

SUPPORTING STATEMENT
Internal Revenue Service
Tax on Lump-Sum Distributions
(From Qualified Plans of Participants Born Before January 2, 1936)
Form 4972
OMB Control Number 1545-0193

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Internal Revenue Code section 402(e) and regulation section 1.402(e) allows recipients of lump-sum distributions or payments in one tax year of a plan participant's entire balance from all of an employer's qualified plans of one kind (for example, pension, profit-sharing, or stock bonus plans) in which the participant had funds. The participant's entire balance does not include deductible voluntary employee contributions or certain forfeited amounts. The participant must have been born before January 2, 1936, to figure the tax separately on the distributions. The tax can be computed on the 10-year averaging method and/or by a special capital gain method. Form 4972 is used to figure the separate tax and to make a special 20 percent capital gain election on lump-sum distributions attributable to pre-74 participation.

2. USE OF DATA

Form 4972 is filed with Form 1040 to elect special tax computation on lump-sum distributions. This information is used by the Service to verify the taxpayer's entitlement to special tax computation and to verify that the tax is computed properly. This form is also used during the preparation of Form 1041 to calculate the tax on lump sum distributions from all of an employer's qualified plans.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

We are currently offering electronic filing for Form 4972.

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

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

The collection of information requirement will not have a significant economic impact on small businesses or entities due to the inapplicability of the authorizing statute under section 402(e) required for this type of entity.

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

Form 4972, Tax on Lump-Sum Distributions, is used to figure the tax on a qualified lump-sum distribution. Less frequent collection would not allow IRS to verify that the plan participant's or beneficiaries used the correct formula to figure the tax using the 20% capital gain election, the 10-year tax option or both.

3. SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)

There are no special circumstances requiring data collections to be inconsistent with guidelines in 5 CFR 1320(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 (87 FR 21,701), dated April 12, 2022, we received no comments during the comment period regarding Form 4972.

1. EXPLANATION OF DECISION TO PROVIDE ANY PAYMENT OR GIFT TO RESPONDENTS

No payment or gift has been provided to any respondents.

2. ASSURANCE OF CONFIDENTIALITY OF RESPONSES

Generally, tax returns and tax return information are confidential as required by 26 USC 6103.

3. JUSTIFICATION OF SENSITIVE QUESTIONS

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the “Individual Master File (IMF)” system and a Privacy Act System of Records notice (SORN) has been issued for this system under IRS 24.030--Customer Account Data Engine Individual Master File, formerly Individual Master File, and IRS 34.037--IRS Audit Trail and Security Records System. 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.

4. ESTIMATED BURDEN OF INFORMATION COLLECTION

Form 4972 is used by individuals, households, estates and trusts. The estimate of burden that is being reported under 1545-0193 reports only the burden imposed on estates and trusts. The portion of the burden imposed on individuals and households are approved and reported under OMB Control Number 1545-0074.

It is anticipated that there will be 5,601 respondents that respond once with a response time of 4 hours, .24 minutes totaling 24,644 burden hours.

The burden estimate is as follows:

| <u>Form</u> | <u>Number of Respondents</u> | <u>Responses per Respondent</u> | <u>Annual Responses</u> | <u>Hours per Response</u> | <u>Total Burden</u> |
|-------------|------------------------------|---------------------------------|-------------------------|---------------------------|---------------------|
| Form 4972 | 5,601 | 1 | 5,601 | 4.40 | 24,644 |
| Totals | 5,601 | 1 | 5,601 | 4.40 | 24,644 |

5. 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

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 startup 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.

| <u>Product</u> | <u>Aggregate Cost per Product (factor applied)</u> | <u>Printing and Distribution</u> | <u>Government Cost Estimate per Product</u> |
|---|--|----------------------------------|---|
| Form 4972 | \$79,900 | | \$79,900 |
| Total | \$79,900 | | \$79,900 |
| Table costs are based on 2021 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

The change in burden previously approved by OMB, resulted from an adjustment to estimates made by the Department based on the most current filing data. The number of responses decreased by (12,119) and burden hours by (53,324).

| | Requested | Program Change Due to New Statute | Program Change Due to Agency Discretion | Change Due to Adjustment in Agency Estimate | Change Due to Potential Violation of the PRA | Previously Approved |
|----------------------------|-----------|-----------------------------------|---|---|--|---------------------|
| Annual Number of Responses | 5,601 | 0 | 0 | (12,119) | 0 | 17,720 |
| Annual Time Burden (Hrs.) | 24,644 | 0 | 0 | (53,324) | 0 | 77,968 |

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.