



**Note:** *The draft you are looking for begins on the next page.*

## **Caution: DRAFT—NOT FOR FILING**

This is an early release draft of an IRS tax form, instructions, or publication, which the IRS is providing for your information. **Do not file draft forms.** We incorporate all significant changes to forms posted with this coversheet. However, unexpected issues occasionally arise, or legislation is passed—in this case, we will post a new draft of the form to alert users that changes were made to the previously posted draft. Thus, there are never any changes to the last posted draft of a form and the final revision of the form. Forms and instructions are subject to OMB approval before they can be officially released, so we post drafts of them until they are approved. Drafts of instructions and pubs usually have some additional changes before their final release. Early release drafts are at [IRS.gov/DraftForms](https://www.irs.gov/DraftForms) and remain there after the final release is posted at [IRS.gov/LatestForms](https://www.irs.gov/LatestForms). Also see [IRS.gov/Forms](https://www.irs.gov/Forms).

Most forms and publications have a page on IRS.gov: [IRS.gov/Form1040](https://www.irs.gov/Form1040) for Form 1040; [IRS.gov/Pub501](https://www.irs.gov/Pub501) for Pub. 501; [IRS.gov/W4](https://www.irs.gov/W4) for Form W-4; and [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA) for Schedule A (Form 1040), for example, and similarly for other forms, pubs, and schedules for Form 1040. When typing in a link, type it into the address bar of your browser, not a Search box on IRS.gov.

If you wish, you can submit comments to the IRS about draft or final forms, instructions, or pubs at [IRS.gov/FormsComments](https://www.irs.gov/FormsComments). Include “NTF” followed by the form or pub number (for example, “NTF1040”, “NTFW4”, “NTF501”, etc.) in the body of the message to route your message properly. We cannot respond to all comments due to the high volume we receive and may not be able to consider many suggestions until the subsequent revision of the product, but we will review each “NTF” message. If you have comments on reducing paperwork and respondent (filer) burden, with respect to draft or final forms, please respond to the relevant information collection through the Federal Register process; for more info, click [here](#).

# Instructions for Form 8964-TRA



(December 2025)

## Section 987 Transition Information

Section references are to the Internal Revenue Code unless otherwise noted.

### Future Developments

For the latest information about developments related to Form 8964-TRA and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8964TRA](https://www.irs.gov/Form8964TRA).

### What's New

On December 11, 2024, final regulations were issued under section 987 of the Internal Revenue Code (TD 10016, 89 FR 100138). Section 987 applies to any taxpayer that has a qualified business unit (QBU) with a functional currency other than the dollar.

The section 987 regulations provide rules for determining and translating taxable income or loss with respect to the QBU.

In addition, the regulations provide rules for calculating foreign currency gain or loss under section 987(3), which requires proper adjustments for transfers of property between QBUs of the taxpayer having different functional currencies.

## General Instructions

### Purpose of Form

Form 8964-TRA is used to report the section 987 transition information required under Regulations section 1.987-10(k).

The transition rules under Regulations section 1.987-10 address how taxpayers should transition from their previous methods of accounting for section 987 gain or loss to the method prescribed by the section 987 regulations. In particular, an owner is required to compute pretransition gain or loss with respect to each section 987 QBU, deferral QBU, and outbound loss QBU under Regulations section 1.987-10(e).

### Who Must File

The following persons must complete Form 8964-TRA and check the applicable box in Part I. However, a partnership or S corporation is not required to file Form 8964-TRA. The filing of Form 8964-TRA in accordance with these instructions satisfies an owner's obligation to file a section 987 transition information statement under Regulations section 1.987-10(k).

- An owner must complete Form 8964-TRA with respect to a section 987 QBU if it was the owner of the section 987 QBU on the transition date. Form 8964-TRA should be

filed with respect to the section 987 QBU for the tax year beginning on the transition date.

- A deferral QBU owner or the owner of an outbound loss QBU must complete Form 8964-TRA with respect to the deferral QBU or outbound loss QBU if the deferral event or outbound loss event occurred before the transition date. Form 8964-TRA should be filed for the tax year beginning on the transition date.
- The owner of a terminating QBU must complete Form 8964-TRA with respect to the terminating QBU. Form 8964-TRA should be filed in the first tax year beginning after December 31, 2024.

**Note:** When a schedule is required but all reportable amounts are zero, the schedule should still be filed with one or more zero amounts.

**Note:** Complete a **separate** Form 8964-TRA for **each** applicable QBU.

### When and Where To File

Attach Form 8964-TRA to your income tax return (or, if applicable, exempt organization return) and file both by the due date (including extensions) for that return.

### Definitions

#### QBU

A qualified business unit (QBU) is generally defined as any separate and clearly identified unit of a trade or business of a taxpayer provided that separate books and records are maintained. See Regulations section 1.989(a)-1(b).

For this purpose, a corporation, partnership, trust, estate, or disregarded entity is not itself a QBU, but the activities of such an entity may be a QBU.

#### Section 987 QBU

A section 987 QBU is an eligible QBU that has a functional currency different from that of its owner.

An eligible QBU means a QBU that is not subject to the United States dollar approximate separate transactions method (DASTM) rules of Regulations section 1.985-3.

An owner generally may elect to treat all section 987 QBUs with the same functional currency as a single section 987 QBU. See Form 8964-ELE.

#### Owner of a Section 987 QBU

The owner of a section 987 QBU is generally the person who is treated as owning the assets and liabilities of the section 987 QBU for Federal income tax purposes.

A section 987 QBU cannot be the owner of another section 987 QBU.

For example, if DC (a domestic corporation) owns QBU 1 (a section 987 QBU), and QBU 1 wholly owns the disregarded entity that owns QBU 2 (another section 987 QBU), QBU 1 is not the owner of QBU 2. Instead, DC is the owner of both QBU 1 and QBU 2.

The following persons can be the owner of a section 987 QBU.

- A U.S. person.
- A controlled foreign corporation (CFC).
- A U.S. partnership.
- A foreign partnership (FP).

### U.S. Person

A U.S. person includes:

- A citizen or resident alien of the United States (see Pub. 519, U.S. Tax Guide for Aliens, available at [IRS.gov/Pub519](https://www.irs.gov/pub519), for guidance on determining resident alien status);
- A domestic partnership; and
- A domestic corporation.

### Controlled Group

A controlled group means all persons with the relationships to each other specified in section 267(b) or section 707(b).

### Spot Rate

Spot rate generally means a rate that reflects a fair market rate of exchange available to the public for currency under a spot contract in a free market and involving representative amounts.

An owner may elect to use a spot rate convention that reasonably approximates the spot rate based on the spot rate at the beginning of a reasonable period, the spot rate at the end of a reasonable period, the average of spot rates for a reasonable period, or spot and forward rates for a reasonable period. A reasonable period cannot exceed three months. See Form 8964-ELE.

### Yearly Average Exchange Rate

The yearly average exchange rate is a rate that represents an average exchange rate for the tax year (or, if the section 987 QBU existed for less than the full tax year, the portion of the year during which the section 987 QBU existed) calculated under any reasonable method.

### Termination of a Section 987 QBU

A section 987 QBU terminates when one of the following events occurs.

1. The section 987 QBU ceases its trade or business.
2. The section 987 QBU transfers substantially all of its assets to its owner.
3. The CFC owner of a section 987 QBU ceases to be a CFC in a transaction described in Regulations section 1.987-8(b)(3).
4. The owner of the section 987 QBU ceases to exist (except in the case of a liquidation or reorganization described in Regulations section 1.987-8(c)).
5. The section 987 QBU ceases to be an eligible QBU that has a functional currency different from its owner.

6. An individual or corporation that was the owner of the section 987 QBU begins to own the section 987 QBU indirectly through a partnership.

### Deferral Event

A deferral event generally means a termination of a section 987 QBU in which the assets of the terminated section 987 QBU are reflected on the balance sheet of a successor deferral QBU immediately after the termination. See Regulations section 1.987-12(g)(1).

The terminated section 987 QBU is referred to as the original deferral QBU, and the person that owned the original deferral QBU immediately before the termination is referred to as the original deferral QBU owner.

A successor deferral QBU generally means a section 987 QBU that holds the assets of the original deferral QBU immediately after the deferral event and is owned by a member of the same controlled group as the original deferral QBU owner.

However, a section 987 QBU that receives the assets of the original deferral QBU in an outbound transaction is not a successor deferral QBU. See Regulations section 1.987-12(g)(2).

The person that owns the successor deferral QBU immediately after the deferral event is referred to as the successor deferral QBU owner.

### Outbound Loss Event

An outbound loss event generally means a termination of a section 987 QBU that has unrecognized section 987 loss due to a transaction in which a U.S. person transfers assets of the section 987 QBU to a related foreign person. See Regulations section 1.987-13(h). The terminated section 987 QBU is referred to as an outbound loss QBU.

### Suspended Section 987 Loss

Suspended section 987 loss means foreign currency loss that is recognized only to the extent of section 987 gain recognized by the same owner. See Regulations section 1.987-11(e) (the loss-to-the-extent-of-gain rule).

### Successor Suspended Loss QBU

A successor suspended loss QBU is an eligible QBU to which suspended section 987 loss is attributed after the termination of a section 987 QBU (or the termination of a successor suspended loss QBU).

If, immediately after the termination, a significant portion of the terminated QBU's assets are held by an eligible QBU that carries on a trade or business of the terminated QBU and is owned by the same owner or by a member of its controlled group, then the eligible QBU is a successor suspended loss QBU.

The person that owned the terminated section 987 QBU immediately before the termination is referred to as the original suspended loss QBU owner.

If a corporation acquires the assets of the original suspended loss QBU owner in a transaction described in section 381(a), then the acquiring corporation becomes the original suspended loss QBU owner.

The person that owns the successor suspended loss QBU immediately after the termination is referred to as the successor suspended loss QBU owner.

## Terminating QBU

A terminating QBU is a section 987 QBU that terminated on or after November 9, 2023, and before the first day of the first tax year beginning after December 31, 2024 (unless the section 987 regulations were adopted before the termination).

## Transition Date

The transition date generally is the first day of the first tax year in which the section 987 regulations apply (which is generally the first tax year beginning after December 31, 2024). However, in the case of a terminating QBU, the transition date is the day after the termination date.

## Additional Filing Requirements

**Form 8964-ELE.** All elections under the section 987 regulations must be made by filing Form 8964-ELE, Section 987 Elections.

For more information, go to [IRS.gov/Form8964ELE](https://www.irs.gov/Form8964ELE) for specific requirements for making or revoking elections.

**Form 8858.** U.S. persons that operate a foreign branch (FB) or own a foreign DE (FDE) directly or, in certain circumstances, indirectly or constructively must file Form 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs).

For more information, go to [IRS.gov/Form8858](https://www.irs.gov/Form8858).

## Other Reporting Requirements

### Reporting Exchange Rates on Form 8964-TRA

When translating amounts from one currency to another, you must use the method specified in these instructions.

All exchange rates must be reported using a “divide-by convention” rounded to at least four places. That is, the exchange rate must be reported in terms of the number by which the amount that is being translated must be divided in order to reflect an equivalent amount in a different currency.

As such, when translating a foreign currency amount into U.S. dollars, the exchange rate must be reported as the units of foreign currency that equal one U.S. dollar, rounded to at least four places. **Do not** report the exchange rate as the number of U.S. dollars that equal one unit of foreign currency.

**Note:** You must round the result to more than four places if failure to do so would materially distort the exchange rate or the translated amount.

### Computer-Generated Form 8964-TRA and Schedules

Generally, all computer-generated forms must receive prior approval from the IRS and are subject to an annual review. However, see the *Exception* below. Requests for approval may be submitted electronically to [substituteforms@irs.gov](mailto:substituteforms@irs.gov), or requests may be mailed to:

Internal Revenue Service  
Attention: Substitute Forms Program  
C:DC:TS:CAR:MP:P:TP  
1111 Constitution Ave. NW  
Room 6554  
Washington, DC 20224

**Exception.** If a computer-generated Form 8964-TRA and its schedules conform to and do not deviate from the official form and schedules, they may be filed without prior approval from the IRS.

**Important.** Be sure to attach the approval letter to Form 8964-TRA. However, if the computer-generated form is identical to the IRS-prescribed form, it does not need to go through the approval process, and an attachment is not necessary.

Every year, the IRS issues a revenue procedure to provide guidance for filers of computer-generated forms. In addition, every year, the IRS issues Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules, which reprints the most recent applicable revenue procedure.

For more information, go to [IRS.gov/Pub1167](https://www.irs.gov/Pub1167).

### Corrections to Form 8964-TRA

If you file a Form 8964-TRA that you later determine is incomplete or incorrect, file a corrected Form 8964-TRA with an amended tax return, using the amended return instructions for the return with which you originally filed Form 8964-TRA. Enter “Corrected” at the top of the form and attach a statement identifying the changes.

## Specific Instructions

**Important.** If the information required in a given section exceeds the space provided within that section, **do not** enter “See attached” in the section and then attach all of the information on additional sheets. Instead, complete all entry spaces in the section and attach the remaining information on additional sheets.

The additional sheets must conform with the IRS version of that section.

### Products to which Form 8964-TRA can be attached.

Form 8964-TRA can be attached to Forms 1040, 1120, and 5471.

## Identifying Information

### Tax Year

Enter, in the space provided below the title of Form 8964-TRA, the tax year of the QBU for which you are furnishing information.

The tax year of a QBU is the tax year of the owner. Therefore, in the case of a U.S. owner, the tax year of the QBU is the tax year of the U.S. owner; and, in the case of a CFC that is an owner, the tax year of the QBU is the tax year of the CFC.

### Name of Filer of Form 8964-TRA

The name of the person filing Form 8964-TRA is generally the owner of the section 987 QBU. If a domestic



corporation is the U.S. person filing Form 9864-TRA and is a member of a consolidated group, list the common parent as the person filing the return and enter its identifying information in the spaces provided at the top of page 1 of the form.

**Name change.** If the name of either the person filing the return or the section 987 QBU whose activities are being reported changed within the past 3 years, show the prior name(s) in parentheses after the current name.

## Part I—Section 987 Transition Information

Provide a description of the prior method used by the taxpayer to determine its section 987 gain or loss, deferred section 987 gain or loss, or outbound section 987 loss with respect to the section 987 QBU including an explanation as to whether such method was an eligible pretransition method as defined in Regulations section 1.987-10(e)(4). An eligible pretransition method generally means a reasonable method of applying section 987 before the transition date.

In order to calculate pretransition gain or loss and apply the section 987 regulations in the tax year beginning on the transition date, an owner must determine the transition exchange rate and pretransition translation rate with respect to the assets and liabilities of a section 987 QBU.

In the tax year beginning on the transition date, the transition exchange rate is used to translate the assets and liabilities attributable to a section 987 QBU into the owner's functional currency on the last day of the preceding tax year for purposes of determining net unrecognized section 987 gain or loss. In general, the transition exchange rate is the spot rate applicable to the day before the transition date. See Regulations section 1.987-10(d)(3).

The pretransition translation rate is the rate that would be used under the eligible pretransition method to determine the basis of an asset or the amount of a liability in the hands of the owner of a section 987 QBU if the section 987 QBU transferred all of its assets and liabilities to the owner on the day before the transition date. See Regulations section 1.987-10(e)(2)(i)(C).

In the case of a QBU that is subject to a small business election under Regulations section 1.987-10(e)(7) and is treated as having no pretransition gain or loss under Regulations section 1.987-10(e)(7)(iv), explain in Part I why the QBU qualifies for this election and do not complete Part II or Part III.

In the case of a QBU described in Regulations section 1.987-10(f)(1) for which the fresh start transition method was applied, explain in Part I that the fresh start transition method was applied. In Part II, complete only line 8 (if applicable) and do not complete Part III.

## Part II—Pretransition Gain or Loss for an Owner That Applied an Eligible Pretransition Method

- Pretransition gain or loss is computed in Parts II and III.

- Complete Part II if the owner applied an eligible pretransition method.
- Complete Part III if the owner did not apply an eligible pretransition method.

In general, pretransition gain with respect to a section 987 QBU is treated as net accumulated unrecognized section 987 gain. If a current rate election is in effect (and an annual recognition election is not in effect), pretransition loss with respect to a section 987 QBU (other than a terminating QBU) is treated as net accumulated unrecognized section 987 loss. Otherwise, pretransition loss with respect to a section 987 QBU is treated as suspended section 987 loss.

Pretransition gain with respect to a deferral QBU is treated as deferred section 987 gain. If a current rate election is in effect (and an annual recognition election is not in effect), pretransition loss with respect to a deferral QBU is treated as deferred section 987 loss. Otherwise, pretransition loss with respect to a deferral QBU is treated as suspended section 987 loss. Pretransition loss with respect to an outbound loss QBU is also treated as suspended section 987 loss.

Pretransition gain or loss that is treated as deferred section 987 gain or loss with respect to a deferral QBU is attributed to one or more successor deferral QBUs under the principles of Regulations section 1.987-12(b)(2) and (c)(2). Pretransition loss that is treated as suspended section 987 loss with respect to a deferral QBU or outbound loss QBU is attributed to one or more successor suspended loss QBUs under the principles of Regulations section 1.987-13(b)(1) and (c)(1).

However, if an owner elects to amortize pretransition gain or loss under Regulations section 1.987-10(e)(5)(ii), pretransition gain or loss is recognized ratably over ten tax years starting with the tax year that begins on the transition date.

If this election is made, pretransition gain or loss is not treated as either net accumulated unrecognized section 987 gain or loss, deferred section 987 gain or loss, or suspended section 987 loss.

- For an owner of a section 987 QBU that applied an eligible pretransition method, complete only lines 1 through 5 and 8.
- For a deferral QBU owner that applied an eligible pretransition method, complete only lines 6 and 8.
- For an owner of an outbound loss QBU that applied an eligible pretransition method, complete only lines 7 and 8.

**Line 1.** The deemed termination amount is the amount of section 987 gain or loss that would have been recognized by the owner under the eligible pretransition method if the section 987 QBU terminated and transferred all of its assets and liabilities to the owner on the day before the transition date (without regard to any deferral or suspension rules that might apply under Regulations sections 1.987-12 and 1.987-13).

**Lines 2 through 4.** The owner functional currency net value adjustment is the difference between (i) the basis of the section 987 QBU's assets, reduced by liabilities, translated into the owner's functional currency at the transition exchange rate and (ii) the basis of the section

987 QBU's assets, reduced by liabilities, translated into the owner's functional currency at the pretransition translation rate.

**Line 5.** For an owner of a section 987 QBU that applied an eligible pretransition method, pretransition gain or loss is equal to the sum of the deemed termination amount (line 1) and the owner functional currency net value adjustment (line 4).

**Line 6.** For a deferral QBU owner that applied an eligible pretransition method, pretransition gain or loss is equal to the deferred section 987 gain or loss (determined under prior Regulations section 1.987-12) that was not recognized before the transition date with respect to the deferral QBU.

**Line 7.** For an owner of an outbound loss QBU that applied an eligible pretransition method, pretransition loss is equal to the outbound section 987 loss that was not added to the basis of stock or recognized under prior Regulations section 1.987-12 before the transition date.

**Line 8.** Enter the amount of any adjustments made to pretransition gain or loss in order to avoid duplication or omission of income under Regulations section 1.987-10(j).

Attach a statement describing each adjustment and the amount of each adjustment.

### Part III—Pretransition Gain or Loss for an Owner That Did Not Apply an Eligible Pretransition Method

- For an owner of a section 987 QBU that did not apply an eligible pretransition method, complete only lines 1 through 3 and 8.
- For a deferral QBU owner that did not apply an eligible pretransition method, complete lines 1 through 5 and 8.
- For an owner of an outbound loss QBU that did not apply an eligible pretransition method, complete lines 1 through 3 and 6 through 8.
- In the case of a deferral QBU owner or the owner of an outbound loss QBU, the amounts in lines 1 and 2 are determined as though the transition date was the day of the deferral event or outbound loss event, as applicable.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file Form 8964-TRA will vary depending on individual circumstances. The estimated burden for business taxpayers filing these forms is approved under OMB control number 1545-0123.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can write to: Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. **Do not** send the tax forms to this address. Instead, see [When and Where To File](#), earlier, near the beginning of these instructions.

**Line 1.** Annual unrecognized section 987 gain or loss is determined by applying the rules of Regulations section 1.987-4(d) with certain modifications to all tax years beginning after September 7, 2006. For this purpose, the rules of Regulations section 1.987-4(d) are applied as though a current rate election was in effect for all relevant tax years, and only steps 1 and 10 of Regulations section 1.987-4(d) are applied.

Attach a statement listing the annual unrecognized section 987 gain or loss for each tax year.

**Line 2.** Enter the net amount of section 987 gain or loss recognized by the owner of the section 987 QBU in all tax years ending before the transition date and beginning after September 7, 2006.

Attach a statement listing the amount of section 987 gain or loss recognized in each tax year.

**Line 3.** If the owner of a section 987 QBU did not apply an eligible pretransition method, pretransition gain or loss is equal to the owner's aggregate annual unrecognized section 987 gain or loss over the relevant period (line 1) minus the owner's total net amount of recognized section 987 gain or loss over the relevant period (line 2).

**Line 4.** For a deferral QBU owner that did not apply an eligible pretransition method, reduce the amount determined in line 3 by the amount of deferred section 987 gain or loss recognized before the transition date.

**Line 6.** For an owner of an outbound loss QBU owner that did not apply an eligible pretransition method, reduce the amount determined on line 3 by the amount of outbound section 987 loss recognized or added to the basis of stock before the transition date.

**Line 8.** Enter the amount of any adjustments made to pretransition gain or loss in order to avoid duplication or omission of income under Regulations section 1.987-10(j).

Attach a statement describing each adjustment and explaining the amount of each adjustment.

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