws of France, or of aircraft registered in France, is