**SUPPORTING STATEMENT**

**Internal Revenue Service**

**Form 8832, Entity Classification Election**

**OMB # 1545-1516**

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

For Federal tax purposes, certain business entities automatically are classified as corporations,

under Internal Revenue Code section 1362(a). Other business entities may choose how

they are classified for Federal tax purposes. Except for a business entity automatically classified

as a corporation, a business entity with at least two members can choose to be classified as

either an association taxable as a corporation or a partnership, and a business entity with a

single member can choose to be classified as either an association taxable as a corporation or

disregarded as an entity separate from its owner.

Generally, an eligible entity that does not file Form 8832 will be classified under the default rules. An eligible entity that chooses not to be classified under the default rules or that wishes to change its current classification must file form 8832 to elect a classification.

T.D. 8697 contains final regulations that classify certain business organizations under an elective regime. These regulations replace the existing classification rules.

 2. USE OF DATA

 The IRS will use the information entered on Form 8832 to establish the entity's filing and

 reporting requirements for Federal tax purposes.

1. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

There is no plan to offer electronic filing for this collection due to the low volume of filers.

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

Small businesses should not be disadvantaged as the form has been structured to request the least amount of information and still satisfy the requirements of the statute and the needs of the Internal Revenue Service (IRS).

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

 ACTIVITIES

 The IRS will use the information entered on Form 8832 to establish the entity's filing and

 reporting requirements for Federal tax purposes.

 Consequences of less frequent collection on federal programs or policy activities would consist

 of decreased amount of taxes collected by the IRS, inaccurate and untimely filing of tax

 returns, and an increase in tax violations.

1. 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).

1. 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 theFederal Register notice dated May 5, 2022 (87 FR 26801), IRS received no comments during the comment period regarding this form.

1. 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

 Approximately, 5,000 eligible entities will use Form 8832 annually to elect how it will be classified

 for federal tax purposes, as a corporation, a partnership, or an entity disregarded as separate from

 its owner. The average response time will take 7.18 hours for a total of 35,900 annual burden

 hours. There are 5,000 average annual response even though this election is made once per

 entity.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Description** | **Number of Responses** | **Annual Responses** | **Number of Responses per Respondent** | **Hours per Response** | **Total Burden** |
| Form 8832 |  5,000 |  1 | 5,000 | 7.18 | 35,900 |
| **Total** |  **5,000** |  |  |  | **35,900** |

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

 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** | **Title** | **Allocated Portion of Labor and Downstream Impact Cost** | **Actual Print & Ship costs** | **Contract Costs** | **Total Product Cost** |
| Form 8832 | Entity Classification Election |  $30,438  | ($0) | ($0) |  $30,438  |

15. REASONS FOR CHANGE IN BURDEN

 There is no change in the paperwork burden previously approved by OMB. IRS is 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 sunsets as of the expiration date.

 Taxpayers are not likely to be aware that the IRS 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 for this collection.

**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.