# IRS issues final regulations on recognition and deferral of foreign currency gain or loss

In May, the IRS issued final regs on the combinations and separations of qualified business units (QBUs) subject to Internal Revenue Code Section 987. The regs also address the recognition and deferral of foreign currency gain or loss with respect to a QBU subject to Sec. 987 relating to certain QBU terminations and certain other transactions involving partnerships.

The final regs withdraw prior temporary regs on the allocation of assets and liabilities of certain partnerships for purposes of Sec. 987. The regs are effective when published.

## Functional currency

U.S. taxpayers are generally required to make all federal income tax determinations in their "functional currency." A U.S. taxpayer's functional currency is generally the U.S. dollar, unless it has a QBU that uses the currency of the economic environment in which a significant part of its activities are conducted and which is used to keep its books and records.

A QBU is any separate and clearly identified unit (or activity) of a trade or business of a taxpayer that maintains separate books and records. A QBU may elect to use the U.S. dollar instead of its functional currency if it meets certain requirements.

## Areas addressed

As mentioned, the IRS has now adopted final regs relating to combinations and separations of QBUs subject to Sec. 987. They also address the required deferral of foreign currency gain or loss under Sec. 987 with respect to certain transactions defined as deferral events or outbound loss events. Such transactions generally include QBU terminations and certain partnership transactions.

In addition, a reg that provides a liquidation value percentage methodology for allocating assets and liabilities of certain partnerships has been withdrawn.

Accordingly, the final regs retain the applicability dates of the temporary regs, as modified by various IRS notices. Several of the final regs apply to tax years beginning on or after the day that is three years after the first day of the first tax year following December 7, 2016. However, a taxpayer may make an election that affects the applicable tax years.

## Be aware

Any taxpayer who's involved in a QBU or otherwise deals with foreign currencies should be aware of the ramifications of these new, finalized regs. Your CPA can be an invaluable resource in understanding how this changes the international tax landscape. •