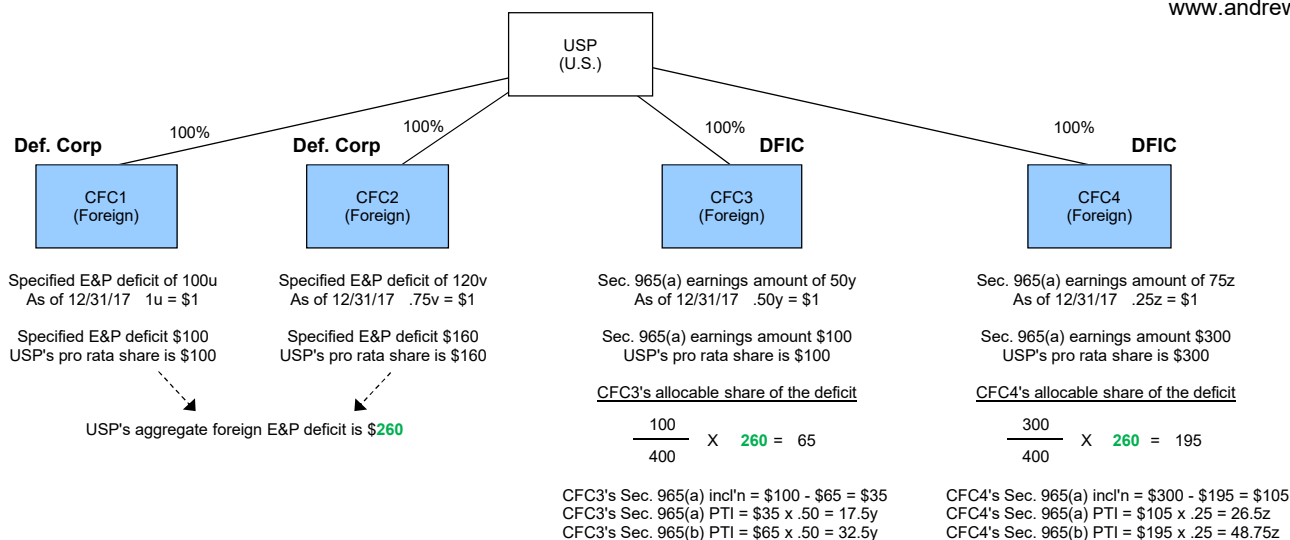


**Prop'd Reg. 1.965-1(g),  
Example 6**

**Application of Currency Translation Rules**

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As of November 2, 2017, and December 31, 2017, USP, a domestic corporation, owns all of the stock of CFC1, an E&P deficit foreign corporation with the "u" as its functional currency; CFC2, an E&P deficit foreign corporation with the "v" as its functional currency; CFC3, a deferred foreign income corporation with the "y" as its functional currency; and CFC4, a deferred foreign income corporation with the "z" as its functional currency. USP, CFC1, CFC2, CFC3, and CFC4 each have a calendar year taxable year. As of December 31, 2017, 1u=\$1, .75v=\$1, .50y=\$1, and .25z=\$1. CFC1 has a specified E&P deficit of 100u, CFC2 has a specified E&P deficit of 120v, CFC3 has a section 965(a) earnings amount of 50y, and CFC4 has a section 965(a) earnings amount of 75z.

Under Prop. Reg. 1.965-1(f)(38), for purposes of determining USP's section 965(a) inclusion amounts with respect to CFC3 and CFC4, the section 965(a) earnings amount of each of CFC3 and CFC4 is translated into U.S. dollars at the spot rate on December 31, 2017, which equals \$100 (50y at .50y=\$1) and \$300 (75z at .25z=\$1), respectively. Furthermore, USP's pro rata share of the section 965(a) earnings amounts, as translated, is \$100 and \$300, respectively, or 100% of each section 965(a) earnings amount.

Under Prop. Reg. 1.965-1(f)(9), for purposes of determining USP's aggregate foreign E&P deficit, the specified E&P deficit of each of CFC1 and CFC2 is translated into U.S. dollars at the spot rate on December 31, 2017, which equals \$100 (100u at 1u=\$1) and \$160 (120v at .75v=\$1), respectively. Furthermore, USP's pro rata share of each specified E&P deficit, as translated, is \$100 and \$160, respectively, or 100% of each specified E&P deficit. Therefore, USP's aggregate foreign E&P deficit is \$260.

Under section 965(b)(1) and paragraph (b)(2) of this section, for purposes of determining USP's section 965(a) inclusion amount with respect to each of CFC3 and CFC4, the U.S. dollar amount of USP's pro rata share of the section 965(a) earnings amount of each of CFC3 and CFC4 is reduced by each of CFC3 and CFC4's allocable share of USP's aggregate foreign E&P deficit. Under section 965(b)(2) and Prop. Reg. 1.965-1(f)(11), CFC3's allocable share of USP's aggregate foreign E&P deficit of \$260 is \$65 (\$260 x (\$100/\$400)) and CFC4's allocable share of USP's aggregate foreign E&P deficit is \$195 (\$260 x (\$300/400)). After reduction under section 965(b)(1) and paragraph (b)(2) of this section, the section 965(a) inclusion amount of USP with respect to CFC3 is \$35 (\$100-\$65) and the section 965(a) inclusion amount of USP with respect to CFC4 is \$105 (\$300-\$195). Under Prop. Reg. 1.965-2(c), the section 965(a) previously taxed earnings and profits of each of CFC3 and CFC4, translated into the respective functional currencies of CFC3 and CFC4 at the spot rate on December 31, 2017, are 17.5y (\$35 at .50y=\$1) and 26.25z (\$105 at .25z=\$1), respectively. Under Prop. Reg. 1.965-6(b), for purposes of applying section 960(a)(1), the amounts treated as a dividend paid by each of CFC3 and CFC4, translated into the respective functional currencies of CFC3 and CFC4 at the spot rate on December 31, 2017, are 17.5y (\$35 at .50y=\$1) and 26.25z (\$105 at .25z=\$1).

For purposes of determining the section 965(b) previously taxed earnings and profits of each of CFC3 and CFC4 under section 965(b)(4)(A) and Prop. Reg. 1.965-2(d)(1) as a result of the reduction to USP's section 965(a) inclusion amounts with respect to CFC3 and CFC4, the amount of the aggregate foreign E&P deficit of USP allocated to each of CFC3 and CFC4 under section 965(b)(2) and Prop. Reg. 1.965-1(f)(11), translated into the respective functional currencies of CFC3 and CFC4 at the spot rate on December 31, 2017, is 32.5y (\$65 at .50y=\$1) and 48.75z (\$195 at .25z=\$1), respectively.