

SUPPORTING STATEMENT  
Internal Revenue Service  
TD 8696, Definitions Under Subchapter S of the Internal Revenue Code  
OMB # 1545-1462

**1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

Treasury Regulation Section 1.1377-1(b)(5) provides that an S corporation makes an election under section 1377(a)(2) (election to terminate year) by attaching a statement to its timely filed original or amended return required to be filed under Internal Revenue Code section 6037(a) (a Form 1120S) for the taxable year during which a shareholder's entire interest is terminated. The statement must provide, among other things, information concerning the events that gave rise to the election and declarations of consent from the S corporation and all affected shareholders.

**2. USE OF DATA**

In order for the Internal Revenue Service to ensure that an S corporation making an election to terminate year does so properly and receives the required shareholder consents, it is necessary that this information be submitted. The information will then be used by the Internal Revenue Service in the event of an audit to determine if the taxpayer is complying with the law by properly treating its taxable year as two separate taxable years for all affected shareholders for purposes of allocating items of income, loss, deduction, and credit; making adjustments to the accumulated adjustments account, earnings and profits, and basis; and determining the tax effect of a distribution.

**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. We have no plans to offer electronic record keeping because this is record keeping requirements.

**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**

There is no flexibility to reduce burden on small businesses or other small entities because the statutes apply to small businesses and small entities.

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

A less frequent collection would not allow the IRS to determine if the taxpayer is complying with the law by properly treating its taxable year as two separate taxable years for all affected shareholders for purposes of allocating items of income, loss, deduction, and credit; making adjustments to the accumulated adjustments account, earnings and profits, and basis; and determining the tax effect of a distribution thereby hindering the IRS from meeting its mission.

The election is an opt-in that can be made only when a shareholder terminates its entire interest in the S corporation and the S corporation and all affected shareholders agree to the election to terminate year. The requested information is collected once; there is no continuing reporting requirement.

**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**

We received no comments during the comment period in response to the Federal Register Notice dated April 7, 2017 (82 FR 17088).

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

No payment of gift has been provided to respondents.

**10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES**

Generally, tax returns and tax return information are confidential as required by 126 U.S.C. 6103.

**11. JUSTIFICATION OF SENSITIVE QUESTIONS**

No personally identifiable information is collected.

**12. ESTIMATED BURDEN OF INFORMATION COLLECTION**

Section 1.1377-1(b)(5) of the regulation provides that an S corporation making an

election to terminate year must attach a statement to its return providing (1) a declaration of the election, (2) information regarding the events that gave rise to the election, (3) an authorized signature on behalf of the S corporation that may be satisfied by the signature on the Form 1120S filed by the S corporation, and (4) a statement by the S corporation that the S corporation and each affected shareholder consent to the election. We estimate that 4,000 S corporations will be affected by this provision and that it will take an average of 15 minutes to submit the required information. The total burden of this reporting requirement is 1,000 hours.

Authority	Description	# of Respondents	# Responses per Respondent	Annual Responses	Hours per Response	Total Burden
1.1377-1(b)(5)	Separate tax years	4,000	1	4,000	.25	1,000

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

To ensure more accuracy and consistency across its information collections, IRS is currently in the process of revising the methodology it uses to estimate burden and costs. Once this methodology is complete, IRS will update this information collection to reflect a more precise estimate of burden and costs.

**14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT**

To ensure more accuracy and consistency across its information collections, IRS is currently in the process of revising the methodology it uses to estimate burden and costs. Once this methodology is complete, IRS will update this information collection to reflect a more precise estimate of burden and costs.

**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. EXCEPTION TO CERTIFICATION STATEMENT**

There is no exception 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.