Tax Insights
from International Tax
Services

Treasury proposes CFC exemption election under Section 987

August 13, 2026

In brief

What happened?

Treasury and the IRS on August 13, 2026, released proposed regulations under Section 987 creating a new ‘CFC exemption election.’ The election generally would allow a controlled foreign corporation (CFC) with a Section 987 qualified business unit (QBU) to stop computing and recognizing Section 987 foreign-currency gain or loss on ordinary remittances and certain QBU terminations, while preserving the income-translation rules and imposing special rules for pre-election amounts and certain inbound restructurings. The proposed regulations also would extend the exemption framework to certain partnerships or QBUs owned by partnerships, including partnerships owned by exempt CFCs and QBUs owned by partnerships that are at least 80% owned by exempt CFCs in the same controlled group.

Why is it relevant?

The proposed regulations would narrow the application of the 2024 final Section 987 regulations for CFCs, which generally require CFCs to compute Section 987 gain or loss and recognize it when a QBU remits property or terminates. The proposed regulations would create a long-term election with consistency requirements, preserve pre-election Section 987 gain or loss through 120-month amortization (except for QBUs that qualify under a $50 million asset test), and contain a gain-recognition rule, without corresponding loss recognition, for certain inbound liquidations and reorganizations.

Actions to consider

Taxpayers with CFC-owned Section 987 QBUs should model the election group-wide rather than QBU-by-QBU, identify QBUs eligible for relief from computing pre-election Section 987 gain or loss pursuant to the $50 million asset test, and review planned inbound liquidations or reorganizations, as those transactions may trigger special gain under Prop. Reg. 1.987-16. Comments are due by November 12, 2026.

PwC will provide a separate, detailed Insight on the proposed regulations in the coming days.

See also

- Tax Insight: Notice 2026-17 charts a simpler Section 987 path with targeted loss relief (March 4, 2026)
- Tax Insight: Treasury releases guidance addressing the repeal of Section 898(c)(2) and the recognition of Section 987 pretransition gain or loss (November 26, 2025)
- Tax Insight: Key highlights of the final and proposed foreign currency regulations (December 19, 2024)

Let’s talk

For a deeper discussion of how these proposed regulations might affect your business, please contact:

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