

SUPPORTING STATEMENT
Internal Revenue Service
Adjustments to Basis of Stock and Indebtedness to Shareholders of S Corporations and Treatment of
Distributions by S Corporations to Shareholders
(1545-1139)

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

This document contains final regulations under section 1367 of the Internal Revenue Code relating to adjustments to the basis of a shareholder's stock in an S corporation and the basis of indebtedness of an S corporation to a shareholder. This document also contains final regulations under section 1368 of the Internal Revenue Code relating to the treatment of distributions by an S corporation to its shareholders.

Changes to the applicable law were made by the Subchapter S Revision Act of 1982, the Technical Corrections Act of 1982, the Tax Reform Act of 1984, and the Tax Reform Act of 1986. The final regulations affect S corporations and their shareholders and are necessary to provide them with the guidance they need to comply with the applicable tax law.

2. USE OF DATA

The reporting requirements are to be performed by shareholders receiving distributions from S corporations and by shareholders disposing of their S corporation stock. The information is necessary in order to insure proper calculation of the tax liability arising from these transactions.

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. IRS intends to offer electronic filing to the extent it is practicable however in this case it isn't practicable because of the evaluative nature of the determination.

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

Elections are voluntary, made at the S corporation's discretion. A less frequent collection will not enable the IRS to verify that the S corporation's election has been made in accordance with the adjustments to basis of stock of shareholders and the distributions sections of the Internal Revenue Code hindering the IRS from meeting its mission.

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 C.F.R 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

In response to the Federal Register notice (82 FR 47606), dated October 12, 2017, we received no comments during the comment period regarding these regulations.

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

There is no sensitive personally identifiable information (PII) in this collection.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

The burden for the election under 1.1368-1(f)(4) to forego previously taxed income in characterizing distributions is included in the burden of Form 1120S.

Authority	Description	# of Respondents	# Responses per Respondent	Annual Responses	Hours per Response	Total Burden
1.1368-1(f)(2)	Elect to distribute before accumulated earnings account	1000	1	1000	.1	100
1.1368-1(f)(3)	Elect to distribute before dividends	750	1	750	.1	75
1.1368-1(g)(2)(i)	Elect taxable years as separate when qualifying distribution	250	1	250	.1	25
1.1367-1(f)	Included in 1545-0074	0		0	0	0
TD 9428	\$10,000 limit record maintain	250	1	250	1	250
Totals		2250		2250		450

Section 1.1368-1(f)(2) allows an S corporation to elect to distribute earnings and profits before the accumulated adjustments account. We estimate that approximately 1,000 S corporations will make this election and that each election will take .1 hour to complete. Total burden: 100 hours.

Section 1.1368-1(f)(3) allows an S corporation to elect to distribute earnings and profits before the accumulated adjustments account by utilizing a deemed dividend. We estimate that approximately 750 S corporations will make the election and that each election will take .1 hour to complete. Total burden: 75 hours.

Section 1.1368-1(g)(2)(i) allows an S corporation to elect to treat the corporation's taxable year as if it consisted of separate taxable years if there is a qualifying disposition. A qualifying disposition is any disposition of 20 percent or more of the stock of the S corporation in one or more transactions during any thirty-day period during the S corporation's taxable year. We estimate that approximately 250 S corporations will make this election and each election will take .1 hour to complete. Total burden: 25 hours.

Section 1.1367-1(f) allows an S corporation's shareholders to elect to decrease basis for losses and deductions before noncapital, nondeductible expenses if each shareholder agrees to carry over to the succeeding taxable years any noncapital, nondeductible expenses in excess of basis. The burden for the election under 1.1367-1(f) is included in the burden of Form 1040 or Form 1041.

This NPRM TD 9428, will require shareholders of an S corporation with open account debt to maintain records sufficient to verify that the open account debt does not exceed \$10,000 at the close of any day during the S corporation's taxable year. This modifies PS-264-82. The estimated burden per recordkeeper varies from 0.75 hours to 1.25 hours, depending on individual circumstances, with an estimated average of 1 hour. The estimated number of recordkeepers is 250, which brings the total number of responses to 2,250.

The estimated total annual recordkeeping burden is 250 hours, which results in a total of 450 burden hours. Estimates of the annualized cost to respondents for the hour burdens are not available at this time.

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 revisiting 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 revisiting 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

IRS believes that displaying the OMB expiration date is inappropriate because it could cause confusion by leading taxpayers to believe that the form and/or 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.