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IRS practice unit: Functional currency determination

The IRS Large Business and International (LB&I) division has publicly released a “practice unit” on “functional currency determination.”

The practice unit is part of a series of IRS examiner “job aides” and training materials intended to describe for IRS agents leading practices for specific international and transfer pricing issues and transactions. It is available on the IRS practice unit [webpage](#) (released date of June 6, 2017).

Overview

The IRS practice unit notes that a challenge of reporting total income subject to U.S. federal income tax is the computation of income earned in non-U.S. locations. Since the U.S. federal income tax system is based on worldwide income of a business enterprise conducting business in the United States, often the books and records of the business enterprise are recorded in multiple currencies and locations.

Because it is not possible to combine, add, or subtract measurements expressed in different currencies, it is necessary to translate into a single reporting currency those financial measurements that are measured or denominated in different currencies. In order to translate the multiple currencies into a single currency, rules were set for both book and tax purposes to determine the functional currency of the separate branches.

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