

**SUPPORTING STATEMENT
NOT-103443-07**

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Section 6501(a) of the Internal Revenue Code of 1986 (Code) provides the general rule that the amount of any tax imposed shall be assessed within 3 years after the return was filed. For purposes of section 6501(a), the period of limitations begins to run on the day after the return is filed. Code section 932 and the regulations thereunder contain special income tax return filing rules for bona fide residents of the United States Virgin Islands (USVI). Under section 932(c) (4), if a bona fide resident properly files his income tax return in the USVI, reports all income from all sources, identifying the source of each item shown, and fully pays his tax liability, then his gross income for US income tax purposes does not include any amount included on such USVI return. Because of this exclusion, a bona fide resident of the USVI may not have to file an income tax return with the IRS. However, because an income tax return has not been filed with the IRS, the limitations period under section 6501(a) will not begin to run with respect to a U.S. income tax deficiency.

This notice will provide interim guidance, pending the issuance of regulations, concerning the statute of limitations on assessment of the U.S. income tax liability, if any, of U.S. citizens or resident aliens who are bona fide residents of the USVI. In general, the notice will provide rules allowing bona fide residents of the USVI to start the period of limitations by properly filing a return with the USVI tax administration and, in the case of individuals with \$75,000 or more of gross income during the taxable year, by filing an income tax return with the IRS reporting no gross income and no taxable income on lines 22 and 43 (in addition to a proper USVI filing). The notice provides for a new collection of information in the form of an annual information statement, under sections 932(c) and 7654, for U.S. citizens or residents with \$75,000 or more of gross income who claim bona fide residency status in the USVI. Taxpayers subject to the new collection of information must attach a statement to their US 1040 return, for taxable years ending on or after December 31, 2006, that answers several questions relating to their claim of bona fide residency status in the USVI.

2. USE OF DATA

The collection of information is a requirement that a statement be filed with the IRS that contains certain facts and representations relating to a taxpayer's claim that he or she is a bona fide resident of the USVI. This collection of information is necessary for the proper performance of the IRS because it notifies the IRS of a bona fide resident's position that he or she is not required to file a federal income tax return. The statement provides the IRS with minimally necessary

information, including the amount of gross income and tax reported to the USVI, as well as an affirmation that the individual properly filed an income tax return with the USVI and qualifies as a bona fide resident of the USVI.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

We have no plans to offer electronic filing. IRS publication, regulations, notices and letters are to be electronically enabled on an as practicable basis in accordance with the IRS Reform and Restructuring Act of 1998.

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

We will publish a notice in the Federal Register in the near future to solicit public comments on this Notice.

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

The collection of information in the proposed notice is in Section 2: Interim Rules. This information is required to determine if a taxpayer satisfies the requirements of bona fide residence in the U.S. Virgin Islands under section 937(a). The information will be used to determine if a taxpayer satisfies his or her U.S. income tax filing requirements.

For taxable years ending on or after December 31, 2006, U.S. citizens and residents claiming bona fide residency status in the USVI with \$75,000 or more of gross income must attach an information statement that answers several questions relating to their claim of bona fide residency status in the USVI. The information statement must contain the following: (a) the taxpayer's name, social security number, and address as reported on US Form 1040, (b) a statement affirming the taxpayer's bona fide residence in the U.S. Virgin Islands as defined in Treas. Reg. § 1.937-1(b) (or Treas. Reg. §§ 1.871-2 through 1.871-5, with respect to taxable years ending before October 22, 2004) and a brief summary of the facts on which it is based, and (c) a statement of the total tax liability reported on the USVI Form 1040, the amount of gross income reported on such return (adding back any applicable territorial tax benefits described in section 934(b)), and an affirmation that the non-covered person has properly filed a U.S. Virgin Islands individual income tax return.

We estimate that approximately 8,500 taxpayers will submit information reporting statements annually, and that the estimated annual burden per respondent varies from 4 to 6 hours, depending on individual circumstances, with an estimated average of 5 hours. The total annual reporting burden is estimated to be 42,500 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-I

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 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.

EMERGENCY JUSTIFICATION

We are requesting emergency review of this submission and seek OMB approval by January 30, 2007. This Notice provides critical guidance to individual taxpayers with respect to tax years ending on or after December 31, 2006, and thus is timely guidance with respect to the filing season for 2006 returns. With respect to such returns, the information in this notice explains how bona fide residents of the USVI start the period of limitations by either: (a) filing a return with the USVI tax administration, provided the individual has less than \$75,000 of gross income during the year, or (b) in the case of individuals with \$75,000 or more of gross income during the taxable year, filing an income tax return with the USVI tax administration and a separate income tax return with the IRS. The proposed notice addresses an area of the tax law drawing comments and/or requests for immediate guidance from taxpayers, the USVI government, and Congress. Included in this notice is a new information reporting requirement for

certain U.S. citizens and residents claiming bona fide residency status in the USVI for taxable years ending on or after December 31, 2006. Because the 2006 return filing season has already commenced, it would be detrimental to the mission of the IRS and to legitimate expectations of taxpayers if the IRS does not provide guidance to affected taxpayers with respect to the statute of limitations and this information reporting requirement as soon as possible. The International Tax Counsel at Treasury as well as the Associate Chief Counsel (International) have instructed us to publish this notice at the earliest possible date. OMB review is the only step remaining before this notice can be released. For the foregoing reasons, it is critical that OMB review and process the notice as soon as possible.