

Deloitte Tax looks at proposed regulations under section 987

The IRS and Treasury Department on November 9 released proposed currency regulations under section 987 and related rules. Section 987 applies to taxpayers with a qualified business unit (QBU) in the form of a disregarded entity, branch, partnership, trust, or estate, if the QBU has a functional currency that is different from the functional currency of its tax owner(s). Section 987 addresses foreign currency translation related to operations, assets, and liabilities of QBUs, and provides rules for computing taxable income (and associated earnings and profits) of the QBU, recognizing currency gain or loss, and translating basis in property that is transferred to or from a QBU.

The proposed regulations are based on the final section 987 regulations issued in 2016 and 2019 but contain significant changes that include modifying, removing, or adding rules under sections 985 through 989, as well as under sections 861 and 1502. If finalized, the newly proposed guidance would apply to most taxpayers, with very limited exceptions, and would significantly change the way most taxpayers currently make computations for section 987 QBUs.

The regulations as proposed would apply to taxable years beginning on or after December 31, 2024. When finalized, the 2023 proposed regulations would also have a retroactive effect for certain QBUs that terminate on or after November 9, 2023.

Find out more: Tax alert, webcast

A new alert from Deloitte Tax LLP discusses the details of the proposed regulations. A Tax News & Views webcast on the proposed regulations set for December 6 at 11:00 a.m. (eastern time) will examine the newly introduced elections, loss limitation rules, and other provisions; issues around transitioning to the new rules and coordinating with other tax rules; and the effects of the new rules on tax compliance and provisions.

URL: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/dttl-tax-alert-us-17-november-2023.pdf>

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