SUPPORTING STATEMENT

Internal Revenue Service (IRS)

Form 970, Application to Use LIFO Inventory Method

OMB Control Number 1545-0042

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Internal Revenue Code (IRC) section 472 and its associated Treasury Regulations allow a taxpayer to make an election to use the last-in, first-out (LIFO) method when inventorying specified goods by submitting an application to the IRS.

Taxpayers use Form 970 to request permission to use the LIFO inventory method or to extend the LIFO method to additional goods.

1. USE OF DATA

The IRS uses the data on Form 970 to determine if it is appropriate for the taxpayer to use the last-in, first-out (LIFO) inventory method described in IRC section 472 and if the method is used correctly to compute taxes.

1. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

Electronic filing of Form 970 is currently available.

1. 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 a substantial number of small entities.

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

A less frequent collection would not allow IRS to determine if there was a change to the taxpayer’s inventory method in a taxable year. 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

The IRS received no comments during the public comment period in response to theFederal Register notice (88 FR 25071), dated April 25, 2023.

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

No payment or gift has been provided to any respondents.

1. ASSURANCE OF CONFIDENTIALITY OF RESPONSES

Generally, tax returns and tax return information are confidential as required by 26 U.S.C. 6103.

1. JUSTIFICATION OF SENSITIVE QUESTIONS

A privacy impact assessment (PIA) has been conducted for information collected under this request, and a Privacy Act System of Records notice (SORN) has been issued for these systems under Treasury/IRS 22.062 - Electronic Filing Records; Treasury/IRS 24.030 - Customer Account Data Engine (CADE) Individual Master File; Treasury/IRS 24.046 - CADE Business Master File (BMF); Treasury/IRS 34.037 - Audit Trail and Security Records. The Internal Revenue Service PIAs can be found at <https://www.irs.gov/privacy-disclosure/privacy-impact-assessments-pia>.

Title 26 U.S.C. 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.

1. ESTIMATED BURDEN OF INFORMATION COLLECTION

IRC section 472 allows taxpayers to apply for an election to use the LIFO inventorying method. Form 970 is used to apply for this election.

The estimated burdens for individual and business filers are included in the estimates for OMB control numbers 1545-0074 and 1545-0123. This collection includes the estimated burden for estates, trusts, and tax-exempt organizations filing Form 970 with their tax return. The IRS anticipates that there will be approximately 100 respondents annually, with a total estimated burden of 2,111 hours annually. The estimated burden is shown below.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Authority** | **Description** | **# of Respondents** | **# Responses per Respondent** | **Annual Responses** | **Hours per Response** | **Total Burden Hours** |
| IRC 472 | Form 970 | 100 | 1 | 100 | 21.11 | 2,111 |
| **Totals** |  | **100** |  | **100** |  | **2,111** |

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

1. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

From our Federal Register notice, dated April 25, 2023, no public comments on the estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information were received. However, to ensure more accuracy and consistency across its information collections, the IRS is currently in the process of revising the methodology it uses to estimate burden and costs. Once this methodology is complete, the IRS will update this information collection to reflect a more precise estimate of burden and costs.

1. 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. These costs do not include any activities such as taxpayer assistance and enforcement.

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 | $23,490 | + | $0 | = | $23,490 |
| **Grand Total** | **$23,490** | **+** | **$0** | **=** | **$23,490** |
| Table costs are based on 2022 actuals obtained from IRS Chief Financial Officer and Media and Publications |

1. REASONS FOR CHANGE IN BURDEN

There is no change in the paperwork burden previously approved by OMB. However, the number of responses was updated based on current filing data. This reduces the number of responses by 1,900 and the burden hours by 40,109 annually due to Agency Estimate.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Total Requested** | **Change Due to New Statute** | **Change Due to Agency Discretion** | **Change Due to Adjustment in Estimate** | **Change Due to Potential Violation of the PRA** | **Previously Approved** |
| Annual Number of Responses | 100 | 0 | 0 | -1,900 | 0 | 2,000 |
| Annual Time Burden (Hr) | 2,111 | 0 | 0 | -40,109 | 0 | 42,220 |

1. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

There are no plans for tabulation, statistical analysis and publication.

1. 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 form expires 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.

1. 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.