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Swiss franc (Sf) as its functional currency. CFC is the owner of Business A, a section 987 QBU that has the euro as its functional currency. For the year 2021, CFC recognizes section 987 gain of Sf10,000 under §1.987–5. Applying the rules of this section, Business A has average total assets of Sf1,000,000, which generate income as follows: Sf750,000 of assets that generate foreign source general limitation income under section 904(d)(1)(A), none of which is subpart F income under section 952; and Sf250,000 of assets that generate foreign source passive income under section 904(d)(1)(B), all of which is subpart F income. Under paragraph (b) of this section, Sf7,500 (Sf750,000/Sf1,000,000 × Sf10,000) of the section 987 gain will be characterized as foreign source general limitation income that is not subpart F income under section 952, and Sf2,500 (Sf250,000/Sf1,000,000 × Sf10,000) will be characterized as foreign source passive income that is characterized as foreign personal holding company income under section 954(c)(1)(D). All of the section 987 gain is treated as ordinary income.

Example 2. The facts are the same as in *Example 1* except that: (a) CFC recognizes section 987 loss of Sf40,000, Sf10,000 of which is characterized under paragraph (b) of this section by reference to assets that give rise to subpart F income; and (b) CFC otherwise has Sf12,000 of net foreign currency gain determined under §1.954–2(g) that is taken into account in determining the excess of foreign currency gain over foreign currency losses characterized as foreign personal holding company income under section 954(c)(1)(D). Under paragraph (b)(3) of this section, the Sf10,000 section 987 loss characterized by reference to assets that give rise to subpart F income is treated as foreign currency loss attributable to section 988 transactions not directly related to the business needs of the controlled foreign corporation for purposes of determining the excess of foreign currency gains over foreign currency losses characterized as foreign personal holding company income under section 954(c)(1)(D). Accordingly, CFC will aggregate the Sf10,000 section 987 loss with the Sf12,000 net foreign currency gain and will have Sf2,000 of net foreign currency gain characterized as foreign personal holding company income under section 954(c)(1)(D).

[T.D. 9794, 81 FR 88845, Dec. 8, 2016, as amended by T.D. 9795, 81 FR 88874, Dec. 8, 2016]

§1.987–6T Character and source of section 987 gain or loss (temporary).

(a) through (b)(3) [Reserved]. For further guidance, see §1.987–6(a) through (b)(3).

(4) *Source of section 987 gain or loss with respect to a dollar QBU.* The source of section 987 gain or loss with respect to a dollar QBU (as defined in §1.987–1T(b)(6)(i)) for which the CFC owner has elected under §1.987–1T(b)(6)(iii) to apply section 987 is determined by reference to the residence of the CFC owner. This paragraph (b)(4) applies to any CFC that has made the election under §1.987–1T(b)(6)(iii), including a CFC described in §1.987–1(b)(1)(ii).

(c) [Reserved]. For further guidance, see §1.987–6(c).

(d) *Effective/applicability date.* This section applies to taxable years beginning on or after one year after the first day of the first taxable year following December 7, 2016. Notwithstanding the preceding sentence, if a taxpayer makes an election under §1.987–11(b), then this section applies to taxable years to which §§1.987–1 through 1.987–10 apply as a result of such election.

(e) *Expiration date.* The applicability of this section expires on December 6, 2019.

[T.D. 9795, 81 FR 88874, Dec. 8, 2016]

§1.987–7 Section 987 aggregate partnerships.

(a) *In general.* This section provides rules for determining an owner's share of the assets and liabilities of an eligible QBU that is owned indirectly, as described in §1.987–1(b)(4)(ii), through a section 987 aggregate partnership.

(b) [Reserved]. For further guidance, see §1.987–7T(b).

(c) *Coordination with subchapter K.* [Reserved]

[T.D. 9794, 81 FR 88845, Dec. 8, 2016, as amended by T.D. 9795, 81 FR 88874, Dec. 8, 2016]

§1.987–7T Section 987 aggregate partnerships (temporary).

(a) [Reserved]. For further guidance, see §1.987–7(a).

(b) *Liquidation value percentage methodology*—(1) *In general.* In any taxable year, a partner's share of each asset, including its basis in each asset, and the amount of each liability reflected under §1.987–2(b) on the books and records of an eligible QBU owned indirectly through a section 987 aggregate partnership is proportional to the partner's liquidation value percentage with respect to the aggregate partnership