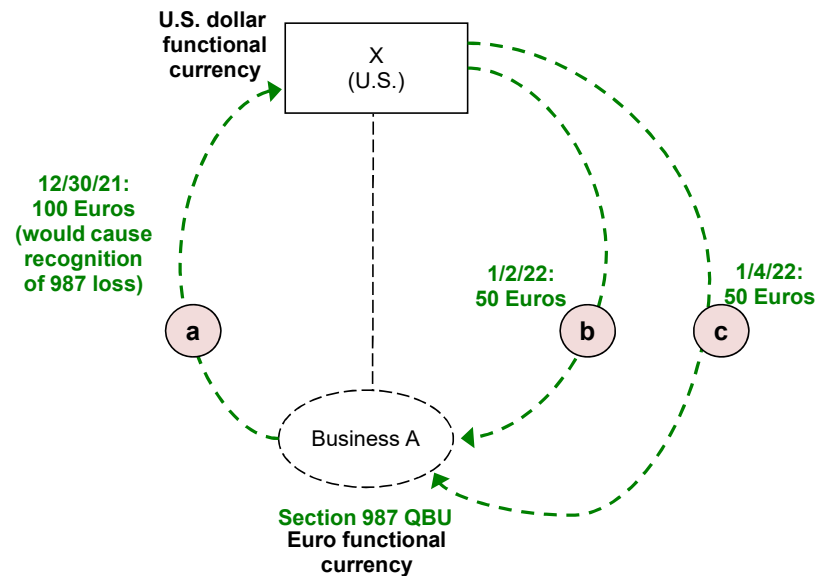


Section 987 QBU: Circular Transfers



X is a domestic corporation, has the U.S. dollar as its functional currency, and uses the calendar year as its taxable year. X owns Business A. Business A is an eligible QBU that has the euro as its functional currency.

On December 30, 2021, Business A purports to transfer €100 to X. On January 2, 2022, X purports to transfer €50 to Business A. On January 4, 2022, X purports to transfer another €50 to Business A. As of the end of 2021, X has an unrecognized section 987 loss with respect to Business A, such that a remittance, if respected, would result in recognition of a foreign currency loss under section 987.

Because the transfer by Business A to X is offset by the transfers from X to Business A that occurred in close temporal proximity, the Internal Revenue Service (IRS) may disregard the purported transfers to and from Business A for purposes of section 987 pursuant to general tax principles under Treas. Reg. 1.987-2(c)(7).