

## **SUPPORTING STATEMENT**

Tip Reporting Alternative Commitment (Hairstyling Industry)  
OMB Control Number 1545-1529

### **1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

Tip Rate Determination/Education Program (TRD/EP) offers employers the opportunity of entering into one of two types of agreements with the Service. The Tip Rate Determination Agreement (TRDA) requires the determination of tip rates; the Tip Reporting Alternative Commitment (TRAC) agreement emphasizes education and tip reporting procedures. The agreements also set forth an understanding that employers that comply with the terms of the agreement will not be subject to challenge by the Service. The decision to enter into either a TRDA or a TRAC agreement is entirely voluntary on the part of the employer.

The business's requirements include (1) listing all of its establishments by name, address, and employer identification number (EIN); and furnishing names, addresses, and EINs of subsequently acquired establishments; (2) establishing an educational program for tipped employees; conducting training quarterly; and furnishing educational materials to booth renters and independent contractors; (3) establishing tip reporting procedures for employees; (4) maintaining records of gross receipts subject to tipping and charge receipts showing charged tips; and making available upon request quarterly totals of these records and of total charged tips and total tips reported; and (5) notifying the Service in writing if the business wishes to revoke the agreement.

### **2. USE OF DATA**

The information will be used to identify the business and establishments participating in the agreement and to monitor compliance with the agreement and the statutory tip reporting requirement.

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

IRS Publications, 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 agreements set forth an understanding that employers that comply with the terms of the agreement will not be subject to challenge by the Service. The TRDAs set forth similar

understandings with respect to employees as well who participate in the agreements. It is designed to enhance tax compliance among tipped employees through taxpayer education and voluntary advance agreements instead of traditional audit techniques. This potentially saves small businesses and entities going through the audit process, time and money.

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

If the information were collected less frequently, the consequences are that the IRS would have to spend more taxpayer assistance resources to collect this data through other means. This would 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**

Announcement 2000-21 was published in the Internal Revenue Bulletin on May 8, 2000 (2000-19 IRB 983).

In response to the *Federal Register* Notice dated September 1, 2016 (81 FR 60407), we received no comments during the comment period regarding this TRAC.

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 U.S.C. 6103.

11. **JUSTIFICATION OF SENSITIVE QUESTIONS**

No PII (Personally Identifiable Information) is being collected.

## 12. ESTIMATED BURDEN OF INFORMATION COLLECTION

(1) Section II.B.3 requires information about subsequently acquired establishments that will participate in the agreement.

We estimate that each business will acquire an average of 1 establishment annually. We estimate that it will take an average of 0.25 hours to prepare and submit the document. The total estimated reporting burden is 100 hours (400 businesses x 1 document/year x 0.25 hours).

(2) In the event of a change in ownership or control of the business or one of its establishments, section II.B.4 requires information about the acquiring entity. We estimate that an average of 8 businesses or establishments will undergo a change in ownership or control annually and that it will take an average of 0.25 hours to prepare and submit each document. The total estimated reporting burden is 2 hours (8 businesses x 0.25 hours).

(3) Section III.A requires the business to institute and maintain for each calendar quarter an educational program that trains newly hired employees and periodically updates existing employees as to their reporting obligations with respect to tip income received as either cash tips or charged tips.

We estimate that each establishment will spend an average of 2 hours annually conducting the educational program. The total estimated burden is 5,200 hours (2,600 establishment x 2 hours).

(4) Section III.B.3 requires the business to maintain certain records. Section III.B.4 requires the business to make certain quarterly totals available, by establishment, upon the request of the Service.

We estimate that it will take each establishment an average of 0.2 hours each month to maintain the records. We estimate that the Service will request quarterly totals from an average of 80 establishments each year and that it will take each establishment 0.3 hours to furnish the totals. The total estimated reporting burden is 6,264 hours ((2,600 establishments x 0.2 hours x 12 months) + (80 establishments x 0.3 hours)).

(5) Section III.C requires each establishment to establish a procedure under which a written or electronic statement is prepared and processed on a regular basis (no less frequently than monthly), reflecting all tips for services attributable to each directly tipped employee.

We estimate that it will take each of the 2,600 establishments 0.4 hours each month to monitor its tip reporting procedures. The total estimated burden is 12,480 hours (2,600 establishments x 0.4 hours x 12 months).

(6) Section V.B permits the business to revoke the agreement by so notifying the Service in writing.

We estimate that 1 business will revoke its agreement each year and that it will take the business 0.25 hours to prepare and submit the notice of revocation. The total estimated reporting burden is 0.25 hours (1 business x 0.25 hours), rounded to 1 hour.

(7) Section I.C requires a list of the business's establishments, if any, that will participate in the agreement and similar information for any additional establishments to be subsequently included in the agreement.

We estimate that 200 businesses will enter into an agreement annually and that 50 businesses will each add 1 new establishment annually. We estimate that it will take an average of 0.25 hours to prepare and submit each document. The total estimated reporting burden is 63 hours ((200 businesses x 1 document/year x 0.25 hours = 50 hours) + (50 businesses x 1 document/year x 0.25 hours = 12.5 hours, rounded up to 13 hours)).

(8) Section II.A.1 requires the business to institute and maintain an educational program that trains newly hired employees and quarterly updates existing employees as to their reporting obligations with respect to tip income received as either cash tips or charged tips. Section II.B.1 requires each business to furnish educational materials annually to its booth renters and independent contractors.

We estimate that it will take 200 businesses an average of 20 hours to implement an educational program, 1,400 establishments 2 hours annually to conduct the educational program, and 700 establishments 0.1 hours annually to furnish the educational materials. The total estimated burden is 6,870 hours ((200 businesses x 20 hours = 4,000 hours) + (1,400 establishments x 2 hours = 2,800 hours) + (700 establishments x 0.1 hours = 70 hours)).

(9) Section II.A.2 requires each establishment to establish a procedure under which a written or electronic statement is prepared and processed on a regular basis (no less frequently than monthly), reflecting all tips for services attributable to each directly tipped employee.

We estimate that it will take each of the 200 businesses an average of 10 hours to establish its procedures. We estimate that it will take each of the 1,400 establishments 0.4 hours each month to monitor its tip reporting procedures. The total estimated burden is 8,720 hours ((200 businesses x 10 hours = 2,000 hours) + (1,400 establishments x 0.4 hours x 12 months = 6,720 hours)).

(10) Section II.C.2 requires the business to maintain certain records. Section II.C.3 requires the business to make certain quarterly totals available, by establishment, upon the request of the Service. Section II.C.4 requires the business to make certain lists of workers available upon the request of the Service.

We estimate that it will take 1,400 establishments an average of 0.2 hours each month to maintain the records. We estimate that the Service will request quarterly totals and worker lists from an average of 40 establishments each year and that it will take each establishment 0.3 hours to furnish the totals and lists. The total estimated reporting burden is 3,372 hours ((1,400 establishments x 0.2 hours x 12 months = 3,360 hours) + (40 establishments x .3 hours = 12 hours)).

(11) Section IV.A. permits the business to terminate the agreement by so notifying the Service in writing.

We estimate that 1 business will terminate its agreement each year and that it will take the business 0.25 hours to prepare and submit the notice of termination. The total estimated reporting burden is 0.25 hours (1 business x 0.25), rounded to 1 hour.

The total of all the estimated burdens is 43,073 hours (9,803 hrs. reporting and 33,270 hrs. recordkeeping). The agency estimates there will be 4,600 responses.

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

There is no annual start-up cost 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 TRAC 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.