

**Reg. 1.987-1(b)(7),
Ex. 3**

**Section 987 QBU: Election to Treat
Separate QBUs as One QBU**

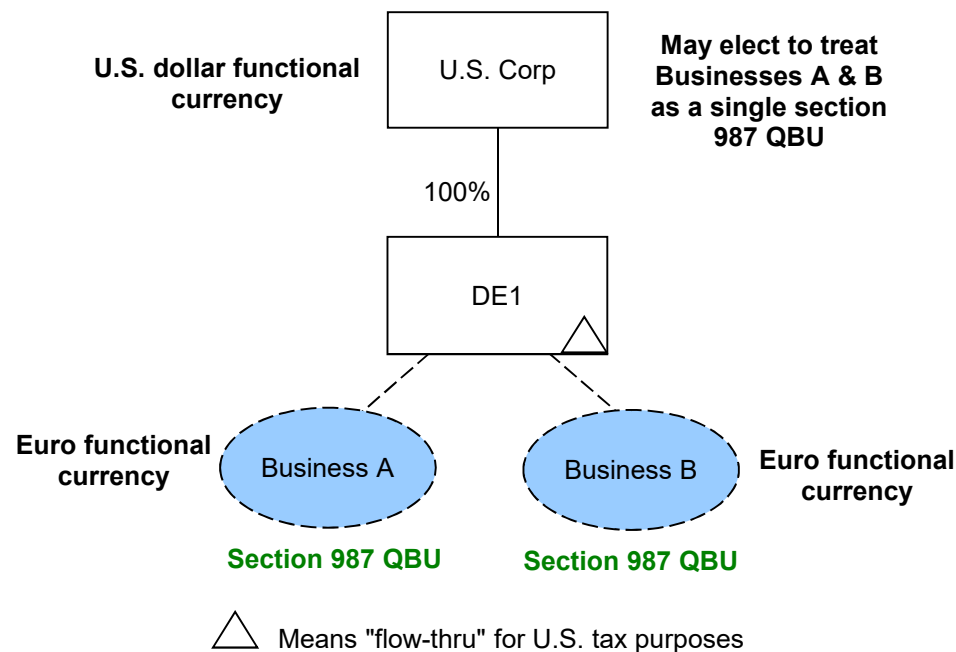
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U.S. Corp is a domestic corporation, has the U.S. dollar as its functional currency, and uses the calendar year as its taxable year. Business A and Business B are eligible QBUs and have the euro as their functional currencies.

U.S. Corp owns all of the interests in DE1, a disregarded entity. DE1 owns Business A and Business B.

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

Business A and Business B constitute two separate eligible QBUs, each with the euro as its functional currency. Accordingly, Business A and Business B are section 987 QBUs of U.S. Corp. U.S. Corp may elect to treat Business A and Business B as a single section 987 QBU pursuant to Treas. Reg. §1.987-1(b)(2)(ii)(A). If such election is made, pursuant to Treas. Reg. §1.987-1(b)(4)(i), U.S. Corp would be the direct owner of the Business AB section 987 QBU that would include the activities of both the Business A section 987 QBU and the Business B section 987 QBU. In addition, pursuant to Treas. Reg. §1.987-1(b)(4), DE1 would not be treated as the owner of the Business AB section 987 QBU.



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