

SUPPORTING STATEMENT

OMB Control Number 1545-1732

Special rules for long-term contracts under § 1.460

TD 8669 - Mid-Contract Change

TD 8775 - Election Not to Apply Look-Back Method in De Minimis Cases

TD 8929 - Accounting for Long-Term Contracts

TD 9137 - Partnership Transactions Involving Long-Term Contracts

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Internal Revenue Code (IRC) section 1.460 provides rules for determining whether a contract for the manufacture, building, installation, or construction of property is a long-term contract under section 460 and what activities must be accounted for as a single long-term contract. Specific rules for long-term manufacturing and construction contracts are provided in §§ 1.460-2 and 1.460-3, respectively. A taxpayer generally must determine the income from a long-term contract using the percentage-of-completion method described in § 1.460-4(b) (PCM) and the cost allocation rules described in § 1.460-5(b) or (c). In addition, after a contract subject to the PCM is completed, a taxpayer generally must apply the look-back method described in § 1.460-6 to determine the amount of interest owed on any hypothetical underpayment of tax, or earned on any hypothetical overpayment of tax, attributable to accounting for the long-term contract under the PCM.

TD 8929 (Accounting for Long-Term Contracts) contains final regulations describing how income from a long-term contract must be accounted for under IRC section 460. The regulation requires that information be collected in order to notify the Commissioner of a taxpayer's decision to sever or aggregate one or more long-term contracts under the regulations. The statement is needed so the Commissioner can determine whether the taxpayer properly severed or aggregated its contract(s).

TD 8995 (Mid-Contract Change) contains final regulations concerning a mid-contract change in taxpayer of a contract accounted for under a long-term contract method of accounting. The collection of information is in § 1.460-6(g)(3)(ii)(D) and is required to enable taxpayers to make look-back computations when the income from a long-term contract has been previously reported by another taxpayer. A taxpayer that is a party to such a contract will be affected by these regulations.

TD 8775 (Election Not to Apply Look-Back Method in De Minimis Cases) contains regulations explaining how a taxpayer elects under section 460(b)(6) not to apply the look-back method to long-term contracts in de minimis cases and requires taxpayers to attach a notification statement to their returns when they make the election. Responses to this collection of information are required for a taxpayer to elect not to apply the look-back method to long-term contracts in de minimis cases.

Form 8697 is required to account for all or part of any long-term contract entered into after February 28, 1986, under the percentage of completion method must use Form 8697 to compute and report interest due or to be refunded under IRC section 460(b)(3). Taxpayers may compute interest using the actual method (Part I) or the Simplified Marginal Impact Method (Part II).

2. USE OF DATA

The information will enable taxpayers to assume the obligation to account for the income from long-term contracts following certain nontaxable transactions. The Service will use the information described above to verify that taxpayers have complied with the Code.

Information required under TD 8929 will be used so the Commissioner can determine whether the taxpayer properly severed or aggregated its contract(s). Notification Statements required by TD 8775 will be used to verify that a taxpayer is electing not to apply the look-back method to long-term contracts in de minimis cases. The Internal Revenue Service (IRS) uses Form 8697 to determine if the interest has been figured correctly.

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 wherever possible.

5. METHODS TO MINIMIZE BURDEN ON SMALL BUSINESSES OR OTHER SMALL ENTITIES

There are no small entities affected by this collection.

6. CONSEQUENCES OF LESS FREQUENT COLLECTION ON FEDERAL PROGRAMS OR POLICY ACTIVITIES

If the IRS did not collect this information, the taxpayer would not have the means to calculate the correct interest that would impact their tax liability and the revenue needed to support the Federal government.

7. SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)

There are no special circumstances requiring data collection to be inconsistent with Guidelines in 5 CFR 1320.5(d)(2).

8. CONSULTATION WITH INDIVIDUALS OUTSIDE OF THE AGENCY ON AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, CLARITY OF INSTRUCTIONS AND FORMS, AND DATA ELEMENTS

On February 16, 2001, a notice of proposed rulemaking (REG-105946-00) relating to a mid-contract change in taxpayer of a contract accounted for under a long-term

contract method of accounting was published in the *Federal Register* (66 FR 10643). Written comments were received from the public in response to the notice of proposed rulemaking. No public hearing was requested or held. After consideration of all comments, the proposed regulations are adopted as amended by TD 8995. The final regulations (TD 8995), was published in the *Federal Register* on May 15, 2002 (67 FR 34603).

Final regulations were published under TD 9137 on July 16, 2004 (69 FR 42551) that were necessary to resolve issues that were reserved in final regulations under section 460 published in May 15, 2002, addressing mid-contract changes in taxpayer engaged in completing such contracts.

REG-120844-07 (NPRM), was published in the *Federal Register* on August 4, 2008 (73 FR 45180). This document contains proposed regulations amending the regulations under § 1.460 to provide guidance to taxpayers in the home construction industry regarding accounting for certain long-term construction contracts that qualify as home construction contracts under section 460(e)(6) of the Internal Revenue Code (Code) and to provide guidance to taxpayers with long-term contracts under section 460(f) regarding certain changes in method of accounting for long-term contracts.

There was no new burden associated with this rule.

We received no comments during the comment period in response to the *Federal Register* notice dated October 16, 2012, (77 FR 63422).

The IRS received a comment in response to the Federal Register notice for the renewal of OMB No. 1545-1650, September 4, 2014 (79 FR 52808). The IRS is taking action at this time to consolidate information collection requirements under Internal Revenue Code § 460, as codified under §1.460, under a single OMB control number. The information collection requirements previously captured under #1545-1650 will now be covered under #1545-1732. Because of this consolidation effort, the IRS is providing the following response associated with #1545-1650 in this submission:

The comments received are outside the scope of the notice for comment for clearance under the PRA. The commenter argues against expansion of the reporting requirement, not the current requirement, and there are no plans for any such expansion.

In response to the *Federal Register* notice dated May 23, 2016 (81 FR 32385), no comments were received during the comment period.

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

No payment or gift has been provided to any respondents.

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

No personally identifiable information (PII) is collected.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

Under §1.460-6(g)(3)(ii)(D)(1): A taxpayer that has reported income from a long-term contract under the PCM (percentage-of-completion method) or PCCM (70/30 percentage-of-completion/capitalized cost method) for either regular or alternative minimum tax purposes is required to provide the following information to the taxpayer that has assumed that obligation as the result of certain nontaxable transactions:

(1) The portion of the contract reported by the old taxpayer under PCM for regular and alternative minimum tax purposes (i.e., whether the old taxpayer used PCM, the 40/60 PCCM method, or the 70/30 PCCM method);

(2) The submethod used to apply PCM (i.e., the simplified cost-to-cost method or the 10-percent method, or neither);

(3) The amount of total contract price reported by year;

(4) The numerator and the denominator of the completion factor by year;

(5) The due date (not including extensions) of the old taxpayer's income tax returns for each taxable year in which income was required to be reported;

(6) Whether the old taxpayer is a corporate or a noncorporate taxpayer; and

(7) Any other information required by the Commissioner by administrative pronouncement.

The information must be provided by the due date (not including extensions) of the first taxpayer's income tax return for the taxable year ending with, or the first taxable year ending after the transaction. Form 8697 is used to report the information to the IRS.

TD 8775 requires that the statement must have the legend "NOTIFICATION OF ELECTION UNDER SECTION 460(b)(6)"; provide the taxpayer's name and identifying number and the effective date of the election; and identify the trades or businesses that involve longterm contracts.

TD	OMB #	Affected CFR Section	# Respondents	# Responses Per Respondent	Total Annual Response	Hours Per Response	Total Burden
TD 8995	1545-1732	§1.460-6(g)(3)(ii)(D)(1)	5,000	1	5000	2	10,000
TD 8775	1545-1572	§1.460-6(j)	20,000	1	20000	0.2	4,000
TD 8929	1545-1650	§1.460-1	50,000	1	50000	0.25	12,500
Form 8697	1545-1031	§1.460	4,333	1	4333	16.75	72,578
			79,333	1	79333	1.248884449	99,078

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

There are no start-up costs associated with this collection.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

There are no estimated annualized costs to the Federal Government.

15. REASONS FOR CHANGE IN BURDEN

Regulations relating to Section 460(b)(6) of the Internal Revenue Code have been amended multiple times and the IRS has obtained separate OMB clearance for rulemaking actions affecting §1.460. At this time, the IRS is consolidating these information collections imposed by 26 U.S.C 460 under a single OMB control number. OMB control numbers 1545-1572, 1545-1650, and 1545-1031, will be merged under 1545-1732.

Form These regulations have been submitted to OMB at different times and received different approval numbers;
[TD 8775 - 1545-1572; TD 8929 - 1545-1650; TD 8995 and TD 9137 - 1545-1732;
8697 - 1545-1031]

16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

There are no plans for tabulation, statistical analysis and publication.

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 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 STATEMENT

There are no exceptions to the certification statement.

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.