

**SUPPORTING STATEMENT
(LR-7)**

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

IRC Section 934(a) (1954 Code) provides that the tax liability incurred to the Virgin Islands shall not be reduced except to the extent provided in IRC section 934(b) or (c). IRC Section 934 (1954 Code) was enacted to prevent the Virgin Islands from granting tax rebates or subsidies with regard to taxes attributable to income derived from sources within the U.S. The exceptions as defined in IRC section 934(b) and (c) of the 1954 Code permit rebates or subsidies if they are as follows:

(1) Made to a U.S. corporation or Virgin Island corporation to the extent those corporations derived income from sources outside of the U.S. 80% or more of the corporation's income for the 3-year period immediately preceding the close of the taxable year must have been derived from sources within the Virgin Islands and 65% of the corporation's income for the period must have been derived from the active conduct of a trade or business within the Virgin Islands, and

(2) Made to U.S. citizens who are bonafide residents of the Virgin Islands for the entire taxable year, to the extent that income is derived from sources within the Virgin Islands.

Regulation section 1.934-1 (1962) contains rules for computing the tax liability incurred to the Virgin Islands attributable to income derived from sources without the U.S. The subsidy payments will not be permitted unless supporting information showing that the recipient qualifies under one of the above exceptions is furnished to the Secretary or his delegate. The information which must be disclosed is listed in sections 1.934-1(d), (e), and (f). The information statement should be made in duplicate and attached to the income tax return filed with the Government of the Virgin Islands for the taxable year with respect to which an exception is claimed.

2. USE OF DATA

The taxpayers applying for benefits under section 934 of the 1954 Code

must supply the requested information in order to obtain the benefits. As required by section 934(d) of the 1954 Code, the information is used to ensure that the taxpayer qualifies for the benefit under section 934 (1954 Code). Further, this information is submitted to the government of the Virgin Islands and must be available for examination by the Assistant Commissioner (International).

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

IRS Publications, Regulations, Notices and Letters are to be electronically enabled on an as practicable basis in accordance with the IRS Reform and Restructuring Act of 1998.

4. EFFORTS TO IDENTIFY DUPLICATION

We have attempted to eliminate duplication within the agency wherever possible.

5. METHODS TO MINIMIZE BURDEN ON SMALL BUSINESSES OR OTHER SMALL ENTITIES

We have been unable to reduce the burden for small businesses.

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

Not applicable.

7. SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)

Not applicable.

8. CONSULTATION WITH INDIVIDUALS OUTSIDE OF THE AGENCY ON AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, CLARITY OF INSTRUCTIONS AND FORMS, AND DATA ELEMENTS

A proposed rulemaking was published in the **Federal Register** on November 9, 1962 (27 FR 10951). No objection to the rules proposed were received during the 30-day period prescribed in the notice. The proposed regulations were finalized without change in T.D. 6629 which was published in the **Federal Register** on December 28, 1962.

In response to the Federal Register Notice dated February 22, 2007 (72 F. R. 8061), we received no comments during the comment period regarding LR-7.

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

Not applicable.

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

Not applicable.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

Under sections 1.934-l(d), (e), and (f), an information statement should be completed in duplicate and attached to the income tax return filed with the Virgin Islands Bureau of Internal Revenue for the taxable year in which an exception is claimed. We anticipate that there will be approximately 500 responses in compliance with section 934(d) and Treas. Regs. 1.934-1(d) through (g). The 500 responses to the reporting requirements under Treas. Regs. 1.934(d),(e), and (f) should take .20 hours per respondent for a total burden of 100 hours. The recordkeeping requirement of Treas. Regs. 1.934-l(g) will affect approximately 500 respondents and should take .167 hours per respondent for a total burden of 84 hours.

Estimates of the annualized cost to respondents for the hour burdens shown are not available at this time.

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

As suggested by OMB, our **Federal Register** notice dated February 22, 2007, requested public comments on 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. However, we did not receive any response from taxpayers on this subject. As a result, estimates of the cost burdens are not available at this time.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

Not applicable.

15. REASONS FOR CHANGE IN BURDEN

There is no change in the paperwork burden previously approved by OMB. We are making this submission to renew the OMB approval.

16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

Not applicable.

17. REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE

We believe that displaying the OMB expiration date is inappropriate because it could cause confusion by leading taxpayers to believe that the regulation sunsets as of the expiration date. Taxpayers are not likely to be aware that the Service 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 ON OMB FORM 83-I

Not applicable.

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.