

SUPPORTING STATEMENT

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Certain changes to the regulations under § 83 are needed to coordinate the principles of subchapter K with the principles of § 83. In order to ensure consistency in the treatment of partnership profits interests and partnership capital interests, the proposed regulations provide for a safe harbor which if elected allows partnerships and service providers to value partnership interests based on liquidation value. The collection of information is necessary in order to ensure that partners and partnerships that elect to follow the liquidation value safe harbor report consistent with the safe harbor.

2. USE OF DATA

The information will be used by the Service to ensure that electing partnerships and their respective partners file consistent with the liquidation value safe harbor election.

3. USE OF IMPROVED INFORMATION TO REDUCE BURDEN

IRS Publications, 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 REDUCE 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

This notice of proposed rulemaking was published in the Federal Register on May 24, 2005 (70 FR 29675).

We received no comments during the comment period in response to the Federal Register notice dated March 25, 2008 (73 FR 15841).

9. ASSURANCE 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

Section 1.83-3(l) provides that subject to such additional conditions, rules, and procedures that the Commissioner may prescribe in regulations, revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin, a partnership and all of its partners may elect a safe harbor under which the fair market value of a partnership interest is treated as being equal to the liquidation value of that interest for transfers on or after the date final regulations are published in the Federal Register. We estimate that the number of annual respondents/recordkeepers will be 100,000 partnerships and 50,000 partners or other service providers. The following paragraphs discuss the burden involved with electing the safe harbor, attaching the information to the returns and retaining documents as required by § 1.83-3(l):

(1) The partnership must execute a document electing, on behalf of the partnership and each of its partners, to have the safe harbor apply as of the stated effective date with respect to all partnership interests transferred in connection with the performance of services while the safe harbor election remains in effect and attach the document to the tax return for the partnership for the taxable year that includes the effective date of the election. We estimate that the burden for each of the 100,000 partnerships to make and file this election will be 1 hour.

(2) If the partnership agreement does not contain provisions that are legally binding on all of the partners stating that (a) the partnership is authorized and

directed to elect the safe harbor, and (b) the partnership and each of its partners (including any person to whom a partnership interest is transferred in connection with the performance of services) agrees to comply with all requirements of the safe harbor with respect to all partnership interests transferred in connection with the performance of services while the election remains effective, then each partner in a partnership that issues a partnership interest in connection with the performance of services must execute a document containing provisions that are legally binding on that partner stating that (a) the partnership is authorized and directed to elect the safe harbor, and (b) the partner agrees to comply with all requirements of the safe harbor with respect to all partnership interests transferred in connection with the performance of services while the election remains effective. We estimate that 50,000 partners will need to execute this document for a one time burden of 10 minutes per partner.

(3) The partnership must retain such records as may be necessary to indicate that an effective election has been made and remains in effect, including (1) a copy of the document submitted by the partnership to the Service under the first requirement above, and (2) the original of each document submitted to the partnership by a partner under the second requirement above. If the partnership is unable to produce a record of a particular document, the election will be treated as not made, generally resulting in termination of the election. We estimate that the burden for retaining these documents that are already in the possession of each of the 100,000 partnerships will be no more than 2 minutes per partnership.

(4) The safe harbor election also may be terminated by the partnership executing a document stating that the partnership is revoking an election of the safe harbor on behalf of the partnership and each of its partners and attaching the document to the tax return for the partnership for the taxable year that includes the effective date of the revocation. We estimate that 834 partnerships may revoke the election for a burden per partnership of 1 hour.

Estimates of the annualized cost to respondents for the hour burdens associated with the information collection are not available at this time.

The total burden for the regulation is 112,500 hours.

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

As suggested by OMB, our Federal Register notice dated March 25, 2008 (73 FR 15841), requested public comments on estimates of cost burden that are not captured in the estimates of burden hours, i.e., estimates of capital and 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 ANNUAL COST TO THE FEDERAL GOVERNMENT

Not applicable.

15. REASON FOR CHANGE IN BURDEN

Not applicable.

16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

Not applicable.

17. REASON 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 regulations sunset as of the expiration date. Taxpayers are not likely to be aware that the Service intends to request renewal of the OMB approval and obtain a new expiration date before the old one expires.

18. EXCEPTIONS TO THE CERTIFICATION REQUIREMENT OF OMB FORM 83-I

Not applicable.

Note: The following paragraph applies to all of the collection 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 pertaining 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 return information are confidential as required by 26 U.S.C. ' 6103.