

Supporting Statement (Form 8817)

CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Corporations claiming to be cooperatives may qualify for the tax benefits of subchapter T, if they "operate on a cooperative basis". These benefits include the ability to distribute net income derived from patrons (Patronage Income) to its patrons and claim a tax deduction under section 1382 of the Internal Revenue Code. Whether or not a corporation can take advantage of this deduction hinges on whether or not it is actually "operating on the cooperative basis".

Assuming that a corporation qualifies as a subchapter T, the benefits of subchapter T are not automatic. Sections 1382 through 1388 provide the requirements a cooperative must meet in order for its distribution to qualify as a deduction. The requirements include the limitation of distributable income to patronage source income (as opposed to non-patronage source income), the manner and method of distribution, and the application of losses (netting).

Cooperatives normally have nonpatronage and patronage sourced income. The determination of what is patronage sourced income (and thereby distributable) is made based upon the facts and circumstances, but there are various sources of revenue which may be more traditionally classified as either patronage or nonpatronage sourced. Failure to properly make this determination results in the incorrect computation of taxable income and distributable income (resulting in the incorrect deduction).

Generally, corporations may combine all sources of income and expenses to arrive at combined taxable income. Corporations may also net losses and gains in determining tax liability. However, corporations, operating as cooperatives under subchapter T, are not permitted to combine and net as traditional corporations do. Cooperatives must separately compute net income from patronage and nonpatronage income and the two may not be combined or netted.

2. USE OF DATA

The data is used by IRS to ascertain that the amounts of patronage and nonpatronage sources of income or loss were properly computed.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

We have no plans at this time to offer electronic filing because of the low volume compared to the cost of electronic enabling.

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 8817.

In response to the **Federal Register** Notice dated June 4, 2007 (72 FR 30918), we received no comments during the comment period regarding Form 8817.

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>Number of Responses</u>	<u>Time per Response</u>	<u>Total Hours</u>
Form			
8817 Part I	1,650	3.53	5,825
8817 Part II	<u>1,100</u>	14.71	<u>16,181</u>
	2,750		22,006

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

The following regulations impose no additional burden. Please continue to assign OMB number 1545-1135 to these regulations.

1.1381-1 thru 1.1388-1

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

As suggested by OMB, our **Federal Register** Notice dated June 4, 2007 (72 FR 30918), 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 responses from taxpayers on this subject. As a result, estimates of these cost burdens are not available at this time.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

The primary cost to the government consists of the cost of printing this form. We estimate that the cost of printing this form is \$2,390.

15. REASONS FOR CHANGE IN BURDEN

There is no change in the paperwork burden previously approved by OMB. We are making this submission to renew the OMB approval.

16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

Not applicable.

17. REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE

See attachment.

18. EXCEPTION 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.