

**SUPPORTING STATEMENT  
(REG-144615-02)**

**1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

Section 1.482-7 provides guidance with respect to the sharing of costs and risks under cost sharing arrangements (CSAs). A proposed section 1.482-7 to replace the existing guidance under section 1.482-7 was published in 2005. The proposed regulations provided additional guidance regarding the external inputs for which arm's length consideration must be provided as an entry condition into cost sharing, as well as to address other technical and procedural issues that have arisen in the course of the administration of the cost sharing rules. As part of that revision, the proposed regulations updated and expanded upon the documentation and reporting requirements under the existing regulations.

The temporary regulations to be adopted to replace current section 1.482-7 will further expand the documentation requirements of the proposed regulations. These collections of information are necessary in order to identify the scope of the intangible development activity undertaken in the cost sharing arrangement and the form of payment used to provide arm's length compensation to those participants providing platform contributions for such activity.

**2. USE OF DATA**

The information will be used to administer and enforce section 482 of the Internal Revenue Code.

**3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN**

There are no plans to provide electronic filing because electronic filing is not appropriate for the collection of information in this submission.

**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**

A notice of proposed rulemaking was published in the Federal Register on August 29, 2005 (70 FR 51116) relating to proposed regulations that provide guidance regarding methods under section 482 to determine taxable income in connection with a cost sharing arrangement. A public hearing was held on November 16, 2005.

In response to the **Federal Register Notice** dated **April 15, 2008 (73 FR 20359)**, we received no comments during the comment period regarding REG-144615-02.

**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**

Currently, § 1.482-7(b)(4) requires cost sharing participants to record the CSA in a document that contains certain provisions and is contemporaneous with the formation of the CSA. Proposed § 1.482-7(k)(1) further expanded on the current requirements by requiring the CSA to contain additional provisions that would (1) specify the functions and risks that each controlled participant will undertake in connection with the CSA, (2) enumerate all categories of intangible development costs to be shared under the CSA, (3) require the controlled participants to enter into cost sharing transactions covering all such costs and (4) require the controlled participants to enter into preliminary or contemporaneous transactions (PCTs) covering all external contributions.

Currently, § 1.482-7(j)(2) imposes certain documentation requirements on participants in a CSA. Proposed § 1.482-7(k)(2) further expanded on the current requirements by requiring the participants to maintain records necessary to (1) establish that the participants have met the additional requirements of § 1.482-7(k)(1), as listed above, (2) describe all updates of reasonably anticipated benefits shares, (3) describe the reference transaction with reference to each PCT or group of PCTs, (4) specify the form of payments due under each PCT or group of PCTs, (5) specify the estimated arm's length value as of the date of the relevant PCTs, (6) describe, where applicable, why transactions were or were not aggregated, (7) specify the method payment form and (8) under certain circumstances, specify the weighted average cost of capital of the controlled group that includes the participants.

Currently, § 1.482-7(j)(3) requires a cost sharing participant to annually file a statement attached to its U.S. Income tax return or, if not required, to schedule M of any Form 5471 or Form 5472 they are required to file. Proposed § 1.482-7(k)(4) somewhat expanded the material to be included in this annual statement.

The reporting requirements of temporary § 1.482-7(k) generally follow the proposed regulations, albeit with some minor changes in terminology. However, the temporary regulations will supplement the recordkeeping requirements set forth in proposed §§ 1.482-7(k)(1) and (2) as follows. A new § 1.482-7(k)(1)(i)(J) is added that will require the CSA to contain a provision specifying the type of payment due under each PCT in existence at the formation (or any revision) of the CSA. Section 1.482-7(k)(2)(ii)(A) is amended to require the participants to maintain additional records necessary to establish the scope of the intangible development activity undertaken pursuant to the CSA. Section 1.482-7(k)(2)(ii)(1) is amended to require retention of additional information relevant to establishing that a PCT payment is arm's length. Section 1.482-7(k)(2)(ii)(J)(10) is added to require that taxpayers maintain records sufficient to justify their choice of the methods, if any, used to calculate an arm's length range for the PCT payments.

The additional recordkeeping requirement will affect approximately 500 recordkeepers. The additional time per record will be 30 minutes and total additional annual recordkeeping burden will be 250 hours.

**13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS**

As suggested by OMB, our **Federal Register Notice dated April 15, 2008 (73 FR 20359)**, 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, during the comment period 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**

The temporary regulations provide for an expansion of the documentation requirements in proposed § 1.482-7 in order to

address perceived inadequacies in the requirements as well as to ensure compliance with the revised guidance on the valuation of PCT payments as set forth in temporary § 1.482-7(g). These changes increased the burden hours to 9,350.

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 regulation sunsets 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 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.