

**SUPPORTING STATEMENT**  
**Final Amortization of Reforestation Expenditures**  
**TD 7927**  
**OMB Control Number 1545-0735**

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Prior to its amendment by the American Jobs Creation Act of 2004 (Act), section 194 permitted taxpayers to elect to amortize over an 84-month period up to \$10,000 of reforestation expenditures paid or incurred for all of the taxpayer's timber properties during the taxable year. In addition, as a component of the section 46 investment tax credit, section 48(b) provided a tax credit each year for 10 percent of up to \$10,000 of the costs eligible for amortization under section 194.

Effective October 22, 2004, the Act repealed the section 48(b) reforestation credit and amended section 194 by adding section 194(b), which permits a taxpayer, other than a married individual filing a separate return or a trust, to elect to currently deduct up to \$10,000 of the reforestation expenditures paid or incurred with respect to each qualified timber property (QTP) during the taxable year. Under section 194(a), reforestation expenditures in excess of \$10,000 may be also be amortized and deducted over an 84-month period.

Taxpayers who are members of a controlled group of corporations must allocate the section 194 deduction among themselves. Under section 1.194-2(b)(4) of the regulations, if a consolidated income tax return is not filed by all members of the controlled group, each member claiming a deduction under section 194 on a separate return must attach to its income tax return a copy of the allocation agreement and a statement describing how the \$10,000 deduction under section 194 was divided among the members of the controlled group.

Section 1.194-4(c) of the regulations provides for the revocation of an election under section 194. It specifies information to be provided in writing to the Commissioner for consent to revoke an election.

A taxpayer elects to claim a section 194 deduction by entering the deduction on the taxpayer's income tax return (Form 1040 for individuals and Form 1120 for corporations) or, for a taxpayer engaged in the trade or business of timber production, by claiming the deduction on the Form T. A taxpayer must attach a statement with the information required in section 1.194-4(a) of the regulations to support the determination that expenditures qualify under section 194.

2. USE OF DATA

The data is used by the Internal Revenue Service to verify that the taxpayer qualifies for the deduction being claimed under section 194.

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

The timber industry is largely conducted by large business taxpayers. However, to the extent that the regulations require information reporting, this reporting corresponds to standard record keeping practices in the timber industry so the additional burden for small business entities is minimal.

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

In order to support the amortization deduction, the taxpayer must attach a statement with the information required in section 1.194-4(a) of the Income Tax Regulations so that it may be determined if the expenditures qualify under section 194 for amortization. Taxpayers who are members of a controlled group of corporations must allocate the \$10,000 deduction among themselves under section 194 of the Code must attach to its income tax return, a copy of the allocation agreement and a statement describing how the \$10,000 deduction under section 194 was divided among the members of the controlled group. In addition, Section 1.194-4(c) of the regulations provides for the revocation of an election under section 194 of the Code. It specifies information to be provided in writing to the Commissioner for consent to revoke an election.

If this information is not collected, there would be no way to verify if the expenditures qualify under section 194 Internal Revenue Code, how the deduction is to be allocated, and whether or not the election has been revoked. This would result in unqualified deductions being claimed and may ultimately result in lost revenue and erroneous refunds being issued.

#### 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

These regulations were published in the *Federal Register* initially as both temporary regulations and as a Notice of Proposed Rulemaking on March 15, 1983. No public hearing was held. The regulations were published in the Federal Register as final regulations on December 16, 1983. No comments, either written or oral, had been received concerning the reporting requirement.

We received no comments during the comment period in response to the *Federal Register* notice dated August 5, 2016 (81 FR 51966).

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

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the "Individual Master File (IMF)" system and "Business Master File (BMF)". A Privacy Act System of Records notice (SORN) has been issued for this system under IRS 24.030--Customer Account Data Engine Individual Master File, formerly Individual Master File, Treas/IRS 24.046 BMF, and IRS 34.037--IRS Audit Trail and Security Records System. The Internal Revenue Service PIAs can be found at

<https://www.irs.gov/uac/Privacy-Impact-Assessments-PIA>

Title 26 USC 6109 requires inclusion of identifying numbers in returns, statements, or other documents for securing proper identification of persons required to make such returns, statements, or documents and is the authority for social security numbers (SSNs) in IRS systems.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

We estimate there will be 12,000 elections made each year to amortize certain reforestation expenditures, and that it will take .5 hours to complete the statement required by section 1.194-4(a) of the regulations. The total of 12,000 elections includes the number of elections expected to be made by controlled groups filing consolidated returns that are required by section 1.194-2(b)(4) to file the same statement that section 1.194-4(a) requires all electing taxpayers to file. Section 1.194-2(b)(4) also requires a separate statement of election to be filed by any member of a controlled group filing a separate return if a portion of the section 194 deduction of the group is allocated to it. The number of additional statements estimated to result from this requirement is negligible and is included in the overall estimate of 12,000 elections. Thus, the total burden estimated for filing the statement required to make the section 194 election is 6,000 hours.

Section 1.194-4(c) of the regulations provides that taxpayers may apply in writing to the Commissioner for consent to revoke an election under section 194 of the Code. It is estimated that no more than two will apply to revoke their elections and the required application will take .5 hours to complete. Thus the burden for applications for revocation is estimated to be 1 hour.

Therefore, the total reporting burden is estimated to be 6,001 hours annually.

Reporting respondents: 12,000

Hours per response: x .5

Total reporting burden: 6,000

Number of revocations: 2

Hours per statement: x .5

Total revocation burden: 1

Total burden: 6,001

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 is no annualized cost to the federal government.

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

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 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

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.