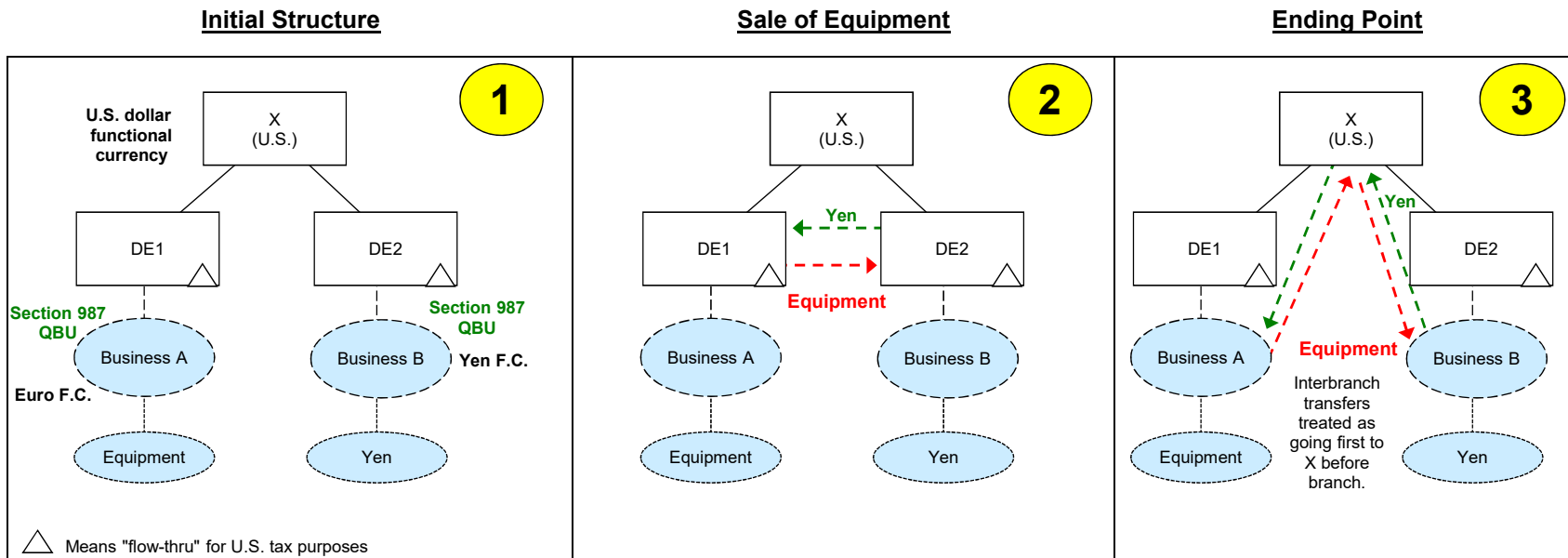


Section 987: Intercompany Sale of Property Between Section 987 QBUs



X is a domestic corporation, has the U.S. dollar as its functional currency, and uses the calendar year as its taxable year. Business A and Business B are eligible QBUs that have the euro and the Japanese yen, respectively, as their functional currencies.

X owns all of the interests in DE1 and DE2, both disregarded entities. DE1 and DE2 own Business A and Business B, respectively, both of which are section 987 QBUs of X. DE1 owns equipment that is used in Business A and is reflected on the books and records of Business A. For business reasons, DE1 sells a portion of the equipment used in Business A to DE2 in exchange for a fair market value amount of Japanese yen. The yen used by DE2 to acquire the equipment was generated by Business B and was reflected on Business B's books and records. Following the sale, the yen and the equipment will be used in Business A and Business B, respectively. As a result of such sale, the equipment is removed from the books and records of Business A and is recorded on the books and records of Business B. Similarly, as a result of the sale, the yen is removed from the books and records of Business B and is recorded on the books and records of Business A.

The sale of equipment between DE1 and DE2 is a transaction that is not regarded for Federal income tax purposes (because it is an interbranch transaction). Therefore the transaction is a disregarded transaction for purposes of Treas. Reg. §1.987-2(c). As a result, the sale is not taken into account under this section and, pursuant to Treas. Reg. §1.987-2(c)(2)(iii), the sale does not give rise to an item of income, gain, deduction, or loss for purposes of determining section 987 taxable income or loss under Treas. Reg. §1.987-3. However, the yen and equipment exchanged by DE1 and DE2 in connection with the sale must be taken into account as a disregarded transaction under Treas. Reg. §1.987-2(c).

As a result of the disregarded transaction, the equipment ceases to be reflected on the books and records of Business A and becomes reflected on the books and records of Business B. Therefore, the Business A section 987 QBU is treated as transferring the equipment to X, and X is subsequently treated as transferring such equipment to the Business B section 987 QBU.

Additionally, as a result of the disregarded transaction, the yen currency ceases to be reflected on the books and records of Business B and becomes reflected on the books and records of Business A. Therefore, the Business B section 987 QBU is treated as transferring the yen to X, and X is subsequently treated as transferring such yen from X to the Business A section 987 QBU. The transfers among Business A, Business B and X are taken into account in determining the amount of any remittance for the taxable year under Treas. Reg. §1.987-5(c).