

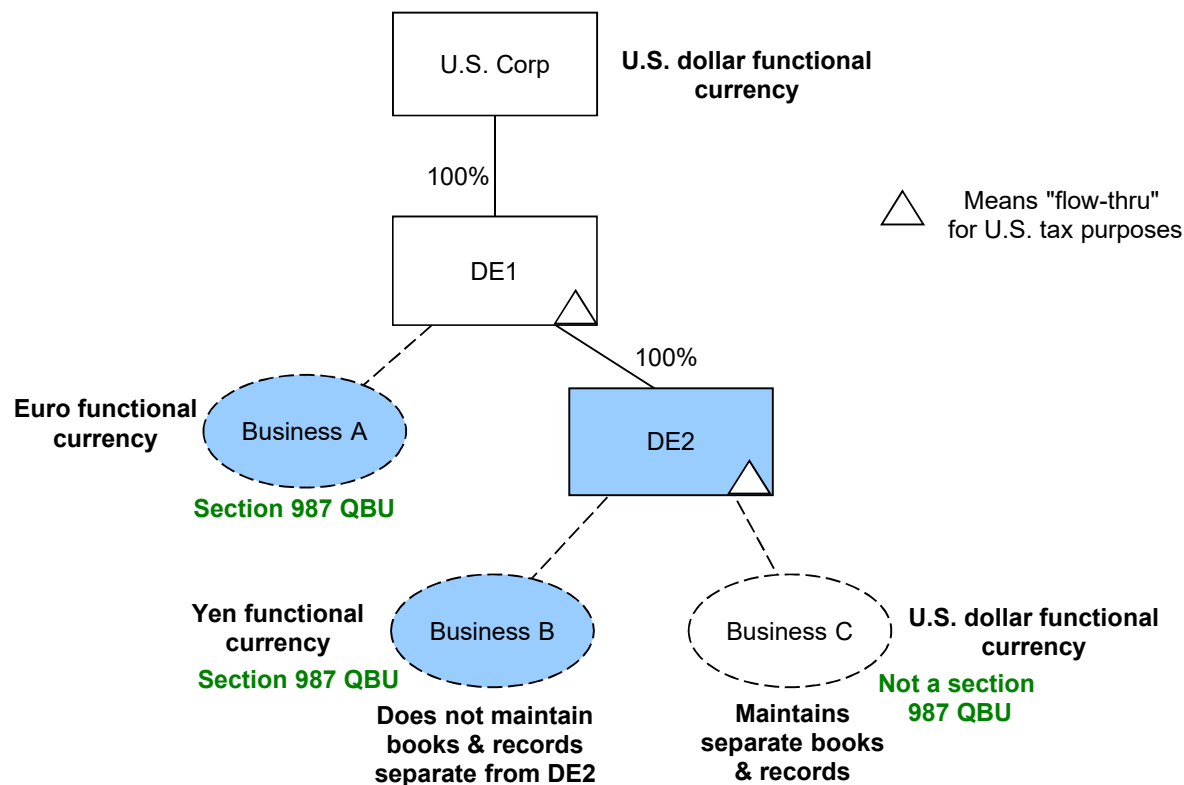
Reg. 1.987-1(b)(7), Ex. 2

Section 987 QBU: Disregarded Entities with Active Businesses

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U.S. Corp 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 and have the euro and the Japanese yen, respectively, as their functional currencies.

U.S. Corp owns all of the interests in DE1, a disregarded entity. DE1 owns Business A and all of the interests in DE2, a disregarded entity. The only activities of DE1 are Business A activities and holding the interests in DE2. DE2 owns Business B and Business C. For purposes of this example, Business B does not maintain books and records that are separate from its owner, DE2. Instead, the activities of Business B are reflected on the books and records of DE2, which are maintained in Japanese yen. In addition, Business C has the U.S. dollar as its functional currency, maintains books and records that are separate from the books and records of DE2, and is an eligible QBU.



Pursuant to Treas. Reg. §1.987-1(b)(3)(ii), DE1 and DE2 are not eligible QBUs. Pursuant to Treas. Reg. §1.987-1(b)(3)(i), the Business B and Business C activities of DE2, and the Business A activities of DE1, are eligible QBUs. Moreover, pursuant to Treas. Reg. §1.987-1(b)(4), DE1 is not the owner of the Business A, Business B, or Business C eligible QBUs, and DE2 is not the owner of the Business B or Business C eligible QBUs. Instead, pursuant to Treas. Reg. §1.987-1(b)(4)(i), U.S. Corp is the direct owner of the Business A, Business B, and Business C eligible QBUs.

Because Business A and Business B are eligible QBUs with functional currencies that are different than the functional currency of U.S. Corp, Business A and Business B are section 987 QBUs (as defined in Treas. Reg. §1.987-1(b)(2)). The Business C eligible QBU has the same functional currency as U.S. Corp. Therefore, the Business C eligible QBU is not a section 987 QBU.

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