

connected liabilities by \$100, all of Z's interest expense allocable to its U.S. trade or business must be scaled back pro-rata. To determine the scaling ratio, Z divides its U.S.-connected liabilities by its U.S. booked liabilities, as required by paragraph (d)(4) of this section. Z's interest expense is scaled back pro rata by the resulting ratio of $\frac{3}{4}$ ($\$300 \div \400). Z's income, expense, gain or loss from hedging transactions described in paragraph (d)(2)(vi) of this section must be similarly reduced.

Example 4. [Reserved]

(e) *Separate currency pools method*—(1) *General rule.* If a foreign corporation elects to use the method in this paragraph, its total interest expense allocable to ECI is the sum of the separate interest deductions for each of the currencies in which the foreign corporation has U.S. assets. The separate interest deductions are determined under the following three-step process.

(i) *Determine the value of U.S. assets in each currency pool.* First, the foreign corporation must determine the amount of its U.S. assets, using the methodology in paragraph (b) of this section, in each currency pool. The foreign corporation may convert into U.S. dollars any currency pool in which the foreign corporation holds less than 3% of its U.S. assets. A transaction (or transactions) that hedges a U.S. asset shall be taken into account for purposes of determining the currency denomination and the value of the U.S. asset.

(ii) *Determine the U.S.-connected liabilities in each currency pool.* Second, the foreign corporation must determine the amount of its U.S.-connected liabilities in each currency pool by multiplying the amount of U.S. assets (as determined under paragraph (b)(3) of this section) in the currency pool by the foreign corporation's actual ratio (as determined under paragraph (c)(2) of this section) for the taxable year or, if the taxpayer has made an election in accordance with paragraph (c)(4) of this section, by the fixed ratio.

(iii) *Determine the interest expense attributable to each currency pool.* Third, the foreign corporation must determine the interest expense attributable to each currency pool by multiplying the U.S.-connected liabilities in each currency pool by the prescribed interest rate as defined in paragraph (e)(2) of this section.

(2) *Prescribed interest rate.* For each currency pool, the prescribed interest rate is determined by dividing the total interest expense that is paid or accrued for the taxable year with respect to the

foreign corporation's worldwide liabilities denominated in that currency, by the foreign corporation's average worldwide liabilities (whether interest bearing or not) denominated in that currency. The interest expense and liabilities are to be stated in that currency.

(3) *Hedging transactions.* [Reserved]

(4) *Election not available if excessive hyperinflationary assets.* The election to use the separate currency pools method of this paragraph (e) is not available if the value of the foreign corporation's U.S. assets denominated in a hyperinflationary currency, as defined in § 1.985-1, exceeds ten percent of the value of the foreign corporation's total U.S. assets. If a foreign corporation made a valid election to use the separate currency pools method in a prior year but no longer qualifies to use such method pursuant to this paragraph (e)(4), the taxpayer must use the method provided by paragraphs (b) through (d) of this section.

(5) *Examples.* The separate currency pools method of this paragraph (e) is illustrated by the following examples:

Example 1. Separate currency pools method—

(i) *Facts.* (A) Bank Z, a resident of country X, has a branch in the United States through which it conducts its banking business. For its 1997 taxable year, Z has U.S. assets, as defined in paragraph (b) of this section, that are denominated in U.S. dollars and in U, the country X currency. Accordingly, Z's U.S. assets are as follows:

	Average Value
U.S. Dollar Assets	\$20,000
U Assets	U 5,000

(B) Z's worldwide liabilities are also denominated in U.S. dollars and in U. The average interest rates on Z's worldwide liabilities, including those in the United States, are 6% on its U.S. dollar liabilities, and 12% on its liabilities denominated in U. Assume that Z has properly elected to use its actual ratio of 95% to determine its U.S.-connected liabilities in Step 2, and has also properly elected to use the separate currency pools method provided in paragraph (e) of this section.

(ii) *Determination of interest expense.* Z determines the interest expense attributable to its U.S.-connected liabilities according to the steps described below.

(A) First, Z separates its U.S. assets into two currency pools, one denominated in U.S. dollars (\$20,000) and the other denominated in U (U5,000).

(B) Second, Z multiplies each pool of assets by the applicable ratio of worldwide liabilities to assets, which in this case is 95%. Thus, Z has U.S.-connected liabilities of \$19,000 ($\$20,000 \times 95\%$), and U4750 ($U5000 \times 95\%$).

(C) Third, Z calculates its interest expense by multiplying each pool of its U.S.-connected

liabilities by the relevant interest rates. Accordingly, Z's allocable interest expense for the year is \$1140 ($\$19,000 \times 6\%$), the sum of the expense associated with its U.S. dollar liabilities, plus U570 ($U4750 \times 12\%$), the interest expense associated with its liabilities denominated in U. Z must translate its interest expense denominated in U in accordance with the rules provided in section 988, and then must determine whether it is subject to any other provision of the Code that would disallow or defer any portion of its interest expense so determined.

Example 2. [Reserved]

(f) *Effective date*—(1) *General rule.* This section is effective for taxable years beginning on or after June 6, 1996.

(2) *Special rules for financial products.* [Reserved]

Margaret Milner Richardson,
Commissioner of Internal Revenue.

Approved February 28, 1996.

Leslie Samuels,
Assistant Secretary of the Treasury.

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Section 1274.—Determination of Issue Price in the Case of Certain Debt Instruments Issued for Property

(Also Sections 42, 280G, 382, 412, 467, 468, 482, 483, 807, 846, 1288, 7520, 7872.)

Federal rates; adjusted federal rates; adjusted federal long-term rate, and the long-term exempt rate. For purposes of sections 1274, 1288, 382, and other sections of the Code, tables set forth the rates for April 1996.

Rev. Rul. 96-19

This revenue ruling provides various prescribed rates for federal income tax purposes for April 1996 (the current month.) Table 1 contains the short-term, mid-term, and long-term applicable federal rates (AFR) for the current month for purposes of section 1274(d) of the Internal Revenue Code. Table 2 contains the short-term, mid-term, and long-term adjusted applicable federal rates (adjusted AFR) for the current month for purposes of section 1288(b).

Table 3 sets forth the adjusted federal long-term rate and the long-term tax-exempt rate described in section 382(f). Table 4 contains the appropriate percentages for determining the low-

income housing credit described in section 42(b)(2) for buildings placed in service during the current month. Finally, Table 5 contains the federal rate for determining the present value of an

annuity, an interest for life or for a term of years, or a remainder or a reversionary interest for purposes of section 7520.

REV. RUL. 96-19 TABLE 1				
Applicable Federal Rates (AFR) for April 1996				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	5.33%	5.26%	5.23%	5.20%
110% AFR	5.87%	5.79%	5.75%	5.72%
120% AFR	6.41%	6.31%	6.26%	6.23%
130% AFR	6.96%	6.84%	6.78%	6.74%
<i>Mid-Term</i>				
AFR	5.88%	5.80%	5.76%	5.73%
110% AFR	6.48%	6.38%	6.33%	6.30%
120% AFR	7.08%	6.96%	6.90%	6.86%
130% AFR	7.68%	7.54%	7.47%	7.42%
150% AFR	8.89%	8.70%	8.61%	8.55%
175% AFR	10.41%	10.15%	10.02%	9.94%
<i>Long-Term</i>				
AFR	6.51%	6.41%	6.36%	6.33%
110% AFR	7.17%	7.05%	6.99%	6.95%
120% AFR	7.84%	7.69%	7.62%	7.57%
130% AFR	8.50%	8.33%	8.25%	8.19%

REV. RUL. 96-19 TABLE 2				
Adjusted AFR for April 1996				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-Term adjusted AFR	3.40%	3.37%	3.36%	3.35%
Mid-term adjusted AFR	4.37%	4.32%	4.30%	4.28%
Long-term adjusted AFR	5.31%	5.24%	5.21%	5.18%

REV. RUL. 96-19 TABLE 3	
Rates Under Section 382 for April 1996	
Adjusted federal long-term rate for the current month	5.31%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months.)	5.31%

REV. RUL. 96-19 TABLE 4

Appropriate Percentages Under Section 42(b)(2)
for April 1996

Appropriate percentage for the 70% present value low-income housing credit	8.45%
Appropriate percentage for the 30% present value low-income housing credit	3.62%

REV. RUL. 96-19 TABLE 5

Rate Under Section 7520 for April 1996

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest	7.0%
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Section 1288.—Treatment of Original Issue Discount on Tax-Exempt Obligations

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April 1996. See Rev. Rul. 96-19, page 24.

Section 7520.—Valuation Tables

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April 1996. See Rev. Rul. 96-19, page 24.

Section 7872.—Treatment of Loans with Below-Market Interest Rates

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April 1996. See Rev. Rul. 96-19, page 24.
