

## **SUPPORTING STATEMENT**

### **Internal Revenue Service**

Capitalization of Interest

OMB No. 1545-1265

#### **1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

The uniform capitalization rules of section 263A (26 U.S.C. 263A) generally require the capitalization of certain costs relating to the acquisition of property for resale or the production of property. Interest is a cost subject to section 263A. Section 263A (f) provides special rules for capitalizing interest.

In general, section 263A (f) limits the capitalization of interest to interest that is paid or incurred during the production period of certain property (referred to as designated property). Designated property includes all real property and certain tangible personal property. The amount of interest required to be capitalized is determined using the avoided cost method. Under the avoided cost method, interest on any indebtedness directly attributable to production expenditures for designated property (traced debt) is capitalized first.

The regulations require taxpayers (individuals and corporations), to maintain contemporaneous written records of estimates, to file a ruling request to segregate activities in applying the interest capitalization rules, and to request the consent of the Commissioner to change their methods of accounting for the capitalization of interest.

#### **2. USE OF DATA**

The records required to be maintained will be used in auditing taxpayers. The information reported will be used to evaluate the appropriateness of granting consent to change methods of accounting.

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

We have no plans to offer electronic filing because this is mainly a record keeping requirement, and there is a low number of filers for the reporting requirement.

#### **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**

Section 263A (f) limits the capitalization of interest to interest that is paid or incurred during the production period of certain property (referred to as designated property).

Failure to collect the information will prevent taxpayers from properly complying and/or reporting with the requirements outlined in section 263A of the Code and result in the IRS being unable to meet its mission requirements.

**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 (85 FR 4356), dated January 24, 2020.

**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 PII requested in this collection.

**12. ESTIMATED BURDEN OF INFORMATION COLLECTION**

§1.263A-8(b)(2)(iii) requires taxpayers to maintain records supporting their estimates of the production period and total cost of tangible personal property to determine if interest capitalization is required. It is estimated to require 14 minutes of annual recordkeeping

by an estimated 500,000 respondents, contributing to the total estimated recordkeeping burden of 116,667 hours.

§1.263A-9(d)(1), §1.263A-9(e)(1), §.263A-9(f)(1)(ii), §1.263A-9(g)(2)(iv)(C), and §1.263A-9(g)(3) (iv) require information in order to request the Commissioner's consent to change methods of accounting for the capitalization of interest. The burden estimate for this requirement is reflected in the burden of Form 3115 (OMB numbers 1545-0074 and 1545-0123).

§1.263A-9(g)(3)(iv) requires taxpayers to request a ruling to segregate activities in calculating the amount of interest required to be capitalized. It is estimated 50 respondents to make one response each, which is estimated to take 2 hours to prepare, for a total estimated contributing to the total estimated reporting burden of 100 hours.

| Authority            | Description  | # of Respondents | # Responses per Respondent | Annual Responses | Hours per Response | Total Burden |
|----------------------|--|------------------|----------------------------|------------------|--------------------|--------------|
| §1.263A-8(b)(2)(iii) | Support for estimates for requirement of interest capitalization | 500,000          | 1                          | 500,000          | .2333              | 116,667      |
| §1.263A-9(g)(3)(iv)  | Request a ruling to segregate activities                         | 50               | 1                          | 50               | 2                  | 100          |
| Totals               |  |                  |                            |                  |                    | 116,767      |

**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. 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.