

## SUPPORTING STATEMENT

### **1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

Section 448(d)(5) provides that taxpayers may use a nonaccrual-experience method that, based on their experience, clearly reflects the amount of income from the performance of certain services that will not be collected. These final regulations provide self-testing requirements for taxpayers who chose to use an alternative nonaccrual-experience method, as opposed to one of the enumerated safe harbor nonaccrual-experience methods. These final regulations require the taxpayers who self-test to maintain records necessary to perform the self-test.

### **2. USE OF DATA**

The recordkeeping requirements will be used to self-test and verify that the taxpayer's alternative nonaccrual experience method clearly reflects their experience.

### **3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN**

None. The recordkeeping is based on individual taxpayer information technology and data processing systems. There are no plans to provide electronic filing because electronic filing is not appropriate for the collection of information in this submission.

### **4. EFFORTS TO IDENTIFY DUPLICATION**

We have attempted to eliminate duplication within the agency wherever possible.

### **5. METHODS TO MINIMIZE BURDEN ON SMALL BUSINESSES OR OTHER SMALL ENTITIES**

Not applicable.

### **6. CONSEQUENCES OF LESS FREQUENT COLLECTION ON FEDERAL PROGRAMS OR POLICY ACTIVITIES**

Not applicable.

### **7. SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)**

Not applicable.

**8. CONSULTATION WITH INDIVIDUALS OUTSIDE OF THE AGENCY ON AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, CLARITY OF INSTRUCTIONS AND FORMS, AND DATA ELEMENTS**

These are final regulations.

**9. EXPLANATION OF DECISION TO PROVIDE ANY PAYMENT OR GIFT TO RESPONDENTS**

Not applicable.

**10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES**

Generally, tax returns and tax return information are confidential, as required by 26 USC 6103.

**11. JUSTIFICATION OF SENSITIVE QUESTIONS**

Not applicable.

**12. ESTIMATED BURDEN OF INFORMATION COLLECTION**

Section 1.448-2(d)(8) requires taxpayers using a nonaccrual-experience method to maintain records demonstrating: (1) the nature of the taxpayer's nonaccrual-experience method, (2) whether for any particular taxable year, the taxpayer qualifies to use its nonaccrual-experience method, (3) the taxpayer's determination that amounts are uncollectible, (4) the proper amount that is excludable, and (5) the taxpayer's determination date. In addition, section 1.448-2(e)(5) requires that a taxpayer must document in its books and records, the method used to conduct the self-test requirement. Most taxpayers already maintain specific identification of accounting data, including accounts receivable, charge-offs and recoveries. Therefore, the reporting requirement should add no additional undue burden. We estimate that 8,000 recordkeepers will keep records annually. The estimated annual burden per recordkeeper varies from 1 to 5 hours, depending on individual circumstances, with an estimated average of 3 hour.

Estimates of the annualized cost to respondents for the hour burdens shown are not available at this time.

**13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS**

Estimates of the total annual cost burden to respondents are not available at this time.

**14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT**

There is no annualized cost to the Federal Government.

**15. REASONS FOR CHANGE IN BURDEN**

Not applicable.

**16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION**

Not applicable.

**17. REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE**

We believe that displaying the OMB expiration date is inappropriate because it could cause confusion by leading taxpayers to believe that the revenue procedure sunsets as of the expiration date. Taxpayers are not likely to be aware that the Service intends to request renewal of the OMB approval and obtain a new expiration date before the old one expires.

**18. EXCEPTIONS TO THE CERTIFICATION STATEMENT ON OMB FORM 83-I**

Not applicable.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number. Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

This is submitted for emergency approval. The temporary regulations for section 448(d)(5) are due to sunset on September 4, 2006. Taxpayers will be in need of guidance for tax years ending on or after September 4, 2006. Failure to provide immediate guidance may result in irreparable harm to taxpayers using a nonaccrual-experience method under section 448(d)(5).

**EMERGENCY:**

These final regulations replace temporary regulations that are due to sunset on September 4, 2006. Therefore, it is imperative that these final regulations are approved for Paperwork Reduction Act purposes by August 23, 2006.