

SUPPORTING STATEMENT
Revenue Procedures 97-36, 97-38, 97-39, and 2002-9

1. **CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

Section 446(b) the Internal Revenue Code and §1.446-1(b) of the Income Tax Regulations states that, if a taxpayer's method of accounting does not clearly reflect income, the computation of taxable income shall be made under such method as, in the opinion of the Commissioner, does clearly reflect income. Section 446(e) and §1.446-1(e) require a taxpayer to obtain the consent of the Commissioner before the taxpayer changes its method of accounting.

In order to determine whether a taxpayer has properly adopted or changed to a permitted method of accounting, certain information about the taxpayer's use of the method is required. The revenue procedures request the information necessary to make that determination when the information is not otherwise available.

Four sufficiently related revenue procedures are included in this Paperwork Reduction Act submission. Although other items in this supporting statement and OMB Form 83-1 aggregate the data for the four revenue procedures, they are described separately in item 12.

2. **USE OF DATA**

The information will be used to determine whether the taxpayer properly adopted or changed to a permitted method of accounting.

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 whenever

possible.

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

The user fee normally required to request consent to change a method of accounting currently is waived for these revenue procedures. We have also waived the filing of a Form 3115 where appropriate, and will accept a statement in its place. The §481(a) adjustment required for changes in method of accounting may be taken into account in the year of change, at the election of the taxpayer, if the adjustment is less than \$25,000.

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**

Revenue Procedure 97-36 (1997-33 IRB 14), Revenue Procedure 97-38 (1997-33 IRB 43), and Revenue Procedure 97-39 (1997-33 IRB 48) were published in the **Internal Revenue Bulletin** on August 18, 1997. Revenue Procedure 2002-9 (2002-3 IRB 327) was published in the **Internal Revenue Bulletin** on January 22, 2002.

In response to the Federal Register Notice dated September 21, 2006, 2006 (F. R. 55275), we received no comments during the comment period regarding Rev. Proc. 97-36, 97-38, 97-39, and 2002-9.

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

Not applicable.

10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES

Submissions under these four revenue procedures are considered tax returns and tax return information, which are confidential as required by 26 U.S.C. §6103. In general, certain matters relating to taxability and deductibility are disclosable under 26 U.S.C. §6110.

11. JUSTIFICATION OF SENSITIVE QUESTIONS

Not applicable.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

Rev. Proc. 97-36 describes the alternative LIFO method of accounting. Section 5.09 requires taxpayers using the method to maintain and retain complete records of the computations of the LIFO inventory under the method, as well as copies of the actual purchase invoices for each vehicle used in the computation. We estimate that 8,000 taxpayers annually will use the alternative LIFO method of accounting and will maintain and retain the required information. The estimated burden per recordkeeper is 25 hours, for a total burden of 200,000 hours.

The total burden for Revenue Procedure 97-36 is 200,000 hours.

Rev. Proc. 97-38 describes the service warranty income method of accounting. Section 6 of the revenue procedure requires the taxpayer to submit a statement with its federal income tax return. The statement must indicate that the taxpayer is electing the service warranty income method and that the taxpayer agrees to all the terms and conditions of the revenue procedure. The statement also must provide certain information regarding the taxpayer's use of the service warranty income method. In addition, the taxpayer must annually provide certain information regarding the taxpayer's use of the method. We estimate that 2,000 taxpayers annually will use the service warranty income method of accounting and will provide the required information. The estimated burden per respondent is two to

three hours with a $2\frac{1}{2}$ hour average, for a total burden of 5,000 hours.

The total burden for Revenue Procedure 97-38 is 5,000 hours.

Rev. Proc. 97-39 describes the principal-reduction method of accounting. Section 4.01(2) of the revenue procedure requires a taxpayer to report the categories of loans to which the taxpayer will apply the principal-reduction method. We estimate that 50 taxpayers annually will adopt the principal-reduction method of accounting and will prepare the required statement. The estimated burden per respondent is 1 hour, for a total burden of 50 hours.

Sections 5.03, 5.04, and 5.09 of the revenue procedure require a taxpayer to make several computations and record and separately retain the results of these computations. We estimate that 300 taxpayers must record and retain the required information. The estimated burden per recordkeeper is 11 to 13 hours with a 12 hour average, for a total burden of 3,600 hours.

The total burden for Revenue Procedure 97-39 is 3,650 hours.

Rev. Proc. 2002-9 provides automatic consent procedures for a taxpayer to change its method of accounting. Section 6.02(3) requires a taxpayer not using a Form 3115 to place a label on the application, including the taxpayer's name, EIN and the applicable change being made. We estimate that 50 taxpayers will make such submissions annually. The estimated burden per respondent is $\frac{1}{10}$ of an hour for a total estimated burden of 5 hours.

Section 6.04 requires certain taxpayers to attach a statement to the application certifying that the method to be changed is not an issue being considered by an appeals office and the statement must contain the name and telephone number of the appeals officer. The taxpayer also must provide the appeals officer a copy of the application. We estimate that 40 taxpayers will make such submissions annually. The estimated burden per respondent is $\frac{1}{4}$ of an hour for a total estimated burden of 10 hours.

Section 6.05 requires certain taxpayers to attach a statement to the application certifying that the method to

be changed is not an issue being considered by a federal court and the statement must contain the name and telephone number of the counsel for the government. The taxpayer also must provide the counsel for the government a copy of the application. We estimate that 20 taxpayers will make such submissions annually. The estimated burden per respondent is $\frac{1}{4}$ of an hour for a total estimated burden of 5 hours.

Section 10.02 provides that, if supplemental information is needed, a taxpayer will be provided 21 days to furnish the information. A taxpayer may request additional time to furnish the information. The request for an extension of time must be made in writing and submitted within the 21-day period. We estimate that 500 taxpayers annually will be requested to provide additional information and 50 of those taxpayers will request an extension of time. The estimated burden per respondent to provide supplemental information and/or request an extension of time is $\frac{1}{2}$ of an hour to 5 hours, with an average burden of 3 hours, for a total estimated burden of 1,500 hours.

Section 2.01 of the APPENDIX applies to a taxpayer changing its method of accounting for depreciation. The taxpayer is required to attach to the application certain additional information related to the change. We estimate that 5,000 taxpayers annually will change their method of accounting for depreciation. The estimated burden per respondent is $\frac{1}{2}$ to 2 hours with a $1\frac{1}{2}$ hour average, for a total burden of 7,500 hours.

Section 2.02 of the APPENDIX applies to a taxpayer changing its method of accounting for depreciation. A taxpayer changing its method of accounting for public utility property is required to attach to the application a statement that it agrees to certain terms and conditions. We estimate that 50 taxpayers annually will change their method of accounting for public utility property. The estimated burden per respondent is $\frac{1}{2}$ hour, for a total burden of 25 hours.

Section 3.01 of the APPENDIX applies to a taxpayer changing its method of accounting for package design costs. Section 3.01 requires the taxpayer to attach a statement to the application. The statement must provide a description of each package design, the date on which each was placed in

service, and the cost basis of each. We estimate that 5 taxpayers annually will change their method of accounting for package design costs. The estimated burden per respondent is $\frac{3}{4}$ to $1\frac{1}{2}$ hour with a 1 hour average, for a total burden of 5 hours.

Section 5.02 of the APPENDIX applies to a taxpayer changing its method of accounting to the service warranty income method. Section 5.02 waives the requirement to file a Form 3115. The taxpayer must attach a statement to its return. The statement must be labeled and contain the information required by Rev. Proc. 97-38. We estimate that 10 taxpayers annually will change their method of accounting to the service warranty income method. The estimated burden per respondent is two to three hours with a $2\frac{1}{2}$ hour average, for a total burden of 25 hours.

Section 5.04 of the APPENDIX applies to a taxpayer changing its method of accounting from the Rule of 78s method to the constant yield method. Section 5.04 requires the taxpayer to maintain books and records sufficient to satisfy the district director that old and new loans have been adequately segregated. We estimate that 1,500 taxpayers will change their method of accounting to the constant yield method. The estimated burden per recordkeeper is $\frac{3}{4}$ hour, for a total burden of 1,125 hours.

Section 6.01 of the APPENDIX applies to a taxpayer changing its method of accounting for interest on certain U.S. savings bonds. Section 6.01 waives the requirement to file a Form 3115. The taxpayer must attach a statement to its return. The statement must be labeled and describe the bonds to which the change applies. The taxpayer must also agree to report the interest as required by the revenue procedure. We estimate that 20 taxpayers annually will change their method of accounting for savings bonds. The estimated burden per respondent is 1 hour, for a total burden of 20 hours.

Section 7.01 of the APPENDIX applies to a taxpayer changing its method of accounting for prepaid subscription income. Section 7.01 waives the requirement to file a Form 3115. The taxpayer must attach a statement to its return. The statement must be labeled and contain the information required by §1.455-6(b). We estimate that 20 taxpayers

annually will change their method of accounting for prepaid subscription income. The estimated burden per respondent is $\frac{1}{5}$ hour, for a total burden of 4 hours.

Section 10.01 of the APPENDIX applies to taxpayers discontinuing their use of the LIFO inventory method. Section 10.01 requires the taxpayer to attach a statement to its application. The statement must specify the taxpayer's proposed method of identifying inventory goods and the taxpayer's proposed method of valuing inventory goods. The statement must also explain how the taxpayer's method conforms to the requirements of the revenue procedure. We estimate that 100 taxpayers annually will discontinue the use of LIFO inventory method. The estimated burden per respondent is 2 hours, for a total burden of 200 hours.

Section 10A.01 of the APPENDIX applies to a taxpayer discontinuing the mark-to-market method of accounting. Section 10A.01 requires taxpayers to attach a statement listing all items that will no longer be marked-to-market. We estimate that 6,000 taxpayers annually will be required to attach the statement. The estimate burden per respondent is $\frac{1}{2}$ hour, for a total burden of 3,000 hours.

Section 10.03 of the APPENDIX applies to taxpayers changing to the Alternative LIFO method. Section 10.03 requires certain taxpayers to attach a statement setting forth the classes of goods for which the taxpayer has elected the LIFO method. We estimate that 20 taxpayers annually will be required to attach the statement. The estimated burden per respondent is 2 hours, for a total burden of 40 hours.

Section 12.01 of the APPENDIX applies to a taxpayer changing to the principal-reduction method. Section 12.01 requires the taxpayer to attach to the application a statement providing information related to the change. In addition, section 12.01(2) requires the taxpayer to maintain books and records sufficient to satisfy the district director that old and new loans are adequately segregated. We estimate that 50 taxpayers will be required to attach the statement and maintain the books and records. The estimated burden per respondent/recordkeeper is 1 hour, for a total burden of 50 hours.

Sections 1A.01 and 12A.01 of the APPENDIX require that taxpayers applying for automatic consent to change an accounting method under Revenue Procedure 99-49 must submit a written statement containing certain information necessary to determine whether the taxpayer's change in method of accounting is appropriate. We estimate that 150 taxpayers annually will be required to attach the statement. The estimated burden per respondent is 1½ hours, for a total burden of 225 hours.

Section 2B of the Appendix applies to a taxpayer changing its method of accounting for computer software expenditures. A taxpayer making such a change is required to prepare a statement that indicates whether the taxpayer chooses to use a 60-month period from the date of completion of the development of the software, or the 36-month period from the placed-in-service date of the software. We estimate that approximately 20 taxpayers per year will make this change, and that the time required to prepare the required statement is approximately a half hour. The estimated burden is 10 hours.

Section 4.04 of the Appendix applies to a taxpayer changing its method of accounting for certain research and experimental expenditures. A taxpayer making such a change is required to prepare representations relating to its treatment of such expenditures. We estimate that approximately 20 taxpayers a year will make this change, and that the time required to prepare the representations is one-half hour. The estimated burden is 10 hours.

Section 5A.02 of the Appendix applies to a taxpayer changing its method of accounting for cash advances on insurance commissions. A taxpayer making such a change is required to prepare a statement complying with the requirements of section 4.03 of Rev. Proc. 2001-24. We estimate that approximately 20 taxpayers a year will make this change, and that the time required to prepare the representations is an hour. The estimated burden is 20 hours.

Section 9.04 of the Appendix applies to a taxpayer changing its method of accounting for "floor stocks" tax payments made and received. A taxpayer making such a change is required to prepare a statement that indicates whether the taxpayer elects to apply the simplifying assumption of Rev.

Rul. 2001-8. We estimate that approximately 50 taxpayers a year will make this change, and that the time required to prepare the required statement is approximately a half hour. The estimated burden is 25 hours.

The total burden for Revenue Procedure 2002-9 is 13,804 hours.

The total burden for Rev. Procs. 97-36, 97-38, 97-39, and 2002-9 is 222,454 hours.

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

13. ESTIMATED TOTAL ANNUALIZED COST BURDEN TO RESPONDENTS

As suggested by OMB, our **Federal Register** notice dated September 21, 2006, 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

Not applicable.

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

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

17. 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.