

SUPPORTING STATEMENT
Internal Revenue Service
Aid of Construction Under Section 118(c)
OMB Control Number 1545-1639

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Under Internal Revenue Code (IRC) section 118(a), gross income does not include any contribution to the capital of the taxpayer. IRC section 118(c)(1) provides that a contribution to the capital of a taxpayer includes any amount of money or other property received from any person (whether or not a shareholder) by a regulated public utility that provides water or sewerage disposal services if the amount is a contribution in aid of construction, satisfies the expenditure rule, and is not included in rate base for ratemaking purposes.

Treasury Decision (TD) 8936 contains final regulations concerning an exclusion from gross income for a contribution in aid of construction under IRC section 118(c) that is treated as a contribution to capital under IRC section 118(a). The final regulations affect a regulated public utility that provides water or sewerage services because a qualifying contribution in aid of construction is treated as a contribution to the capital of the utility and excluded from gross income. The final regulations provide guidance on the definition of a contribution in aid of construction, the adjusted basis of any property acquired with a contribution in aid of construction, the information relating to a contribution in aid of construction required to be furnished by the utility, and the time and manner for providing that information to the Internal Revenue Service (IRS).

2. USE OF DATA

The information under Treasury Regulations section 1.118-2(e) is required by the IRS to establish that a taxpayer has notified the IRS of amounts to be treated as a contribution to capital under IRC section 118(c). This information will be used to determine when the statutory period for the assessment of any deficiency attributable to any contribution to capital under IRC section 118(c) expires.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

The taxpayer may attach the required statement to an electronically filed return.

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 IRS certifies that the collection of information in these regulations will not have a significant economic impact on a substantial number of small entities. Any burden on taxpayers is minimal.

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

Consequences of less frequent collection on federal programs or policy activities could consist of a decrease in the amount of taxes collected by the IRS, inaccurate and untimely filing of tax returns, and an increase in tax violations.

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 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 dated May 12, 2025 (90 FR 20216), we received no comments during the comment period regarding the regulations.

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 U.S.C. 6103.

3. JUSTIFICATION OF SENSITIVE QUESTIONS

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the “Business Master file (BMF)” and a Privacy Act System of Records notice (SORN) has been issued for these systems under IRS 22.062 – Electronic Filing Records; IRS 24.030 – Customer Account Data Engine (CADE) Individual Master File; IRS 24.046 - CADE Business Master File (BMF); IRS 34.037 - IRS Audit Trail and Security Records System. The Internal Revenue Service PIA’s can be found at <http://www.irs.gov/uac/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.

4. ESTIMATED BURDEN OF INFORMATION COLLECTION

Treasury Regulations section 1.118-2(e) establishes that a taxpayer must notify the IRS of amounts to be treated as a contribution to capital under section 118(c). Section 1.118-2(e)(2) requires notification to be made by attaching a statement to the taxpayer's return containing the information described in section 1.118-2(e)(2). We estimate that 300 taxpayers will take from .5 to 5 hours to comply with this requirement, with an estimated average of 1 hour per taxpayer. The total burden for this reporting requirement is estimated to be 300 hours.

The burden estimate is as follows:

OMB Collection	Authorit y	Form	Annual Responses	Hours per Response	Total Burden
IRS 1545-1639	IRC 118	----	300	1.0	300
	IRS TOTAL		300		300

Please continue to assign OMB number 1545-1639 to these regulations.

1.118-2

5. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

From our Federal Register notice, dated May 12, 2025, 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. IRS anticipates any cost burdens to be minimal.

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.

There are no government costs associated with this collection.

15. REASONS FOR CHANGE IN BURDEN

There are no changes to the burden. We are submitting this request for renewal purposes only.

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 regulation expires as of the expiration date. Taxpayers are not likely to be aware that the IRS intends to request renewal of 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.