

**SUPPORTING STATEMENT**  
**Internal Revenue Service (IRS)**  
**Product Liability Losses and Accumulations for Product Liability Losses**  
**Notice 2005-32**  
**OMB Number 1545-1939**

**CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

The American Jobs Creation Act of 2004, P.L. 108-357, 118 Stat. 1418 (the Act), was enacted on October 22, 2004. The Treasury Department and the Internal Revenue Service intend to issue regulations implementing §§ 833 and 834 of the Act, which amended §§ 704, 734, 743, and 6031 of the Internal Revenue Code. This notice provides interim procedures for partnerships and their partners to comply with the mandatory basis provisions of §§ 734 and 743, as amended by the Act. This notice also provides interim procedures for electing investment partnerships (EIPs) and their partners to comply with §§ 743(e) and 6031(f), as provided in § 833(b) of the Act.

Section 1.734-1(d) requires that a partnership adjust the bases of partnership properties under section 734 and shall attach a statement to the partnership return for the year of the distribution setting forth the computation of the adjustment and the partnership properties to which the adjustment has been allocated.

1.743-1(k)(1) states that a [partnership](#) that must adjust the bases of [partnership](#) properties under section 743(b) must attach a [statement](#) to the [partnership](#) return for the [year](#) of the [transfer](#) setting forth the [name](#) and [taxpayer identification](#) number of the [transferee](#) as well as the [computation](#) of the adjustment and the [partnership](#) properties to which the adjustment has been allocated.

1.743-1(k)(2) Requirement that transferee notify partnership -

A transferee that acquires, by sale or exchange, an interest in a partnership with an election under section 754 in effect for the taxable year of the transfer, must notify the partnership, in writing, within 30 days of the sale or exchange. The written notice to the partnership must be signed under penalties of perjury and must include the names and addresses of the transferee and (if ascertainable) of the transferor, the taxpayer identification numbers of the transferee and (if ascertainable) of the transferor, the relationship (if any) between the transferee and the transferor, the date of the transfer, the amount of any liabilities assumed or taken subject to by the transferee, and the amount of any money, the fair market value of any other property delivered or to be delivered for the transferred interest in the partnership, and any other information necessary for the partnership to compute the transferee's basis.

A transferee that acquires, on the death of a partner, an interest in a partnership with an election under section 754 in effect for the taxable year of the transfer, must notify the partnership, in writing, within one year of the death of the deceased partner. The written notice to the partnership must be signed under penalties of perjury and must include the names and

addresses of the deceased partner and the transferee, the taxpayer identification numbers of the deceased partner and the transferee, the relationship (if any) between the transferee and the transferor, the deceased partner's date of death, the date on which the transferee became the owner of the partnership interest, the fair market value of the partnership interest on the applicable date of valuation set forth in section 1014 or section 1022, the manner in which the fair market value of the partnership interest was determined, and the carryover basis as adjusted under section 1022 (if applicable).

If a partnership interest is transferred to a nominee which is required to furnish the statement under section 6031(c)(1) to the partnership, the nominee may satisfy the notice requirement contained in this paragraph (k)(2) by providing the statement required under § 1.6031(c)-1T, provided that the statement satisfies all requirements of § 1.6031(c)-1T and this paragraph (k)(2).

1.743-1(k)(5) (5) requires that; if the transferee fails to provide the partnership with the written notice required by paragraph (k)(2) of this section, the partnership must attach a statement to its return in the year that the partnership is otherwise notified of the transfer. This statement must set forth the name and taxpayer identification number (if ascertainable) of the transferee. In addition, the following statement must be prominently displayed in capital letters on the first page of the partnership's return for such year, and on the first page of any schedule or information statement relating to such transferee's share of income, credits, deductions, etc.: "RETURN FILED PURSUANT TO § 1.743-1(k)(5)." The partnership will then be entitled to report the transferee's share of partnership items without adjustment to reflect the transferee's basis adjustment in partnership property. If, following the filing of a return pursuant to this paragraph (k)(5), the transferee provides the applicable written notice to the partnership, the partnership must make such adjustments as are necessary to adjust the basis of partnership property (as of the date of the transfer) in any amended return otherwise to be filed by the partnership or in the next annual partnership return of income to be regularly filed by the partnership. At such time, the partnership must also provide the transferee with such information as is necessary for the transferee to amend its prior returns to properly reflect the adjustment under section 743(b).

The notice also requires the partner who sells the partnership interests in an electing investment partnership to provide certain information to the partnership and the partner who buys the partnership interests. An electing investment partnership is required to inform its partners of the electing investment partnership status. These third-party data collections are necessary to implement the partner-lever loss limitation rules under §743(e).

#### **USE OF DATA**

The data collected under §§ 734 and 743 will be used by the Service to monitor whether the partnerships required to make the mandatory basis adjustment under those sections correctly make the necessary basis adjustments. The data in the statement filed to make an election under § 743(e) will be used to monitor the electing investment partnerships.

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

IRS publication, 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. The IRS no plans at this time to offer electronic filing because of the low volume compared to the cost of electronic enabling.

. **EFFORTS TO IDENTIFY DUPLICATION**

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

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

There is no burden on small businesses or other small entities due to the inapplicability of the authorizing statute to this type of entity.

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

The information required is needed to verify compliance of partnerships and partners, with the mandatory basis provisions of §§ 734 and 743, as amended by the Act. This notice also provides interim procedures for electing investment partnerships (EIPs) and their partners to comply with §§ 743(e) and 6031(f), as provided in § 833(b) of the Act. A less frequent collection of taxes and tax information could adversely affect the government's effectiveness and would reduce the oversight of the public in ensuring compliance with Internal Revenue Code and hinder 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 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**

In response to the Federal Register notice dated December 11, 2017 (82 FR 58275), 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**

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the “Business Master File (BMF)” system and a Privacy Act System of Records notice (SORN) has been issued for this system under IRS 24.046-Customer Account Data Engine Business Master File. The Internal Revenue Service PIAs can be found at <https://www.irs.gov/uac/Privacy-Impact-Assessments-PIA>

Title 26 USC 6109 requires inclusion of identifying numbers in returns, statements, or other documents for securing proper identification of persons required to make such returns, statements, or documents and is the authority for social security numbers (SSNs) in IRS systems.

This is an attachment to the Federal tax return created by the respondent. The Privacy Act statement associated with this attachment is listed in the Federal tax return instructions.

**12. ESTIMATED BURDEN OF INFORMATION COLLECTION**

The total estimated average annual burden varies from 0.05 hours to 3 hours with a total estimated average burden of 2.07 hours on 266,400 respondents and/or recordkeepers for a total of 552,100 hours annually.

The table below shows the detailed estimates of the annual burdens:

	Description	# Respondents	# Responses Per Respondent	Total Annual Responses	Hours Per Response	Total Burden
1.734-1(d)	Optional adjustment to basis of undistributed partnership property - Return statement	50,000	1	50,000	3	150,000
1.743-1(k)(1)	Statement of adjustments	100,000	1	100,000	3	300,000
1.743-1(k)(2)	Requirement that transferee notify partnership - statement	100,000	1	100,000	1	100,000
1.743-1(k)(5)	Effect on partnership of the	10,000	1	10,000	.05	500

	failure of the transferee to comply - statement					
743(e)	Alternative rules for electing investment partnerships	6,400	1	6,400	.25	1,600
		266,400	1	266,400		522,100

**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.

**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**

The IRS believes 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.