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the taxpayer is other than the euro, the basis pool shall equal the product of the legacy currency amount of the basis pool multiplied by the applicable conversion rate. No adjustment to the equity pool is required.

(ii) *Taxpayer changing from a legacy currency to the euro in a taxable year during which a branch's functional currency is the euro.* If a taxpayer changes its functional currency from a legacy currency to the euro for a taxable year during which the functional currency of a branch of the taxpayer is the euro, the taxpayer shall take into account gain or loss as determined under paragraph (c)(4)(ii) of this section.

(6) *Additional adjustments that are necessary when a corporation changes its functional currency to the euro.* The amount of a corporation's euro currency earnings and profits and the amount of its euro paid-in capital shall equal the product of the legacy currency amounts of these items multiplied by the applicable conversion rate. The foreign income taxes and accumulated profits or deficits in accumulated profits of a foreign corporation that were maintained in foreign currency for purposes of section 902 and that are attributable to taxable years of the foreign corporation beginning before January 1, 1987, also shall be translated into the euro at the conversion rate.

(d) *Treatment of legacy currency section 988 transactions with respect to a QBU that has the euro as its functional currency*—(1) *In general.* This §1.985–8(d) applies to a QBU that has the euro as its functional currency and that holds a section 988 transaction denominated in, or determined by reference to, a currency that is substituted by the euro. For example, this paragraph (d) will apply to a German QBU with the euro as its functional currency if the QBU is holding Country X currency or other section 988 transactions denominated in such currency on the day in the year 2005 when the euro is substituted for the Country X currency.

(2) *Principles of paragraph (c)(3) of this section shall apply.* With respect to a QBU described in paragraph (d) of this section, the principles of paragraph (c)(3) of this section shall apply. For example, if a German QBU with the euro as its functional currency is holding a Country X currency denominated debt instrument on the day in the year 2005 when the euro is substituted for the Country X currency, the instrument shall continue to be treated as a section 988 transaction pursuant to the principles of paragraph (c)(3)(i) of this section. However, if such QBU holds Country X currency, the QBU shall take into account any unrealized exchange gain or loss pursuant to the principles of paragraph (c)(3)(iii) of this section as if the currency was disposed of on the day prior to the day the euro is substituted for the Country X currency. Similarly, if the QBU makes an election under the principles of paragraph (c)(3)(iv) of this section, the QBU shall take into account for all purposes of the Internal Revenue Code the amount of any unrealized exchange gain or loss attributable to a legacy currency denominated item described in section 988(c)(1)(B)(ii) as if the item were terminated on the day prior to the day the euro is substituted for the Country X currency.

(e) *Effective date.* This section applies to tax years ending after July 29, 1998.

[T.D. 8927, 66 FR 2216, Jan. 11, 2001; T.D. 8927, 66 FR 21447, Apr. 30, 2001]

§1.987–0 Section 987; table of contents.

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§ 1.987–2 Attribution of items to eligible QBUs; definition of a transfer and related rules.

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(b) Attribution of items to an eligible QBU.
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(d) Translation of items transferred to a section 987 QBU.
(1) Marked items.
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§ 1.987–3 Determination of section 987 taxable income or loss of an owner of a section 987 QBU.

(a) In general.
(b) Determination of each item of income, gain, deduction, or loss in the section 987 QBU's functional currency.
(1) In general.
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(c) Translation of items of income, gain, deduction, or loss of a section 987 QBU into the owner's functional currency.
(1) In general.
(2) Exceptions.
(3) Adjustments to COGS required under the simplified inventory method.
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§ 1.987–4 Determination of net unrecognized section 987 gain or loss of a section 987 QBU.

(a) In general.
(b) Calculation of net unrecognized section 987 gain or loss.
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(d) Calculation of unrecognized section 987 gain or loss for a taxable year.
(1) Step 1: Determine the change in the owner functional currency net value of the section 987 QBU for the taxable year.
(2) Step 2: Increase the amount determined in step 1 by the amount of assets transferred from the section 987 QBU to the owner.
(3) Step 3: Decrease the amount determined in steps 1 and 2 by the amount of assets transferred from the owner to the section 987 QBU.
(4) Step 4: Decrease the amount determined in steps 1 through 3 by the amount of liabilities transferred from the section 987 QBU to the owner.
(5) Step 5: Increase the amount determined in steps 1 through 4 by the amount of liabilities transferred from the owner to the section 987 QBU.
(6) Step 6: Decrease or increase the amount determined in steps 1 through 5 by the section 987 taxable income or loss, respectively, of the section 987 QBU for the taxable year.
(7) Step 7: Increase the amount determined in steps 1 through 6 by any expenses that are not deductible in computing the section 987 taxable income or loss of the section 987 QBU for the taxable year.
(8) Step 8: Decrease the amount determined in steps 1 through 7 by the amount of any tax-exempt income.
(e) Determination of the owner functional currency net value of a section 987 QBU.
(1) In general.
(2) Translation of balance sheet items into the owner's functional currency.
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§ 1.987–5 Recognition of section 987 gain or loss.

(a) Recognition of section 987 gain or loss by the owner of a section 987 QBU.
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(c) Remittance.
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(d) Aggregate of all amounts transferred from the section 987 QBU to the owner for the taxable year.
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§ 1.987–6 Character and source of section 987 gain or loss.

(a) Ordinary income or loss.
(b) Character and source of section 987 gain or loss.
(1) In general.
(2) Method required to characterize and source section 987 gain or loss.
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§ 1.987–7 Section 987 aggregate partnerships.

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§ 1.987–8 Termination of a section 987 QBU.

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(b) In general.
(1) Trade or business ceases.
(2) Substantially all assets transferred.
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(c) Transactions described in section 381(a).
(1) Liquidations.
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§ 1.987–9 Recordkeeping requirements.

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(b) Supplemental information.
(c) Retention of records.
(d) Information on a dedicated section 987 form.

§ 1.987–10 Transition rules.

(a) Scope.
(b) Fresh start transition method.
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(2) Application of § 1.987–4.
(3) Determination of historic rate.
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(c) Transition of section 987 QBUs that applied the method set forth in the 2006 proposed section 987 regulations.
(1) In general.
(2) Application of § 1.987–4.
(3) Use of prior historic rate.
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(d) Adjustments to avoid double counting.
(e) Reporting.
(1) In general.
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§ 1.987–11 Effective/applicability date.

(a) In general.
(b) Application of these regulations to taxable years beginning after December 7, 2016.
(c) Transition date.

§ 1.987–12 Deferral of section 987 gain or loss.

(a) through (h) [Reserved]

[T.D. 9794, 81 FR 88821, Dec. 8, 2016, as amended by T.D. 9795, 81 FR 88867, Dec. 8, 2016]

§ 1.987–1 Scope, definitions, and special rules.

(a) *In general.* These regulations under section 987 (§§ 1.987–1 through 1.987–11) provide rules for determining the taxable income or loss of a taxpayer with respect to a section 987 QBU (as defined in paragraph (b)(2) of this section). Further, these regulations provide rules for determining the timing, amount, character, and source of section 987 gain or loss recognized with respect to a section 987 QBU. This section addresses the scope of these regulations and provides certain definitions, special rules, and the procedures for making the elections provided for in the regulations. Section 1.987–2 provides rules for attributing assets and liabilities and items of income, gain, deduction, and loss to an eligible QBU. It also provides rules regarding the translation of items transferred to a section 987 QBU. Section 1.987–3 provides rules for determining and translating the taxable income or loss of a taxpayer with respect to a section 987 QBU. Section 1.987–4 provides rules for determining net unrecognized section 987 gain or loss. Section 1.987–5 provides rules regarding the recognition of section 987 gain or loss. It also provides rules for determining an owner's basis in assets transferred from a section 987 QBU. Section 1.987–6 provides rules regarding the character and source of section 987 gain or loss. Section 1.987–7 provides rules with respect to section 987 aggregate partnerships. Section 1.987–8 provides rules regarding the termination of a section 987 QBU. Section 1.987–9 provides rules regarding the recordkeeping required under section 987. Section 1.987–10 provides transition rules. Section 1.987–11 provides the effective/applicability date of these regulations.

(b) *Scope of section 987 and definitions*—(1) *Taxpayers subject to section 987*—(i) *In general.* Except as provided in paragraphs (b)(1)(ii) and (b)(6) of this section, an individual or corporation is