

SUPPORTING STATEMENT

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

The regulations provide the procedure for making the election contained in section 280C(c)(3) of the Internal Revenue Code, as amended by section 7814(e)(2)(A) of the Revenue Reconciliation Act of 1989 (the 1989 Act). Section 280C(c)(3) permits taxpayers to avoid the application of paragraphs (1) and (2) of section 280C(c) by electing to claim a reduced section 41(a) research credit. If the election is not made, paragraphs (1) and (2) of section 280C(c) require taxpayers to reduce the amount of qualified research expenses allowable as a deduction under section 174 by a percentage of their section 41(a) research credit. Taxpayers making the election under section 280C(c)(3) will not be required to reduce their deductions for qualified research expenses, as required in paragraphs (1) and (2) of section 280C(c). However, taxpayers making the election will be required to compute their research credit under section 41(a) in accordance with the method provided in section 280C(c)(3)(B). Under section 280C(c)(3)(B), taxpayers must reduce their section 41(a) credit by an amount equal to a percentage of the tax savings attributable to the credit.

2. USE OF DATA

The information is reported to the Internal Revenue Service on a form that is filed with taxpayers' income tax returns. The information will be used by the Internal Revenue Service on audit to verify compliance by the taxpayer.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

We have no plans to offer electronic filing. IRS publication, 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 specifically 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

No consultation of the affected parties was made due to the necessity of immediate guidance in compliance with section 7814(e) of Public Law 101-239, 103 Stat. 2106. The final regulations were published in the Federal Register on January 24, 1990 (55 FR 2374).

In response to the Federal Register Notice dated March 23, 2007 (72 F. R. 13866), we received no comments during the comment period regarding PS-74-89.

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

Section 1.280C-4 of the regulation provides the manner of making the election under section 280C(c)(3), as amended. To make this election, taxpayers claim a reduced section 41(a) credit, computed by the method provided in section 280C(c)(3)(B), on their return. The estimated number of respondents making the election described in this regulation is 200. The estimated annual frequency of responses is one. The estimated average annual burden per respondent is .25 hours to complete the election. The estimated total annual reporting burden is 50 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 March 23, 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.