

SUPPORTING STATEMENT
(Form 1065 and Schedule D, Schedule K-1 (Form 1065), Schedule L,
Schedules M-1, M-2 and M-3)

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Internal Revenue Code Section 6031 and Regulations section 1.6031-1 require partnerships to file Form 1065 and Schedules D and K-1 (Form 1065). Internal Revenue Code section 6698 imposes a penalty on the partnership for failure to file a complete return on time as required by section 6031.

2. USE OF DATA

The information is used by IRS to verify correct reporting of partnership items and for general statistics. The information is used by partners to determine the income, loss, credits, etc., to report on their tax returns.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

We are currently offering electronic filing on Form 1065 and schedules.

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

Periodic meetings are held between IRS personnel and representatives of the American Bar Association, the National Society of Public Accountants, the American Institute of Certified Public Accountants, and other professional groups to discuss tax law and tax forms. During these meetings, there is an opportunity for those attending to make comments regarding Form 1065 and schedules.

In response to the **Federal Register** notice dated **April 27, 2007 (72 FR 21073)**, we received no comments during the comment period regarding Form 1065 and schedules.

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

<u>Responses</u>	<u>Response</u>	<u>Number of Hours</u>	<u>Time per</u>	<u>Total</u>
Form 1065		2,376,800	129.04	306,702,272
Form 1065 Worksheet		1,219,700	2.06	2,512,582
Form 1065 Sch D		134,478	10.87	1,461,776
Form 1065 Sch K-1		14,378,100	31.76	456,648,456
Form 1065 Sch L		1,228,538	16.00	19,656,608
Form 1065 Sch M-1		1,228,538	3.81	4,680,730
Form 1065 Sch M-2		1,228,538	3.36	4,127,888
Form 1065 Sch M-3		<u>100,000</u>	76.34	<u>7,634,000</u>
		21,894,692		

803,4
24,31
2

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

The following regulations impose no additional burden. Please continue to assign OMB number 1545-0099 to these regulations.

Reporting Regulations

1.552-3(c)		1.613-6
		1.614-6(a)
1.552-4(b)	1.613-7(d)	1.614-8(a)(2)
1.552-5		1.613A-5
		1.614-8(a)
		(3)
		1.611-2
		1.613A-
	6(a)	1.617-1(c)
		1.611-3
		1.613A-6(b)
		1.617-3(b)
		1.612-5(b) + (d)
		1.613A-6(c)
		1.617-4(b)
		1.613-3(c)(5)
		1.614-2(c)
		1.703-1
		1.613-3(d)(1)(v)
		1.614-2(d)
		1.706-1
		1.613-3(h)
		1.614-3(b)
		1.706-1T(b)
		1.613-4(c)(5)
		1.614-3(f)
		1.732-1(d)
		1.613-4(d)
		1.614-5(b)
		1.751-1(b)(4)

	1.613-4(h)
	1.614-5(c)
	1.754-1(a), (b)
	& (c)
1.755-1(a)(2)	1.6031-1
1.761-2	1.6031(b)-T
NPRM 198-82	1.6031(c)-1T
1.6001-1	301.6231

Recordkeeping Regulations

1.47-6
1.611-2(a), (b), (c), + (e)
1.613A-6(a), (b), + (c)
1.614-2(d)
1.614-6(a)
1.614-8(a)
1.6031-1(c)-1T(a)(4)

Regulations which impose no additional burden

1.469-4		1.469-4T
		1.469-4(f)
1.701-1(a)(b) +(c)		1.6031-1(b)-1T(a)
		1.6031-1(c)-
		1T(a)(4)
1.708-1(b)(2)		1.6031-
		1(c)-1T(a)(1)
		1.6031-
		1(c)-1T(a)(3)
1.6031-1(a), (d)	1.6031-1(c)-1T(e)	
1.6032-1	1.752-2	

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

As suggested by OMB, our **Federal Register** notice dated **April 27, 2007 (72 FR 21073)**, requested public comments on estimates of cost burden that are not captured in the estimates of burden hours, i.e., estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information. However, we did not receive any response from taxpayers on this subject. As a result, estimates of the cost burdens are not available at this time.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

After consultation with various functions within the Service, we have determined that the cost of developing, printing, processing, distribution, and overhead for these forms is \$1,687,287.

15. REASONS FOR CHANGE IN BURDEN

Major Changes to the 2007 Form 1065

1. We added back box 5 to Item G, the amended return box. We are not adding the amended return box on Form 8082 as stated on the first WRN.

2. We added back Schedule A to Form 1065. The decision about making it a stand-alone product will be made for the 2009 processing year.

3. We deleted new questions 2 - 5 and added back old questions 2 and 3 on Schedule B. The decision about adding additional questions will be made for the 2009 processing year. The other questions were renumbered.

4. We moved the Tax Matters Partner block back to the bottom of page 2.

5. On Schedule K, lines 16d through 16f and Lines 16i through 16k have been revised to reorder and rename the categories of foreign gross income sourced at the partnership level and the deductions allocated and apportioned at the partnership level to foreign source income. This reflects changes made to section 904(d) by the American Jobs Creation Act of 2004, PL 108-357, sec 404.

The WRN for Schedule B-1 (Form 1065 & 1120) posted on 09/28/2006 is cancelled. At the TPCC meeting held on 6/12/07, it was decided that the Schedule B series for Forms 1065 and 1120 will not be developed for tax year 2007.

The WRN for Schedule B-2 (Form 1065) posted on 09/28/2006 is cancelled. At the TPCC meeting held on 6/12/07, it was decided that the Schedule B series (Form 1065 & 1120) will not be for tax year 2007.

The WRN for Schedule B-3 (Form 1065) posted on 9/28/2006 is cancelled. At the TPCC meeting held on 6/12/07, it was decided that the Schedule B series (Form 1065 & 1120) will not be developed for tax year 2007.

Major Changes to the Instructions for Form 1065

- Page 1. We updated *What's New* to highlight new filing and reporting requirements for 2006.
- Page 3, under *Electronic Filing*. We revised the instructions for the new Modernized e-file System available for filing of returns during 2007.
- Page 4, in the *Where To File Chart*. We revised these instructions for the filing requirements if a Schedule M-3 must be filed (Ogden, UT). Also, changed the address for a partnership whose principal business is in a foreign country or U.S. possession (Ogden, UT).
- Page 9, under *Assembling the Return*. We revised the return assembly ordering as requested by the business code and edit office.
- Page 9. We deleted the discussion of *Separately Stated items*. This list is no longer useful. The vast majority of the separately stated items fall under item 9 (other items).
- Page 9, under *Effect of Section 743(b) Basis Adjustment on Partnership Items*. We moved the discussion regarding special basis adjustments here from Line 20, code N, included as part of the more general instructions for these basis adjustments.
- Page 14, under *Extraterritorial Exclusion*. We updated the instructions for the exclusion amount applicable in 2006 (40%) as per IRC 114(d).
- Page 14, under *Item D. Employer Identification Number (EIN)*. We updated the telephone hours to adjust to the times reported on the IRS website.
- Page 14. We added instructions for the new *Item J. Schedule M-3*.
- Page 17 under *Reducing certain expenses for which credits are allowable* and page 30 under *Other credits (code P)*. We deleted the discussion for enhanced oil recovery

credit as it is not applicable in 2006.

- Page 18, under *Line 16. Depreciation* and page 26 under *Line 12. Section 179 Deduction*. We added a discussion alerting the partnership to reduce their asset basis by the amount of section 179 deduction elected by the partnership.
- Page 18, under *Line 20. Other Deductions* and Page 20, under *Other Deductions*. We deleted the discussion for clean-fuel vehicle and certain refueling property because it has expired.
- Page 19. We added *Line 23. Credit for Federal Telephone Excise Tax Paid*.
- Page 26. We deleted the instructions on *Cash contributions (100%) (code G)* because it has expired (section 301 of the Katrina Emergency Tax Relief Act of 2005). The codes subsequent to this change have been renumbered as appropriate.
- Page 27, under *Line 13d. Other Deductions*. We added a note regarding domestic production activities informational amounts.
- Page 28, under *Domestic production activity information (code S)*. We added a caution for partnerships with a tax year beginning after May 17, 2006 in accordance with Act section 514 of the Tax Increase Prevention and Reconciliation Act of 2005.
- Page 28, under *Employer's W-2 wages (code U)*. We added a caution for partnerships with a tax year beginning after May 17, 2006, in accordance with Act section 514 of the Tax Increase Prevention and Reconciliation Act of 2005.
- Page 29, under *Credits*. We made significant changes in this section. We changed the title from *Credits and Credit Recapture* to *Credits*. All items providing information used to figure credits at the partner level on Form 3468 and credit recapture items were moved to line 20c, *Other Information*. We made this change based upon input from various tax software companies. We moved the following items previously reported on line 15f on Schedule K to line 20c.

1. Qualified Rehabilitation expenditures (other than rental estate) *Box 20, code D.*
 2. Basis of Energy Property *Box 20, code E.*
 3. Recapture of low-income housing credit (section 42(j)(5)) *Box 20, code F*
 4. Recapture of low-income housing credit (other) *Box 20, code G.*
 5. Recapture of investment credit *Box 20, code H.*
 6. Recapture of the other credits *Box 20, code I.*
- Page 31, under *Other Credits (code P)*. We added the *Energy Efficient Appliance Credit* (Energy Policy Act of 2005).
 - Page 31, under *Other Credits (code P)*. We moved the discussion of basis in qualifying advanced coal project property and basis of qualifying gasification project property to line 20c, (reported on Schedule K-1, Box 20, code W).
 - Page 31, under *Other Credits (code P)*. We deleted *Employee retention credits* because they have expired.
 - Page 35, code N (see 6th bullet) was changed to read as follows: *Interest expense for corporate partners* to provide information needed by corporate partners under Act section 501 of the Tax Increase Prevention and Reconciliation Act of 2005.
 - Page 35, under *Other information (code W)*. Updated the discussion of section 409A because the suspension of the reporting requirement no longer applies and added a reference to Notice 2005-1 and Notice 2006-79.
 - Page 36, under *Schedule L. Balance Sheets per Books*. We revised the instructions to clarify the reporting instructions in accordance with recommendations from LMSB and the Schedule M-3 taskforce.
 - Page 36, under *Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return* added a note

regarding the new Schedule M-3.

Major Changes to 2007 Schedule D (Form 1065), Capital Gains and Losses

1. All years are updated appropriately.
2. The "What's New" section in the instructions has been deleted.

Major Changes to the 2007 Schedule K-1 (Form 1065)

1. All years are updated appropriately.
2. The codes for Box 16 have been revised to reorder and rename the categories of foreign gross income sourced at the partnership level and the deductions allocated and apportioned at the partnership level to foreign source income. This reflects changes made to section 904(d) by the American Jobs Creation Act of 2004. PL 108-357, sec 404.

Major Changes to the Partner's Instructions for Schedule K-1 (Form 1065)

- Page 8. We deleted the instructions on *Cash contributions (100%) (code G)* because it has expired (section 301 of the Katrina Emergency Tax Relief Act of 2005). The codes subsequent to this change have been re-lettered as appropriate.
- Page 9, under *Code R. Reforestation expense deduction*. We deleted the bullet items identifying the different effective dates for the 3 hurricane "GO Zones" because this detail is no longer useful.
- Page 10, under *Box 15. Credits*. We made significant changes in this section. We changed the title from *Credits and Credit Recapture* to *Credits*. All items providing information used to figure credits at the partner level on Form 3468 and credit recapture items were moved to box 20, *Other Information*. We made this change based upon input from various tax software companies. We moved the following items previously reported in box 15 to box 20.

- o Qualified Rehabilitation expenditures (other than rental estate) *Box 20, code D.*
- o Basis of Energy Property *Box 20, code E.*
- o Recapture of low-income housing credit (section 42(j) (5)) *Box 20, code F*
- o Recapture of low-income housing credit (other) *Box 20, code G.*
- o Recapture of investment credit *Box 20, code H.*
- o Recapture of the other credits *Box 20, code I.*

We added a caution regarding the new reporting requirements for general business credits.

- Page 11, under *Code P. Other Credits.* We deleted the discussion for enhanced oil recovery credit as it is not applicable in 2006.
- Page 11, under *Code P. Other Credits.* We added the *Energy Efficient Appliance Credit* (Energy Policy Act of 2005).
- Page 11, under *Code P. Other Credits.* We moved the discussion of basis in qualifying advanced coal project property and basis of qualifying gasification project property to box 20 *Code W. Other information.*
- Page 11, under *Code P. Other Credits.* We deleted *Employee retention credits* because they have expired.
- Page 13, *code N* was changed to read as follows: *Interest expense for corporate partners* to provide information needed by corporate partners under Act section 501 of the Tax Increase Prevention and Reconciliation Act of 2005.

Major Changes to the 2007 Schedule M-1 (Form 1065)

1. All years are updated.
2. On page 1, question D, in the third column, the heading is changed to "Maximum Percentage Owned or Deemed Owned."
3. On page 1, in line 1a, a sentence is added at the end of the "No" checkbox line to tell the partnership to see the instructions if multiple non-tax-basis income statements are prepared.

4. On page 1, the phrase "non-tax-basis" is added before "income statement" in both line 1b and line 1c.

5. On page 1, line 7a, "(loss)" is added after "income," and "disregarded" is added before "entities."

6. On page 1, line 7b, "income" is added before "(loss)," now in parentheses, and the parentheses in the entry space are deleted.

7. On page 1, the words "Privacy Act and" are deleted from the Paperwork Reduction Act Notice text at the bottom of the page.

8. On page 2, Part II, columns (a) and (d), and on page 3, Part III, columns (a) and (d), "(optional)" is deleted.

9. On page 2, Part II, line 11, and on page 3, Part III, line 27, "(attach Form 8916-A)" is added at the end of the text.

10. On page 2, Part II, line 15, parentheses are inserted in columns (a) and (d), since this item is a negative amount that reduces income.

The following changes resulted in an overall program decrease of burden hours:

Form 1065: Removed Schedules B-1, B-2 and B-3. The revised Form 1065 resulted in a decrease of 23 line items, addition of 1 form attachment and 39 code references.

Form 1065 (Schedule D): Due to a previous oversight in burden computation, 6 line items were deleted.

Form 1065 (Schedule K-1): Added 1 form attachment, deleted 55 code references and deleted 13 lines.

Form 1065 (Schedule M-3): The revised Schedule M-3 resulted in addition of 1 form attachment and 38 code references.

The new burden hours are 803,424,312.

We are making this submission to renew the OMB renewal.

16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

Not applicable.

17. REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE

See attachment.

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.

OMB EXPIRATION DATE

We believe the public interest will be better served by not printing an expiration date on the form(s) in this package.

Printing the expiration date on the form will result in increased costs because of the need to replace inventories that become obsolete by passage of the expiration date each time OMB approval is renewed. Without printing the expiration date, supplies of the form could continue to be used.

The time period during which the current edition of the form(s) in this package will continue to be usable cannot be predicted. It could easily span several cycles of review and OMB clearance renewal. In addition, usage fluctuates unpredictably. This makes it necessary to maintain a substantial inventory of forms in the supply line at all times. This includes supplies owned by both the Government and the public. Reprinting of the form cannot be reliably scheduled to coincide with an OMB approval expiration date. This form may be privately printed by users at their own expense. Some businesses print complex and expensive marginally punched continuous versions, their expense, for use in their computers. The form may be printed by commercial printers and stocked for sale. In such cases, printing the expiration date on the form could result in extra costs to the users.

Not printing the expiration date on the form(s) will also avoid confusion among taxpayers who may have identical forms with different expiration dates in their possession.

For the above reasons we request authorization to omit printing the expiration date on the form(s) in this package.