

SUPPORTING STATEMENT
Internal Revenue Service

**T.D. 8556 - Computation and Characterization of Income and Earnings and Profits Under the Dollar
Approximate Separate Transactions Method of Accounting (DASTM)
OMB No. 1545-1051**

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Under the regulatory authority granted by Internal Revenue Code §985(b)(3), the regulations provide that a taxpayer operating in a hyperinflationary environment must use the United States dollar (dollar) as its functional currency, even though under the rules provided in section 985(b) (1) and (2) the entity's functional currency is not the United States dollar. Treasury Regulation Section 1.985-3 provides that the dollar must be used as the functional currency for an entity operating in a hyperinflationary environment for taxable years beginning after the final regulations. This is necessary because requiring an entity to compute its gain or loss in a hyperinflationary environment under the profit and loss method does not accurately measure gain or loss of the entity, since that gain or loss reflects compensation or payment for anticipated inflation (i.e., capital). The regulations describe how to allocate and apportion the currency gain or loss that is compensation or payment for anticipated inflation and how to compute income using the dollar approximate separate transactions method (DASTM). Small taxpayers falling at or below an assets threshold may elect to compute their gain or loss using an alternate computation. A separate election is provided for those taxpayers choosing to use the dollar as their functional currency for a prior taxable year.

2. USE OF DATA

The information is to be used by the IRS to determine (1) which taxpayers have elected to use the dollar as functional currency for past taxable years and, thus, properly reported gain or loss or (2) which small taxpayers have elected to use the alternate computation. If the information is not collected, taxpayers could take inconsistent positions from one year to the next (or among related parties--our rules require consistency among related parties) since there would be no verification of whether the election was made.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

There is no plan to offer electronic filing for this collection due to the low volume of filers. 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

The information obtained through this collection is unique and is not already available for use or adaptation from another source.

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

Section 1.985-3(e)(2) of the regulation provides a simpler method of allocating and apportioning DASTM gain or loss for small taxpayers with assets having an adjusted basis of \$10 million or less.

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

If the Internal Revenue Service (IRS) did not collect this information, the IRS will not be able to determine (1) which taxpayers have elected to use the dollar as functional currency for past taxable years and, thus, properly reported gain or loss or (2) which small taxpayers have elected to use the alternate computation. If the information is not collected, taxpayers could take inconsistent positions from one year to the next (or among related parties--our rules require consistency among related parties) since there would be no verification of whether the election was made.

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 July 17, 1991 (56 FR 32525). A public hearing was held on September 13, 1991. Final regulations (INTL-29-91) were published in the *Federal Register* on July 25, 1994 (59 FR 37669).

In response to the Federal Register notice dated March 1, 2017 (82 FR 12277), we received no comments during the comment period regarding TD 8556.

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

- A. PRIOR YEAR ELECTION. Section 1.985-3(a) provides that the dollar election for previous taxable years is to be made on the U.S. person's tax return for a branch or by filing the written statement with the Philadelphia Service Center for other entities. The election is a one-time election which only applies retroactively; prospectively, a taxpayer which would otherwise use a hyperinflationary currency will be required to use the dollar as its functional currency. We estimate that about 1,000 entities operate in hyperinflationary countries that will be subject to the rules of §985. Out of those 1,000, we estimate that 600 will make the election for a prior taxable year and that it will take .75 hour to prepare the election. The burden is 450 hours.
- B. Section 1.985-2(c)(2)(iii) (of the regulations as finalized in 1989) provides that, prior to filing the written statement in section 1.985-3(a), shareholders of electing corporations must be notified of the election. This notification does not apply to electing branches of United States corporations that operate in hyperinflationary countries but only to electing foreign corporations that operate in hyperinflationary countries. Therefore, we estimate that of the 600 electing entities only 400 (the electing corporate entities) will be required to make this notice. Since almost all United States owned corporate entities in hyperinflationary countries are wholly owned, we estimate that two notices per corporate entity will be required and that it will take .5 hours to prepare the notice. The burden is 400 hours.
- C. SMALL TAXPAYER ELECTION. Section 1.985-3(e)(2) provides that a small taxpayer with assets having an adjusted basis of \$10 million or less may elect to allocate and apportion its currency gain or loss based on the gross income in the section 904(d) separate categories (the "alternate computation"). This one-time election is made on the U.S. person's tax return for a branch or by filing the written statement with the Philadelphia Service Center for other entities. Of the 1,000 entities subject to the rules of §985, we estimate that 200 will have assets at or below the threshold and that 100 of them will elect to use the alternate computation. We estimate that it will take .75 hours to prepare the election. The burden is 75 hours.
- D. Section 1.985-3(2)(iii)(B) provides that prior to filing the written statement to elect the alternate computation, shareholders of electing corporations must be notified of the election. This notification does not apply to electing branches of United States corporations that operate in hyperinflationary countries but only to electing foreign corporations that operate in hyperinflationary countries. Therefore, we estimate that of the 100 electing entities, only 75 (the electing corporate entities) will be required to make this notice. Since almost all United States owned corporate entities in hyperinflationary countries are wholly owned, we estimate that two notices per

corporate entity will be required and that it will take .5 hours to prepare the notice. The burden is 75 hours.

Authority	Description	# of Respondents	# Responses per Respondent	Annual Responses	Hours per Response	Total Burden
1.985-3(a)	Prior year election	600	1	600	.75	450
1.985-2(c)(2)(iii)	SH notification	Part of above(400)	2	800	.5	400
1.985-3(e)(2)	Small TP election	100	1	100	.75	75
1.985-3(2)(iii)(B)	Electing foreign Corp	Part of above(75)	2	150	.5	75
Totals		700		1650		1000

Estimates of the annualized cost to respondents for the hour burdens shown are not available at this time.

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 known annualized costs 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 for this collection.

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.