



TaxNewsFlash

United States

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Notice 2026-17: Taxable income or loss and foreign currency gain or loss with respect to a QBU

The IRS today released [Notice 2026-17](#), announcing that the Treasury Department and IRS intend to issue proposed regulations under section 987 (forthcoming proposed regulations) that would permit taxpayers to elect the equity and basis pool method for determining taxable income or loss and foreign currency gain or loss with respect to a qualified business unit (QBU).

The forthcoming proposed regulations would also make the following simplifying changes to the final section 987 regulations published in December 2024 ([read TaxNewsFlash](#)):

- Narrow the scope of the loss suspension rules
- Simplify the loss-to-the-extent-of-gain rule under which suspended section 987 loss is recognized
- Clarify the definition of a successor for purposes of the deferral rules
- Expand the definition of a section 987 hedging transaction

Notice 2026-17 further announces that the forthcoming proposed regulations would provide an election under which controlled foreign corporations (CFCs) (within the meaning of section 957(a)) would not compute or recognize foreign currency gain or loss under section 987(3), except in connection with certain inbound transactions.

The Treasury Department and IRS also intend to issue additional guidance relating to the treatment of frequently recurring disregarded transactions and net investment hedges for purposes of section 987.

The forthcoming proposed regulations are expected to apply to tax years ending on or after the date the regulations are finalized. However, taxpayers may rely on the rules in Notice 2026-17 (other than the rules relating to the application of section 987(3) to CFCs) for a tax year ending before the proposed regulations are published in the Federal Register and to which the 2024 final regulations apply, provided the taxpayer and all members of its section 987 electing group apply the rules their entirety and in a consistent manner for the tax year and each subsequent tax year ending before the proposed regulations are published in the Federal Register. Treasury and the IRS expect that taxpayers will similarly be permitted to rely on the rules relating to the application of section 987(3) to CFCs that will be included in the forthcoming proposed regulations.

Comments on Notice 2026-17 are requested by April 26, 2026. In particular, comments are requested on the following specific questions:

- Whether the cumulative translation adjustment is an appropriate proxy for foreign currency gain that would otherwise be recognized under section 987(3) for purposes of determining the amount of the section 987 basis increase, and what adjustments would be needed to avoid material distortions (for example, to avoid duplication or omission of foreign currency gain or loss when a section 987 QBU owns other foreign entities)
- How the section 987 basis increase rules should interact with other provisions that may apply to inbound reorganizations and liquidations (such as sections 362(e)(1) and 367(b))
- What de minimis threshold should apply for purposes of the section 987 basis increase rules
- Whether stock of a lower-tier CFC owned by the transferor CFC should be taken into account as an asset of the transferor CFC for purposes of the de minimis rule (for example, in cases in which the basis of the lower-tier CFC stock may be affected by the section 987 basis increase due to a contribution of the assets of a section 987 QBU)
- Whether and how the hedging rules of Treas. Reg. § 1.987-14 should apply if the CFC election is in effect
- How the rules relating to the application of section 987(3) to CFCs should apply, if at all, in the case of a partnership in which one or more of the partners is a CFC

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