

SUPPORTING STATEMENT
Adjustments Following Sales of Partnership Interests
TD 8847
OMB Control Number 1545-1588

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Section 754 of the Code allows partnerships to make an election which requires adjustments to the basis of partnership property following certain transfers of partnership interests under §743.

Section 743(b) places the responsibility for making the basis adjustments on the partnerships. Nonetheless, while the partnerships are required to make and allocate the basis adjustments, under the regulations the transferee partners are required to report the basis adjustments. Transferee partners accomplish this by attaching statements to their returns that show how the § 743(b) adjustment was determined and how the adjustment was allocated among the various partnership properties.

The regulations clarify that partnerships are required to make the basis adjustments. In addition, the regulations shift the responsibility for reporting the basis adjustments from the transferee partners to the partnerships. Partnerships will report basis adjustments by attaching statements to their partnership returns when they acquire knowledge of transfers subject to § 743. In addition, partnerships are required to adjust specific partnership items in light of the basis adjustments. Consequently, amounts reported on the transferee partner's Schedule K-1 will be adjusted amounts.

2. USE OF DATA

The information collection enables the Internal Revenue Service to determine whether the amount of a partner's income tax liability has been correctly computed.

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 businesses or other small entities being affected by this collection as it strictly involves partnerships.

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

The consequences are that the IRS will have to spend more taxpayer assistance resources to collect this data through other means. This will compromise the Agency's ability to enforce tax compliance. Tax compliance is a vital part of the government's ability to meet its' mission and serve the public.

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**

A notice of proposed rulemaking was published in the *Federal Register* on January 29, 1998 (63 FR 4408). A public hearing was held on September 10, 1998. The final regulations (TD 8847), were published in the *Federal Register* on December 15, 1999 (64 FR 69903).

We received no comments during the comment period in response to the *Federal Register* notice dated September 30, 2016 (81 FR 67433).

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 return information are confidential as required by 26 USC 6103.

11. **JUSTIFICATION OF SENSITIVE QUESTIONS**

No Personally Identifiable Information (PII) is being collected.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

Section 1.732-1(c)(5) of the final regulations requires partnerships to provide transferees of partnership interests with such information as is necessary for the transferees properly to compute basis adjustments made under section 732(d). This information must be provided if a transferee notifies a partnership that it plans to make the election under section 732(d), or if a partnership makes a distribution subject to the mandatory application of section 732(d). We estimate that 1000 partnerships will be required to provide the information each year, and that it will take each partnership approximately 4 hours, on average to comply with the reporting requirement. The total burden for this reporting requirement is 4,000 hours.

Section 1.743-1(b) provides that a partnership must adjust the transferee partner's interest in the basis of partnership property. Because these basis adjustments will affect the partner's share of depreciation or amortization deductions and amounts of gain or loss on the disposition of certain items of partnership property, the partnership must prepare and maintain special entries on its books. However, in many cases, partnership books are maintained using computer software that can prepare and maintain these special entries after the initial year. We estimate that 150,000 partnerships will maintain the adjustments, and it will take each partnership approximately 4 hours, on average, to comply with the recordkeeping requirement. The total burden for this recordkeeping requirement is 600,000 hours.

Section 1.743-1(k)(1) provides that a partnership that must adjust the bases of partnership properties under section 743 must attach a statement to the partnership return for the year of the transfer setting forth the name and taxpayer identification number of the transferee as well as the computation of the adjustment and the partnership properties to which the adjustment has been allocated. We estimate 75,000 partnerships will be required to adjust the basis of partnership property each year and that it will take each partnership approximately 3 hours, on average to comply with the reporting requirement. The total burden for this reporting requirement is 225,000 hours.

Section 1.743-1(k)(2)(i) provides that a transferee that acquires, by sale or exchange, an interest in a partnership with an election under section 754 in effect must notify the partnership, in writing, within 30 days of the sale or exchange (or, if earlier, by January 15 of the calendar year following the calendar year in which the sale or exchange occurred). The written notice to the partnership must include the names and addresses of both parties to the sale or exchange, the taxpayer identification numbers of the transferee and (if known) of the transferor, the date of the transfer, and the amount of any money and the fair market value of any other property delivered for the transferred interest in the partnership. We estimate 37,500 partners will be required to provide the notice each year and that

it will take each partner approximately 1 hour, on average to comply with the reporting requirement. The total burden for this reporting requirement is 37,500 hours.

Section 1.743-1(k)(2)(i) provides that a transferee that acquires, on the death of a partner, an interest in a partnership with an election under section 754 in effect must notify the partnership, in writing, within one year of the death of the deceased partner. The written notice to the partnership must include the names and addresses of the deceased partner and the transferee, the taxpayer identification numbers of the deceased partner and the transferee, the date on which the transferee became the owner of the partnership interest, the fair market value of the partnership interest on the applicable date of valuation set forth in section 1014, and the manner in which the fair market value of the partnership interest was determined. We estimate 37,500 partners will be required to provide the notice each year and that it will take each partner approximately 1 hour, on average to comply with the reporting requirement. The total burden for this reporting requirement is 37,500 hours.

Section 1.751-1(a)(3) provides that a partner selling or exchanging any part of an interest in a partnership that has any section 751 property at the time of sale or exchange must submit with its income tax return for the taxable year in which the sale or exchange occurs a statement setting forth separately the: (i) The date of the sale or exchange; (ii) The amount of any gain or loss attributable to the section 751 property; and (iii) The amount of any gain or loss attributable to capital gain or loss on the sale of the partnership interest. This reporting requirement is approved under OMB #1545-0941.

We estimate the total annual burden to be 904,000 hours.

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

There is no start-up cost burden to respondents

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 leading taxpayers to believe that the regulation sunsets on 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.