

## § 1.989(b)-1

## 26 CFR Ch. I (4-1-13 Edition)

its corporate status. F's disposition activity constitutes a separate QBU under paragraph (b)(3) of this section.

[T.D. 8279, 55 FR 284, Jan. 4, 1990]

### § 1.989(b)-1 Definition of weighted average exchange rate.

For purposes of section 989(b)(3) and (4), the term "weighted average exchange rate" means the simple average of the daily exchange rates (determined by reference to a qualified source of exchange rates described in § 1.988-1(d)(1)), excluding weekends, holidays and any other nonbusiness days for the taxable year.

[T.D. 8263, 54 FR 38664, Sept. 20, 1989. Redesignated by T.D. 8367, 56 FR 48437, Sept. 25, 1991; 57 FR 6060, Feb. 18, 1992; T.D. 9452, 74 FR 27890, June 11, 2009]

### § 1.989(c)-1 Transition rules for certain branches of United States persons using a net worth method of accounting for taxable years beginning before January 1, 1987.

(a) *Applicability*—(1) *In general*. This section applies to qualified business units (QBU) branches of United States persons, whose functional currency (as defined in section 985 of the Code and regulations issued thereunder) is other than the United States dollar (dollar) and that used a net worth method of accounting for their last taxable year beginning before January 1, 1987. Generally, a net worth method of accounting is any method of accounting under which the taxpayer calculates the taxable income of a QBU branch based on the net change in the dollar value of the QBU branch's equity over the course of a taxable year, taking into account any remittance made during the year. QBU branch equity is the excess of QBU branch assets over QBU branch liabilities. For all taxable years beginning after December 31, 1986, such QBU branches must use the profit and loss method of accounting as described in section 987, except to the extent otherwise provided in regulations under section 985 or any other provision of the Code.

(2) *Insolvent QBU branches*. A taxpayer may apply the principles of this section to a QBU branch that used a net worth method of accounting for its last taxable year beginning before Jan-

uary 1, 1987, whose \$E pool (as defined in paragraph (d)(3)(i) of this section) is negative. For taxable years beginning on or after October 25, 1991, the principles of this section shall apply to insolvent QBU branches.

(b) *General rules*. For the general rules, see § 1.987-5(b).

(c) *Determining the pool(s) from which a remittance is made*. To determine from which pool(s) a remittance is made, see § 1.987-5(c).

(d) *Calculation of section 987 gain or loss*—(1) *In general*. See § 1.987-5(d)(1) for rules to make this calculation.

(2) *Step 1—Calculate the amount of the functional currency pools*. For calculation of the amount of the functional currency pools, see § 1.987-5(d)(2).

(3) *Step 2—Calculate the dollar basis pools*—(i) *Dollar basis of the EQ pool*—(A) *Beginning dollar basis*. The beginning dollar basis of the EQ pool (hereinafter referred to as the \$E pool) equals the final net worth of the QBU branch. Final net worth of the QBU branch equals the QBU branch's equity value (assets less liabilities) measured in dollars at the end of the taxpayer's last taxable year beginning before January 1, 1987, determined on the basis of the QBU branch's books and records as adjusted according to United States tax principles.

(B) *Adjusting the \$E pool*. For adjustments to be made to the \$E pool, see § 1.987-5(d)(3)(i)(B).

(ii) *Dollar basis of the post-86 profits pool*. To calculate the dollar basis of the post-86 profits pool, see § 1.987-5(d)(3)(ii).

(iii) *Dollar basis of the equity pool*. To calculate the dollar basis of the equity pool, see § 1.987-5(d)(3)(iii).

(4) *Step 3—Calculation of the dollar basis of a remittance*. To calculate the dollar basis of the EQ remitted, see § 1.987-5(d)(4).

(5) *Step 4—Calculation of the section 987 gain or loss on a remittance*. To calculate 987 gain or loss determined on a remittance, see § 1.987-5(d)(5).

(e) *Functional currency adjusted basis of QBU branch assets acquired in taxable years beginning before January 1, 1987*. To determine the functional currency adjusted basis of QBU branch assets acquired in taxable years beginning before January 1, 1987, see § 1.987-5(e).