

Stradley Ronon Stevens & Young, LLP  
2005 Market Street  
Suite 2600  
Philadelphia, PA 19103-7018  
215.564.8000 Telephone  
215.564.8120 Facsimile  
www.stradley.com

With other offices in:  
Washington, D.C.  
New York  
New Jersey  
Illinois  
Delaware



www.meritas.org

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## IRS Issues Ruling on RIC's Treatment of Certain Foreign Currency Transactions

In Private Letter Ruling 201704013 (<https://www.irs.gov/pub/irs-wd/201704013.pdf>), the IRS granted a RIC permission under Treasury Regulation Section 1.988-5(e) to use the tax accounting method described in the ruling for determining the timing, character and amount of foreign-currency-related gain or loss on foreign-currency-denominated bonds and forward contracts entered into for the purpose of hedging rights to receive foreign currencies on such bonds. Treasury Regulation Section 1.988-5(e) provides that in his sole discretion, the commissioner may issue an advance ruling addressing the income tax consequences of a taxpayer's system of hedging either its net nonfunctional currency exposure or its anticipated nonfunctional currency exposure. The RIC described in the ruling seeks to track the performance of a foreign-currency-denominated bond index after applying a foreign currency hedging method. Consistent with that objective, the RIC enters into foreign currency forward contracts in an amount and manner that tracks the index provider's hedging method as closely as possible. The hedging method is designed to reduce the RIC's economic exposure to the foreign currency risk associated with the foreign-currency-denominated payments it receives on its bond portfolio.

## IRS Introduces LB&I Campaign Audit Strategy

The IRS Large Business and International division has described the issues it will be targeting in a new audit strategy known as "campaigns." (<https://www.irs.gov/businesses/large-business-and-international-launches-compliance-campaigns>) The IRS has identified 13 specific issues spanning a broad range of topics, including partnerships, insurance, an energy tax credit, tax techniques used by the television broadcast industry, and foreign businesses and taxpayers. The issues were identified through extensive data analysis, suggestions from IRS compliance employees and feedback from the tax community.

## Greenland-U.S. and Anguilla-U.S. FATCA Agreements Available

The text is available of the agreements signed by Greenland (<https://www.treasury.gov/resource-center/tax-policy/treaties/Documents/FATCA-Agreement-Greenland-1-17-2017.pdf>) and the United States and Anguilla and the United States (<https://www.treasury.gov/resource-center/tax-policy/treaties/Documents/FATCA-Agreement-Anguilla-1-15-2017.pdf>) to improve international tax compliance and implement the information reporting and withholding tax provisions of the Foreign Account Tax Compliance Act.

## IRS Releases New IPUs

The IRS has released the following international practice units:

### Foreign-Owned U.S. Entity Summons

The IRS made available an international practice unit that describes the steps for issuing a Section 6038A summons when a U.S. corporation under exam is owned by

a 25 percent foreign shareholder. Section references are to the Internal Revenue Code of 1986, as amended. ([https://www.irs.gov/pub/int\\_practice\\_units/iga\\_p\\_17\\_08\\_01.pdf](https://www.irs.gov/pub/int_practice_units/iga_p_17_08_01.pdf))

### **Nonfunctional Currency Issues**

The IRS made available an international practice unit addressing various issues regarding computing an exchange gain or loss on payables and receivables held by a taxpayer or a qualified business unit in a currency other than its functional currency. ([https://www.irs.gov/pub/int\\_practice\\_units/fcu\\_c\\_18\\_02\\_01\\_05.pdf](https://www.irs.gov/pub/int_practice_units/fcu_c_18_02_01_05.pdf))

### **Exchange Rates**

The IRS made available an international practice unit on the rules and regulations governing the translation of a currency when the official government-established rate differs from a free market rate. ([https://www.irs.gov/pub/int\\_practice\\_units/fcu\\_c\\_18\\_02\\_01\\_06.pdf](https://www.irs.gov/pub/int_practice_units/fcu_c_18_02_01_06.pdf))

### **Sourcing of Currency Transactions**

The IRS made available an international practice unit on the sourcing of some nonfunctional currency transactions under Section 988. ([https://www.irs.gov/pub/int\\_practice\\_units/fcu\\_c\\_18\\_02\\_01\\_07.pdf](https://www.irs.gov/pub/int_practice_units/fcu_c_18_02_01_07.pdf))

### **Currency Transaction Reporting**

The IRS made available an international practice unit addressing how to assess penalties for failure to file Form 8886, "Reportable Transaction Disclosure Statement," regarding the disclosure of Section 988 losses. ([https://www.irs.gov/pub/int\\_practice\\_units/fcu\\_p\\_18\\_02\\_01\\_04.pdf](https://www.irs.gov/pub/int_practice_units/fcu_p_18_02_01_04.pdf))

### **IRS Issues Practice Unit on Basket Transactions**

The IRS has released a practice unit on basket transactions ([https://www.irs.gov/pub/int\\_practice\\_units/fin\\_t\\_73\\_05\\_08\\_01.pdf](https://www.irs.gov/pub/int_practice_units/fin_t_73_05_08_01.pdf)). A basket transaction is a type of structured financial transaction in which a taxpayer attempts to defer and treat ordinary income and short-term capital gain as long-term capital gain through a contract denominated as an option, notional principal contract, forward contract or other derivative contract. The Treasury Department and the IRS issued two notices in 2015 to address these transactions, Notice 2015-73 and Notice 2015-74 (see our prior coverage at <http://www.stradley.com/insights/publications/2015/tax-insights-web-versions/tax-insights-december-2-2015>).

### **ICI Seeks Clarification of College Savings Plan Rules**

The Investment Company Institute has urged the IRS to address the Section 529 college savings plan rules ([http://www.stradley.com/~media/Files/Publications/2017/02/Re\\_Guidance\\_Requested\\_under\\_Code\\_Section\\_529.pdf](http://www.stradley.com/~media/Files/Publications/2017/02/Re_Guidance_Requested_under_Code_Section_529.pdf)) regarding the application of limits on investment changes, the tax treatment of earnings in the absence of documentation, and the so-called recontribution of amounts distributed from multiple plans or accounts.

### **Possible Timetable for Tax Reform Established**

In an interview with Fox News (<http://www.cnn.com/2017/02/02/paul-ryan-we-cant-start-on-tax-reform-and-infrastructure-until-spring.html>), House Speaker Paul Ryan, R-Wis., said that congressional Republicans plan to address tax reform in the spring, after their work on health care reform. Speaker Ryan said, "It's just the way the budget works that we won't be able to get the ability to write our tax reform bill until our spring budget passes, and then we write that through the summer."

### **Trump Vows to Repeal Electioneering Prohibition**

President Donald Trump told religious leaders at the National Prayer Breakfast (<http://talkingpointsmemo.com/livewire/trump-promises-repeal-johnson-amendment-prayer-breakfast>) that he is committed to repealing a rule preventing churches from endorsing politicians. The Johnson Amendment has since 1954 prohibited religious organizations and other tax-exempt entities from advocating for or against candidates for office.

### **Pennsylvania Unclaimed Property Annual Reporting Booklet**

The Pennsylvania State Treasury has released the Pennsylvania Unclaimed Property Annual Reporting Booklet for the 2016 report year (<http://www.patreaury.gov/assets/pdf/bup/Holder-Reporting-Book.pdf>). The booklet informs the business community of its reporting obligations and includes mailing instructions for reports and other correspondence, instructions on preparing reports of abandoned or unclaimed property, instructions for delivering securities to the state treasurer, instructions for reporting and delivering tangible personal property to the treasurer, a quick reference guide, and a section with answers to frequently asked questions.

*For more information, contact Christopher C. Scarpa at 215.564.8106 or [cscarpa@stradley.com](mailto:cscarpa@stradley.com) or Kristin M. McKenna at 215.564.8145 or [kmckenna@stradley.com](mailto:kmckenna@stradley.com).*