

Conversion to the Euro by Members of the European Union Announcement 98-18

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Solicitation for comments.

SUMMARY: The Treasury Department and the IRS are soliciting comments on the tax issues raised by the conversion of certain European countries' currencies to a single European currency (euro).

SUPPLEMENTARY INFORMATION:

Background

The Treaty on European Union and Final Act of Feb. 7, 1992, 31 I.L.M. 247 (entered into force Nov. 1, 1993), sets forth a plan to replace the national currencies of participating members (legacy currencies) that meet certain economic criteria with a single European currency (euro). Pursuant to directives of the European Council, the process of converting the legacy currencies into the euro will take place in three phases.

On January 1, 1999, the conversion rates from the legacy currencies to the euro are scheduled to become fixed. Thereafter, each of the legacy currencies will remain in circulation but will cease to have independent value apart from the euro. On January 1, 2002, euro bills and coins will be introduced into circulation. Finally, by July 1, 2002, the legacy currencies will no longer be accepted as legal tender.

The conversion of a legacy currency to the euro raises a number of tax issues for U.S. taxpayers operating, investing or otherwise conducting business in a legacy currency. For example, U.S. federal tax considerations include:

1. Whether a qualified business unit (QBU), as defined in section 989(a), with a legacy functional currency that is converted to the euro will have changed its functional currency under section 985 and regulations thereunder and the implications of any such change (e.g., whether Treas. Reg. §1.985-5 adequately addresses necessary adjustments, the treatment of unrealized currency gains and losses, and the appropriate timing of any such change).

2. Whether the conversion of a legacy currency to the euro creates a realization event with respect to a financial instrument denominated in a legacy currency and the appropriate time to recognize any resulting gain or loss.

Comments

The Treasury Department and the IRS are studying issues arising from conversion to the euro to determine the appropriate scope and content of published guidance and invite interested persons to submit comments regarding, but not limited to, the issues described above.

Comments are requested on or before April 30, 1998. Send written comments to: Internal Revenue Service, Attn: CC:DOM:CORP:R (Announcement 98-18), room 5226, POB 7604, Ben Franklin Station, Washington, DC 20044. Alternatively, taxpayers may submit comments in writing, by hand delivery to CC:DOM:CORP:R (Announcement 98-18), Courier's Desk, Internal Revenue Service, 1111 Constitution Ave., NW, Washington, DC, or, electronically, via the IRS Internet site at: <http://www.irs.ustreas.gov/prod/taxregs/comments.html>. If a respondent is submitting written comments, a signed original and eight (8) copies are requested. All comments will be available for public inspection and copying in their entirety.

DRAFTING INFORMATION

For further information regarding this announcement, contact Howard Wiener of the Office of Associate Chief Counsel (International) at 202-622-3870 (not a toll-free number)
