

SUPPORTING STATEMENT
Internal Revenue Service
S Corporation Shareholder Stock and Debt Basis Limitations
OMB Control Number **1545-2302**

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Internal Revenue Code (IRC) section 1366 determines the shareholder's tax liability from an S corporation. IRC section 1367 details the adjustments to basis including the increase and decrease in basis, income items included in basis, the basis of indebtedness, and the basis of inherited stock.

Treasury Regulations section 1.1366-2 provides rules and guidance on limitations on deductions of passthrough items of an S corporation to its shareholders. Section 1.1367-1 provides rules relating to adjustments to the basis of a shareholder's stock in an S corporation and a shareholder's election option to decrease the basis. Section 1.1367-2 provides rules relating to adjustments to the basis of indebtedness of an S corporation to a shareholder.

Form 7203 is used by S corporation shareholders to figure potential limitations of their share of the S corporation's deductions, credits, and other items that can be deducted on the shareholder's tax return.

2. USE OF DATA

The information is used by the Internal Revenue Service (IRS) and taxpayers to verify the stock and debt basis limitations claimed by shareholders, ensuring the proper basis computations are reported and claimed.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

Electronic filing of Form 7203 is currently available.

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 IRS proactively works with both internal and external stakeholders to minimize the burden on small businesses, while maintaining tax compliance. The Agency also seeks input regarding the burden estimates from the public via notices and tax product instructions. This information collection is for individual, trust/estates, and tax-exempt taxpayers; therefore, there will be minimal if any impact to small businesses. The forms

can be filed electronically, which further reduces any burden to small businesses.

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

A less frequent collection would result in the IRS being unable to ensure shareholders are claiming the correct stock and debt basis limitations per federal tax rules under sections 1366 and 1367, thereby engendering the inability of the IRS to meet its mission.

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

In response to the Federal Register notice (90 FR 8839), dated February 3, 2025, the IRS received no comments during the comment period for this collection of information.

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

No payment or gift will be provided to any respondents.

10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES

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

11. 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 these systems under Treasury/IRS 22.062 - Electronic Filing Records; Treasury/IRS 24.030 - Customer Account Data Engine (CADE) Individual Master File; 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.

This is an attachment to the federal tax return. The Privacy Act statement associated with this form is listed in the federal tax return instructions.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

The estimated burdens for individual and tax-exempt filers are included in the estimates for OMB control numbers 1545-0074 and 1545-0047.

This collection includes the estimated burden for estate and trust filers required to file Form 7203 with their tax return. The IRS anticipates that there will be approximately 70,000 respondents annually, with a total estimated burden of 214,200 hours annually. The estimated burden is shown below.

Authorit y	Descriptio n	# of Respondent s	# Responses per Responden t	Annual Response s	Hours per Respons e	Total Burde n
IRC 1366 and 1367	Form 7203	70,000	1	70,000	3.06	214,200
Totals		70,000		70,000		214,200

The following regulations impose no additional burden. Please continue to assign OMB number 1545-7203 to these regulations.

1.1366-2

1.1367-1

1.1367-2

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

From our Federal Register notice dated February 3, 2025, no public comments were received on the estimates of cost burden that are not captured in the estimates of burden hours, i.e., estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information. As a result, estimates of these cost burdens are considered nominal.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

The estimated annualized cost to the Federal Government is based on a model that considers the following three 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 Federal Government estimated annualized cost per product.

The federal government estimated annualized cost is as follows:

Product	Aggregate Cost per Product (factor applied)		Printing and Distribution		Government Cost Estimate per Product
Form 7203	\$19,417	+	\$0	=	\$19,417
Instructions for 7203	\$4,854	+	\$0	=	\$4,854
Grand Total	\$24,271	+	\$0	=	\$24,271
Table costs are based on 2023 actuals obtained from IRS Chief Financial Office and Media and Publications					

15. REASONS FOR CHANGE IN BURDEN

There are no changes in the form previously approved by OMB. However, updates in the burden computation will result in a burden decrease of 51,100 hours. The IRS is making this submission to renew the OMB approval.

	Total Requested	Previously Approved	Change Due to New Statute	Change Due to Agency Discretion	Change Due to Adjustment in Estimate	Change Due to Potential Violation of the PRA
Annual Number of Responses	70,000	70,000	0	0	0	0
Annual Time Burden (Hr)	214,200	265,300	0	0	-51,100	0

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

The 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.