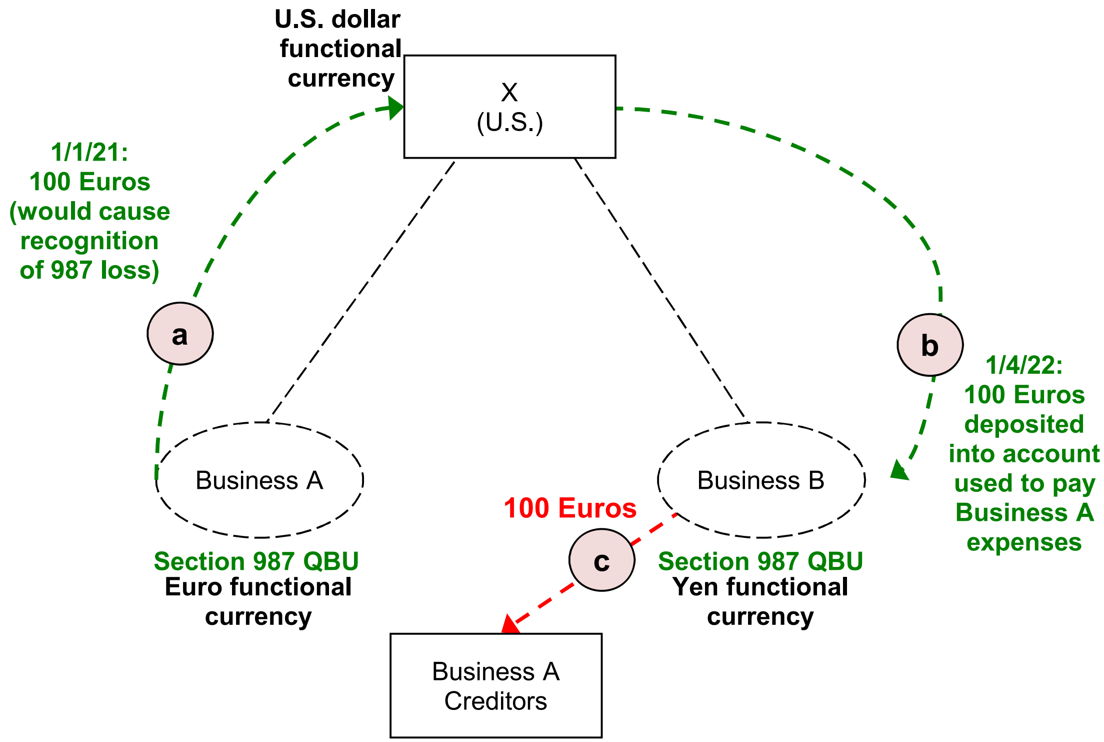
Reg. 1.987-2(c)(10), Ex. 12

Section 987 QBU: Transfers Without Substance



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

On January 1, 2021, Business A purports to transfer €100 to X. On January 4, 2021, X purports to transfer €100 to Business B. The account in which Business B deposited the €100 is used to pay the operating expenses and other costs of Business A. As of the end of 2021, X has an unrecognized section 987 loss with respect to Business A, such that a remittance, if respected, would result in recognition of a foreign currency loss under section 987.

Because Business A continues to have use of the transferred property, the IRS may disregard the €100 purported transfer from Business A to X for purposes of section 987 pursuant to general tax principles under Treas. Reg. 1.987-2(c)(7).