

SUPPORTING STATEMENT
Internal Revenue Service
Provisional Foreign Tax Credit Agreement
OMB # 1545-2296

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Internal Revenue Code (IRC) sections 901 and 905 allow a taxpayer to claim a foreign tax credit for foreign income taxes paid or accrued in a taxable year, depending on taxpayer's method of accounting for such taxes. However, regardless of the year in which the credit is allowed based on taxpayer's method of accounting, the foreign tax credit is allowed only to the extent the foreign income taxes are ultimately both owed and remitted to the foreign country. For accrual method taxpayers, IRC section 461(f) (flush language), Regulation section 1.461-2(a)(2)(i), and section 1.905-1(d)(3) provide that a foreign income tax liability that is contested does not accrue and is not creditable until the contest is resolved. For cash method taxpayers, a foreign income tax liability that is contested is not a reasonable approximation of the taxpayer's final foreign income tax liability and, thus, under Regulation section 1.901-2(e)(2)(i), is not considered an amount of tax paid for purposes of IRC section 901 until the contest is resolved.

However, Regulation sections 1.905-1(c)(3) and 1.905-1(d)(4) allow taxpayers to make an election to claim a provisional foreign tax credit for a contested foreign income tax liability to the extent that the taxpayer has remitted the contested tax to the foreign country. As a condition for making this election, the taxpayer must enter into a provisional foreign tax credit agreement, in which the taxpayer gives the IRS information regarding the contested foreign income tax liability and agrees to comply with the conditions of the election, including agreeing not to assert the statute of limitations on assessment as a defense to assessment of taxes and interest by the Internal Revenue Section (IRS) with respect to the contested tax for a period of three years from the year in which taxpayer notifies the IRS of the resolution of the contest. See Regulation section 1.905-1(d)(4)(ii).

Form 7204 must be used for elections to claim a provisional credit for contested foreign income taxes as provided in Regulation sections 1.905-1(c)(3) and 1.905-1(d)(4).

2. USE OF DATA

The data will be used by the IRS to audit whether a contested foreign income tax for which taxpayer has claimed a provisional foreign tax credit is ultimately creditable. In particular, the IRS will monitor and assess whether taxpayer meets the requirement to exhaust all effective and practical remedies to minimize its foreign income tax liability with respect to the contested tax.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

Form 7204 is available electronically.

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

This collection of information is not expected to have a significant economic impact on a substantial number of small entities. The collection of information affects U.S. persons that have foreign operations, incur foreign income taxes, and disputes the foreign income tax liability with the foreign country. This collection of information only applies if the taxpayer elects to claim a provisional foreign tax credit for contested foreign income taxes.

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

A less frequent collection of the information will prevent the IRS from being able to determine the taxpayer's compliance and/or reporting with the requirements in sections 901 and 905 of the Internal Revenue Code and thereby causing 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 dated December 12, 2025 (90 FR 57816) we received no comments during the comment period regarding Form 7204.

9. 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

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the “Individual Master File” and “Customer Account Data Engine” system and Privacy Act System of Records notices (SORN) has been issued for these systems under IRS 24.030–Customer Account Data Engine Individual Master File; IRS 24.046–Customer Account Data Engine Business Master File; IRS 26.009–Lien Files, (open and closed); IRS 26.013–Trust Fund Recovery Penalty Cases; IRS 26.019–Taxpayer Delinquent Account Files, and IRS 34.037–IRS Audit Trail and Security Records System. The Internal Revenue Service PIAs can be found at <https://www.irs.gov/privacy-disclosure/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.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

The burden for tax-exempt organizations, individual filers, and trust/estate filers is captured within 1545-0047, 1545-0074, and 1545-0092 respectively. The following burden is for the business filers for Form 7204.

Form	# Respondents	# Responses Per Respondent	# Annual Responses	Hours Per Response	Total Annual Burden
Form 7204	11,400	1	11,400	2	22,800
TOTALS	11,400		11,400		22,800

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

This information collection will be included in the consolidated OMB submission for business tax returns. IRS will update the cost and burden estimates as part of the next OMB submission for 1545-0123.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

Cost estimate for product development 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 costs to the Federal government will vary depending on whether the IRS will incur printing or copying costs for all the materials. The costs do not include any activities such as taxpayer assistance and enforcement. IRS estimates have determined that the cost of developing, printing, distribution and overhead for the form is \$20,520.

15. REASONS FOR CHANGE IN BURDEN

There are no material changes in the paperwork burden previously approved by OMB.

	FY 2026 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	FY 2023 Previously Approved
Annual Number of Responses for this IC	11,400	0	0	0	0	11,400
Annual IC Time Burden (Hour)	22,800	0	0	0	0	22,800

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 Internal Revenue Service believes that displaying the OMB expiration date is inappropriate because it could cause confusion by leading taxpayers to believe that the collection 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.

18. EXCEPTIONS TO THE CERTIFICATION STATEMENT

There are no exceptions to the certification statement.