

within the United States. The proper apportionment and allocation of the deductions with respect to sources within and without the United States shall be determined as provided in part I (section 861 and following), subchapter N, chapter 1 of the Code, and the regulations thereunder.

(e) *Deduction for personal exemption.* A citizen of the United States entitled to the benefits of section 931 is allowed a deduction for only one exemption under section 151.

(f) *Allowance of deductions and credits.* Unless a citizen of the United States or a domestic corporation entitled to the benefits of section 931 shall file or cause to be filed with the district director a true and accurate return of total income from all sources within the United States, in the manner prescribed in subtitle F of the Code, the tax shall be collected on the basis of the gross income (not the taxable income) from sources within the United States. If such citizen or corporation fails to file a necessary income tax return, the Commissioner will cause a return to be made, including therein all income from sources within the United States and allowing no deductions or credits (except credit for tax withheld at source).

(g) *Foreign tax credit.* Persons entitled to the benefits of section 931 are not allowed the credits provided for in section 901 (relating to credits for taxes of foreign countries and possessions).

(h) *Internees.* If a citizen of the United States—

(1) Was interned by the enemy while serving as an employee within a possession of the United States; and

(2) Was confined in any place not within a possession of the United States, then

(i) Such place of confinement shall be considered as within a possession of the United States for the purposes of section 931; and

(ii) Section 931 (b) shall not apply to any compensation received within the United States by such citizen attributable to the period of time during which such citizen was interned by the enemy.

(i) *Employees of the United States.* For the purposes of section 931, amounts paid for services performed by a citizen

of the United States as an employee of the United States or any agency thereof shall be deemed to be derived from sources within the United States.

(j) *Nonapplication to a DISC or shareholder thereof.* Section 931 does not apply to a corporation for a taxable year (1) for which it qualifies (or is treated) as a DISC or (2) during which it owns directly or indirectly at any time stock in a corporation which, at such time, is (or is treated as) a DISC or former DISC. (See section 992(a)(1) and (3), respectively, for the definitions of the terms “DISC” and “former DISC”.) For example, assume X Corporation and Y Corporation have the same taxable years. On the first day of its taxable year, X owns and sells all of the stock in Y, Y on such day owns and sells all of the stock in Z Corporation, and Z qualifies as a DISC as of such day. Section 931 will not apply to X and Y for their taxable years. Section 931 will likewise not apply to Z for the taxable year for which it qualifies as a DISC.

(Secs. 7805 (68A Stat. 917; 26 U.S.C. 7805) and 7654(e) (86 Stat. 1496; 26 U.S.C. 7654 (c)) of the Internal Revenue Code of 1954)

[T.D. 6500, 25 FR 11910, Nov. 26, 1960, as amended by T.D. 7283, 38 FR 20825, Aug. 3, 1973; T.D. 7385, 40 FR 50260, Oct. 29, 1975]

#### § 1.932-1 Status of citizens of U.S. possessions.

(a) *General rule—(1) Definition and treatment.* A citizen of a possession of the United States (except Puerto Rico and, for taxable years beginning after December 31, 1972, Guam), who is not otherwise a citizen or resident of the United States, including only the States and the District of Columbia, is treated for the purpose of the taxes imposed by subtitle A of the Code (relating to income taxes) as if he were a nonresident alien individual. However, for purposes of the tax imposed on self-employment income by chapter 2 of the Code, the term “possession of the United States” as used in section 932 and the preceding sentence does not include American Samoa, Guam, or the Virgin Islands. See section 1402(a)(9). See subpart A (section 871 and following), part II, subchapter N, chapter 1 of the Code, and the regulations

thereunder, for rules relating to imposition of tax on nonresident alien individuals. For Federal income tax purposes, a citizen of a possession of the United States who is not otherwise a citizen of the United States is a citizen of a possession of the United States who has not become a citizen of the United States by naturalization in a State, Territory, or the District of Columbia. The fixed or determinable annual or periodical income from sources within the United States of a citizen of a possession of the United States who is treated as if he were a nonresident alien individual is subject to withholding. See section 1441.

(2) *Classification of citizens of United States possessions.* For the purpose of this section citizens of the possessions of the United States who are not otherwise citizens of the United States are divided into two classes:

(i) Citizens of possessions of the United States who at any time within the taxable year are not engaged in trade or business within the United States, and

(ii) Citizens of possessions of the United States who at any time within the taxable year are engaged in trade or business within the United States.

The provisions of subpart A (section 871 and following) and the regulations thereunder, applicable to nonresident alien individuals not engaged in trade or business within the United States are applicable to the citizens of possessions falling within the first class, while the provisions of such sections applicable to nonresident alien individuals who at any time within the taxable year are engaged in trade or business within the United States are applicable to citizens of possessions falling within the second class.

(b) *Nonapplication to citizen of Puerto Rico or Guam.* The provisions of section 932(a) and paragraph (a) of this section do not apply in the case of a citizen of Puerto Rico or, for taxable years beginning after December 31, 1972, a citizen of Guam. Thus, for example, any such citizen who is not a resident of the United States will not be treated by the United States as a nonresident alien individual for purposes of section 2 (b)(3)(A) or (d), relating to definitions and special rules; section 4(d)(1), relat-

ing to taxpayers not eligible to use the optional tax tables; section 37(h), relating to denial of retirement income credit; section 116(d), relating to taxpayers ineligible for dividend exclusion; section 142(b)(1), relating to taxpayers ineligible for standard deduction; section 152(b)(3), relating to definition of “dependent”; section 402(a)(4), relating to distributions by the United States to nonresident aliens; section 545(d), relating to certain foreign corporations; section 565(e), relating to certain consent dividends; section 861(a)(1), relating to interest from sources within the United States; sections 871 to 877, relating to nonresident alien individuals; section 1303(b), relating to individuals not eligible for income averaging; section 1371(a)(3), relating to definition of small business corporation; section 1402(b), relating to definition of “self-employment income”; section 1441, relating to withholding of tax on nonresident aliens; section 3401(a), relating to definition of wages; section 6013(a)(1), relating to inability to make a joint return; section 6015 (b) and (i), relating to declaration of estimated income tax by nonresident alien individuals; section 6017, relating to self-employment tax returns; section 6042(b)(2), relating to returns regarding payments of dividends; section 6049(b)(2), relating to returns regarding payments of interest; section 6072 (c), relating to time for filing returns of nonresident alien individuals; section 6091(b), relating to place for filing returns of nonresident aliens; and section 6096(a), relating to designation of tax payments to Presidential Election Campaign Fund. For other rules applicable to citizens of Puerto Rico, see §§1.1-1(b) and 1.933-1. For other rules applicable to citizens of Guam, see §§1.1-1(b) and 1.935-1 of this chapter (Income Tax Regulations) and §301.7654-1 of this chapter (Regulations on Procedure and Administration).

(Secs. 7805 (68A Stat. 917; 26 U.S.C. 7805) and 7654(e) (86 Stat. 1496; 26 U.S.C. 7654 (e)) of the Internal Revenue Code of 1954)

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