

**SUPPORTING STATEMENT  
Internal Revenue Service**

**Source of Income From Sales of Inventory and Natural Resources Produced in One Jurisdiction and Sold  
in Another Jurisdiction  
INTL-0003-95 (TD 8687)  
OMB No. 1545-1476**

**1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

Section 863(a) authorizes the Secretary to promulgate regulations allocating and apportioning to U.S. or foreign sources all items of income not described in sections 861 and 862. The regulations provide rules for determining the amount of U.S. or foreign source income from cross-border sales. The regulations provide amendments to the existing regulations. Section 1.863-1(b)(6) requires a statement to be attached to a return explaining the methodology used to determine fair market value and any additional production activities performed by the taxpayer, and §1.863-3(e)(2) requires a taxpayer who uses a method to determine income attributed to production activities and sales (as described in §1.863-3(b)), must fully explain in a statement attached to the return the methodology used, the circumstances justifying use of that methodology, the extent that sales are aggregated, and the amount of income allocated. This information is used to enable the IRS to determine if the taxpayer has properly determined the source of its income.

**2. USE OF DATA**

The information is used by the IRS in the administration of the Internal Revenue laws to determine on audit whether the taxpayer has properly determined the source of its income from export sales.

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

We have no plans to offer electronic filing. 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**

The collection of information requirement will not have a significant economic impact on a substantial number of small entities.

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

If this information is collected less frequently it 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**

A notice of proposed rulemaking (NPRM) was published in the *Federal Register* on December 11, 1995, as INTL-0003-95. Final regulations were published on November 29, 1996, at 61 FR 60540, as TD 8687.

In response to the *Federal Register* notice dated April 19, 2017 (82 FR 18535), we received no comments during the comment period regarding INTL-0003-95 (TD 8687).

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**

(1) Section 1.863-1(b) provides rules governing how a taxpayer is to determine the source of its income from the ownership or operation of natural resources located within or outside the United States. Section 1.863-1(b)(6) requires a taxpayer determining the source of its income under section 1.863-1(b) to fully explain the methodology used in a statement attached to the tax return. Certain taxpayers who engage in substantial additional production in addition to the activities of owning and operating natural resources can determine the source of their income under §1.863-1(b)(1)'s export terminal rule or under §1.863-1(b)(2)'s additional production rule. Taxpayers who determine the source of their income under either of these rules must disclose under §1.863-1(b)(6) how they determine the fair market value of the natural resources at either the export terminal or the point of additional production, depending upon which rule applies. Taxpayers performing additional production prior to the export terminal or in a country other than the place of export or the

place of sale must in addition comply with the disclosure requirements in §1.863-3(e)(2). We estimate that approximately 25 taxpayers will be affected by this requirement and that it will take approximately 5 hours to prepare this information. The burden for this requirement is 125 hours.

- (2) Section 1.863-3(e)(2) requires taxpayers to fully explain the methodology used to determine the source of their income, the extent sales are aggregated, and the amount of their U.S. or foreign source income on a statement attached to their tax return. We estimate that approximately 425 taxpayers will be affected by this requirement and that it will take approximately 2.65 hours to prepare this information. The total burden for this requirement is 1,125 hours.

CFR Section	No. Respondents	No. Responses Per Respondent	Total Annual Responses	Hours Per Response	Total Burden
1.863-1(b)(6) Allocation of gross income under section 863(a); tax disclosure	25	1	25	5	125
1.863-3(e)(2)Allocation and apportionment of income from certain sales of inventory; Disclosure on tax return	425	1	425	2.65	1,125
Totals	450	1	450	2.78	1,250

**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 to the paperwork burden previously approved by OMB.

**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.