

SUPPORTING STATEMENT
Internal Revenue Service
Form 970
Application to Use LIFO Inventory Method
OMB Control No. 1545-0042

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Form 970 is filed by individuals, partnerships, estates or trusts, or corporations to request permission to change their method of accounting for inventory to the last-in first-out (LIFO) method.

Section 472 (26 USC 472) Last In, First Out(LIFO) inventory method allows the matching of the current sales price of goods against the seller's current cost of replacing those goods in inventory. LIFO assumes goods which are the last goods added are the first goods sold and those which are acquired early or sold last.

2. USE OF DATA

Form 970 is filed with income tax returns that elect to use the last-in, first-out (LIFO) inventory method described in section 472.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

We are currently offering electronic filing on Form 970.

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 minimal to no burden on small businesses or entities by this collection due to the inapplicability of the authorizing statute under section 472 to this type of entity.

6. CONSEQUENCES OF LESS FREQUENT COLLECTION ON FEDERAL PROGRAMS

OR POLICY ACTIVITIES

A less frequent collection would not allow IRS to determine if the first method of accounting elected was the last-in, first-out (LIFO) inventory method. A change to the LIFO method of inventory could reduce taxable income and the tax paid by a business. The IRS wants to know when there is a change to the inventory method. The method elected could alter the cost of goods sold which is often a significant expense for a business. A change of inventory is a bookkeeping change that could impact the tax liability.

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

Periodic meetings are held between IRS personnel and representatives of the American Bar Association, the National Society of Public Accountants, the American Institute of Certified Public Accountants, and other professional groups to discuss tax law and tax forms. During these meetings, there is an opportunity for those attending to make comments regarding Form 970.

In response to the *Federal Register* notice (85 FR 6263), dated February 04, 2020, we received no comments during the comment period regarding Form 970.

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 <http://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.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

Form 970 is filed with income tax returns that elect to use the last-in, first-out (LIFO) inventory method described in section 472.

Authority	Form Number	Description	Number of Respondents	Number of Responses per Respondent	Annual Responses	Hours per Response	Total Burden
§ 472	Form 970	Reporting Requirements	2000	1	2000	13.22	26,440
§ 472	Form 970	Recordkeeping Requirements	2000	1	2000	7.89	15,780
Totals			2000	1	2000		42,220

Form 970 is used by shareholders, individuals, businesses, and other taxpayers. The estimate of burden that is being reported under 1545-0042 reports only the burden imposed on shareholders and other taxpayers. The portion of the burden imposed on individual taxpayers is approved and reported under OMB Control Number 1545-0074. The portion of the burden imposed on businesses is approved and reported under OMB Control Number 1545-0123.

The following regulations impose no additional burden. Please continue to assign OMB number 1545-0042 to these regulations.

1.472-1
1.472-3

1.472-8

We have reviewed these regulations and have determined that the reporting requirements contained in them are entirely reflected on the form. The justification appearing in item 1 of the supporting statement applies to both these regulations and Form 970.

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

After consultation with various functions within the Service, we have determined that the cost of developing, printing, processing, distributing and overhead for this form is \$12,758.

The Federal government cost estimate is based on a model that considers the following three cost factors for each information product: aggregate labor costs for development, including annualized start up expenses, operating and maintenance expenses, and distribution of the product that collects the information.

The government computes cost using a multi-step process. First, the government creates a weighted factor for the level of effort to create each information collection product based on variables such as; complexity, number of pages, type of product and frequency of revision. Second, the total costs associated with developing the product such as labor cost, and operating expenses associated with the downstream impact such as support functions, are added together to obtain the aggregated total cost. Then, the aggregated total cost and factor are multiplied together to obtain the aggregated cost per product. Lastly, the aggregated cost per product is added to the cost of shipping and printing each product to IRS offices, National

Distribution Center, libraries and other outlets. The result is the Government cost estimate per product.

The government cost estimate for this collection is summarized in the table below.

Product	Aggregate Cost per Product (factor applied)	Printing and Distribution	Government Cost Estimate per Product
Form 970	\$12,758	\$0	\$12,758
Grand Total	\$12,758	\$0	\$12,758
Table costs are based on 2019 actuals obtained from IRS Chief Financial Office and Media and Publications			
* New product costs will be included in the next collection update.			

15. REASONS FOR CHANGE IN BURDEN

There is no change to the burden previously approved by OMB. This submission is for renewal purposes.

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 form sunset 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.