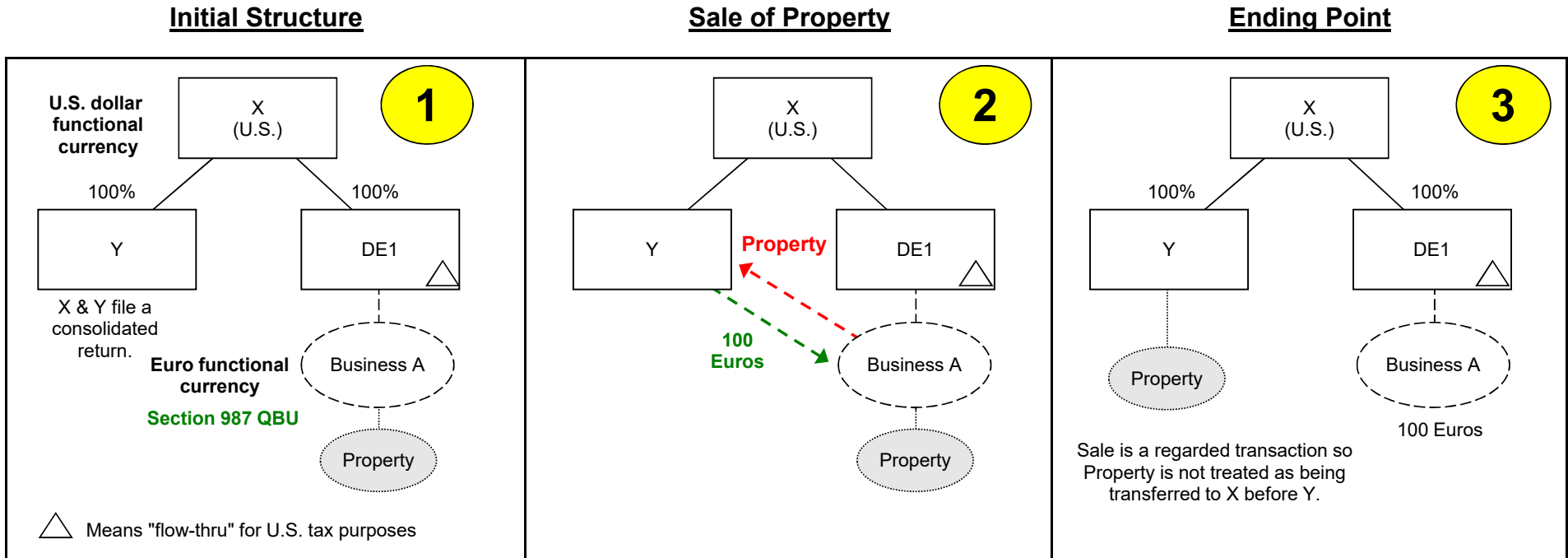


**Section 987: Sale of Property
by a Section 987 QBU**



X is a domestic corporation, has the U.S. dollar as its functional currency, and uses the calendar year as its taxable year. DE1 is a disregarded entity. Business A is an eligible QBU that has the euro as its functional currency.

X owns all of the stock of Y and all of the interests in DE1. DE1 owns Business A. X and Y file a consolidated return. Business A sells property to Y for 100 Euros.

The sale of property by Business A to Y is not considered a transfer of property to X (and a corresponding transfer from X to Y) under Treas. Reg. §1.987-2(c) because the transaction is regarded for Federal income tax purposes. Rather, for purposes of section 987, the transaction is considered to occur between Business A and Y.