

SUPPORTING STATEMENT  
(IRS Form 8697)

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Sections 460(a)(2) and 460(b)(1)(B) of the Internal Revenue Code (IRC) require that taxpayers computing gross income under the percentage of completion method with respect to any long-term contract entered into after 2/28/86, must pay (or shall receive) interest determined under the look-back method of IRC section 460(b)(3). Form 8697 is used by taxpayers to report the amount of interest due or to be refunded. Taxpayers may use Part I, the regular method, or Part II, the simplified marginal impact method. In no instance will any taxpayer complete both parts.

2. USE OF DATA

The data on Form 8697 will be used in computing the tax liability and in determining that the items claimed are properly allowable. It is also used for general statistical purposes.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

Form 8697 is electronically enabled.

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 8697.

In response to the *Federal Register* notice dated August 5, 2011 (76 FR 47648), we received no comments during the comment period regarding Form 8697.

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

The burden estimate is as follows:

|           | <u>Number of Respondents</u> | <u>Time per Response</u> | <u>Total Hours</u> |
|-----------|------------------------------|--------------------------|--------------------|
| Form 8697 | 4,333                        | 16.75                    | 72,578             |

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 1545-1031 to these regulations:

1.460-6                      1.6661-3

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

As suggested by OMB, our *Federal Register* notice dated August 5, 2011 (76 FR 47648), 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

The primary cost to the government consists of the cost of printing the form. We estimate that the cost of printing Form 8697 is \$5,572.

15. REASONS FOR CHANGE IN BURDEN

An increase in the number of responses by 1,000, for a total of 4,300, is attributed to an adjustment in agency estimate. This adjustment reflects an increase in burden by 12,170 hours.

Numerous recommendations were adopted from a committee organized to review Form 8697.

1. We added a column on page 1 for the year the contract was completed. The income adjustments from the prior years are based on amounts computed when the contract is completed. (Reg. 1.460-6(c)(3));
2. For line 2, we removed the shading from the totals column. The adjustments should net to zero since look-back interest only allocates interest between the years;
3. We added an explanation to the headings in Parts I and II to explain to taxpayers the reason to complete each part;
4. In the signature block, we added a line in case a spouse has to sign the form. The processing of Form 8697 has been delayed in the past if the spouse's signature was missing, and
5. In the signature block for paid preparer's, we removed the reference to SSN since every preparer is required to have a PTIN.

These program changes increased the burden by 19,851 hours due to agency discretion.

A total of 72,578 burden hours are requested; an increase of 32,021 hours from the previously approved burden of 40,557 hours.

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.