

[4830-01-u]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-110332-98]

RIN 1545-AW43

Conversion to the Euro

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking by cross-reference to temporary regulations and notice of public hearing.

SUMMARY: In the Rules and Regulations of this issue of the **Federal Register**, the IRS is issuing temporary regulations relating to the change to the euro. The text of those temporary regulations also serves as the text of these proposed regulations. This document also provides a notice of public hearing on these proposed regulations.

DATES: Written comments must be received by October 1, 1998. Requests to speak and outlines of oral comments to be discussed at the public hearing scheduled for October 20, at 10 a.m., must be received by September 29, 1998.

ADDRESSES: Send submissions to: CC:DOM:CORP:R (REG-110332-98), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered between the hours of 8 a.m. and 5 p.m. to: CC:DOM:CORP:R (REG-110332-98) Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW., Washington, DC. Alternatively, taxpayers may submit comments electronically via the Internet by

selecting the "Tax Regs" option of the IRS Home Page, or by submitting comments directly to the IRS Internet site at: http://www.irs.ustreas.gov/prod/tax_regs/comments.html. The public hearing will be held in the IRS Auditorium, 7400 Corridor, Internal Revenue Building, 1111 Constitution Avenue NW., Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the regulations, Howard Wiener, (202)622-3870 or Thomas Preston, (202) 622-3930; concerning submissions and the hearing, LaNita VanDyke, 202-622-7190 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background

Temporary regulations in the Rules and Regulations section of this issue of the Federal Register amend the Income Tax Regulations (26 CFR part 1) relating to sections 985 and 1001. The temporary regulations contain rules relating to conversion to the euro.

The text of those temporary regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the temporary regulations.

Request for Additional Comments

The Treasury and IRS request additional comments on the following issues.

(1) Whether the final regulations should contain guidance (and the substance of any such guidance) concerning the application of sections 1092 and 1259. Comments should separately address the rules for periods before May 3, 1998, between May 3, 1998 and December 31, 1998, and after December 31, 1998.

(2) Whether guidance is necessary with respect to section 905, relating to the redetermination of taxes in post-conversion years.

(3) Whether a QBU whose functional currency was a currency other than a legacy currency, but whose functional currency should properly be the euro after the conversion, should be deemed to have automatically changed its functional currency to the euro.

(4) Whether the regulations adequately address QBUs with functional currencies of countries that adopt the euro in the future. The Treasury and IRS also request comments regarding guidance clarifying the treatment of section 988 transactions that are held by euro functional currency QBUs and that are denominated in a currency that is replaced by the euro in the

future.

(5) Whether guidance is necessary to addresses integrated section 988 hedging transactions. It is intended that these regulations be applied to section 988 integrated hedging transactions under section 988(d) on an integrated basis. If a QBU subsequently legs out of a position of a section 988 integrated hedging transaction after the euro conversion, a leg that formerly was a legacy currency position prior to the conversion will be a euro denominated position after the conversion, and the section 988 rules should then be applied to the euro denominated position.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply to these regulations, and, therefore, a Regulatory Flexibility Analyses is not required. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments

(preferably a signed original and eight (8) copies) that are submitted timely to the IRS. All comments will be available for public inspection and copying.

A public hearing has been scheduled for Tuesday, October 20, 1998, at 10 a.m., in Room 2615, Internal Revenue Building, 1111 Constitution Avenue NW., Washington, DC. Because of access restrictions, visitors will not be admitted beyond the building lobby more than 15 minutes before the hearing starts.

The rules of 26 CFR 601.601(a)(3) apply to the hearing.

Persons that wish to present oral comments at the hearing must submit written comments by October 1, 1998, and submit an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by September 29, 1998.

A period of 10 minutes will be allotted to each person for making comments.

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal authors of these regulations are Howard A. Wiener, of the Office of Associate Chief Counsel (International) and Thomas Preston of the Office of Associate Chief Counsel (Domestic). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendment to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.985-8 is added to read as follows:

§1.985-8 Special reules applicable to the European Monetary Union (conversion to the euro).

[The text of this proposed section is the same as the text of §1.985-8T published elsewhere in this issue of the **Federal Register.**]

Par. 3. Section 1.1001-5 is added to read as follows:

§1.1001-5 European Monetary Union (conversion to the euro).

[The text of this proposed section is the same as the text of §1.1001-5T published elsewhere in this issue of the **Federal Register.**]

Michael P. Dolan

Deputy Commissioner of Internal Revenue Service