

**SUPPORTING STATEMENT
(RP-135718-06)**

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Section 199 of the Code, enacted as part of the American Jobs Creation Act of 2004, provides for a deduction attributable to domestic production activities. The deduction is equal to 9 percent (3 percent in the case of taxable years beginning in 2005 or 2006, and 6 percent in the case of taxable years beginning in 2007, 2008, or 2009) of the lesser of (A) the qualified production activities income (QPAI) of the taxpayer for the taxable year, or (B) taxable income (determined without regard to section 199) for the taxable year (or, in the case of an individual, adjusted gross income (AGI)).

To determine QPAI for a taxable year, a taxpayer must subtract from its domestic production gross receipts (DPGR) the cost of goods sold allocable to DPGR and other expenses, losses, or deductions (deductions) that are properly allocable to DPGR. Section 1.199-4(d) provides that a taxpayer generally must determine deductions allocable to DPGR, or to gross income attributable to DPGR, under the section 861 regulations.

The section 861 regulations provide guidance for the allocation and apportionment of deductions in determining the taxable income of a taxpayer from specific sources and activities under sections of the Code, referred to as operative sections. Section 199 is treated as an operative section for purposes of the section 861 regulations. See §1.199-4(d)(1).

Where more than one operative section applies, the taxpayer may be required to apply the section 861 regulations separately for each applicable operative section. In that case, §1.861-8(f)(2)(i) provides that the taxpayer is required to use the same method of allocation and the same principles of apportionment for all operative sections. See also §1.199-4(d)(1).

The preamble to the final regulations under section 199 states that the Treasury Department and the IRS intend to issue a revenue procedure granting automatic consent to change elections under §§1.861-8T(c)(2) and 1.861-9(i)(1), respectively, to apportion interest expense and under §1.861-17(e) to apportion research and experimental expenditures (R&E). Accordingly, this document sets forth the administrative procedure under which an eligible taxpayer may obtain automatic consent to change (a)

from the fair market value method under §1.861-8T(c)(2) or from the alternative tax book value method under §1.861-9(i)(1) to apportion interest expense or (b) from the sales method or the optional gross income methods under §1.861-17(c) and (d) to apportion R&E.

2. USE OF THE DATA

There are two collections of information in this document. The first collection of information relates to the requirement that a statement be filed with the IRS as an attachment to the foreign tax credit forms for corporations (Form 1118) and non-corporate entities (Form 1116). Filing these statements is a condition to obtaining automatic consent to change (a) from the fair market value method under §1.861-8T(c)(2) or from the alternative tax book value method under §1.861-9(i)(1) to apportion interest expense or (b) from the sales method or the optional gross income methods under §1.861-17(c) and (d) to apportion R&E under the revenue procedure. The second collection of information relates to the requirement that all taxpayers availing themselves of the benefit of the procedure maintain all necessary documentation to establish its change in method or methods and its eligibility for the benefits of this revenue procedure. These collections are necessary to enable the IRS to determine whether a taxpayer is entitled to an automatic method change and the years for which the change in method or methods is being adopted. Both collections occur on an occasional basis.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

The collections of information in this guidance provide for the electronic submission of responses in conjunction with the filing of Forms 1116 and 1118. These forms are available to the public on the internet. Results of the information collection are not available to the public as tax returns and tax return information are confidential as required by 26 U.S.C. § 6103.

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 OMB GUIDELINES

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

Not applicable.

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 U.S.C. § 6103.

11. JUSTIFICATION OF SENSITIVE QUESTIONS

Not applicable.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

Burden Estimation:

There are two collections of information in this revenue procedure both of which are found in section 4 of the document. Section 4.02 requires corporations and non-corporate taxpayers seeking to change (a) from the fair market value method under §1.861-8T(c)(2) or from the alternative tax book value method under §1.861-9(i)(1) to apportion interest expense or (b) from the sales method or the optional gross income methods under §1.861-17(c) and (d) to apportion R&E under the revenue procedure to file a supporting statement with their Forms 1118 and 1116, respectively, in order to obtain the benefit of the procedure. This is a temporary benefit, effective for either (a) a taxpayer's first taxable year beginning after December 31, 2004 (the taxpayer's 2005 taxable year); or (b) a taxpayer's taxable year immediately following the taxpayer's 2005 taxable year, but,

in such case, a taxpayer will not be provided automatic consent to change any election that first took effect with respect to the taxpayer's 2005 taxable year available only for tax years beginning between March 26, 2004 and March 25, 2006. In addition, this revenue procedure is effective only if the taxpayer attaches the statement(s) required to Form 1118 or Form 1116, whichever is applicable, by the later of (i) one year after this revenue procedure is published in the Federal Register or (ii) the due date (including extensions) of the taxpayer's income tax return to which the statement(s) relates. We estimate that annually, approximately 125 corporate respondents filing Form 1118 will be subject to this reporting requirement and that it will take approximately one-half hour to prepare the information. The frequency of response for these respondents is occasional. We estimate that annually, approximately 75 non-corporate respondents filing Form 1116 will be subject to this reporting requirement and that it will take one-half hour to prepare the information. The frequency of response for these respondents is occasional. The estimated number of respondents is based on internal statistical information relating to Form 1118 and 1116 filers subject to the interest and R&E apportionment rules of the Internal Revenue Code and regulations thereunder.

Section 4.03 requires, as a condition to obtaining automatic consent to change valuation methods, that all taxpayers utilizing the procedure must maintain all documentation necessary to establish its change in method or methods and its eligibility for the benefits of this revenue procedure. We estimate that, annually approximately 125 corporate taxpayers and approximately 75 non-corporate taxpayers will be subject to this recordkeeping requirement to maintain this documentation. We do not believe that this requirement increases the burden estimation.

The total annual responses expected is 200. The total burden for this revenue procedure is 100 hours.

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 capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information are not available at this time.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

Not applicable.

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

Not applicable.

18. EXCEPTIONS TO THE CERTIFICATION STATEMENT ON OMB FORM 83-1

Not applicable.

Note: The following paragraph applies to all of the collections of information in this submission:

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 and 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.