

**SUPPORTING STATEMENT**  
**(REG-251520-96)**

**1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

Section 1.861-18 of the regulations provides rules for classifying transactions in computer programs. To conform to the regulations, some taxpayers may characterize transactions in a different manner than the taxpayer characterized such a transaction prior to the effective date of these regulations. Such a change in classification would constitute a change in the taxpayer's method of accounting. Code section 446(e) and §1.446-1(e) require a taxpayer to obtain the consent of the Commissioner before the taxpayer changes its method of accounting.

The regulations, in §1.861-18(k), grant the taxpayer consent to change its method of accounting for transactions involving computer programs so that the taxpayer can conform with the classifications prescribed in the regulations. Section 1.861-18(k) requires taxpayers changing their method of accounting to file a Form 3115 with their original return, and to send a copy of Form 3115 to the National Office. These requirements are necessary for the IRS to determine whether a taxpayer has properly changed its method of accounting.

**2. USE OF DATA**

The information will be used by the IRS in the administration of the Internal Revenue laws to determine whether the taxpayer properly changed its method of accounting.

**3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN**

Not applicable.

**4. EFFORTS TO IDENTIFY DUPLICATION**

We have attempted to eliminate duplication within the agency whenever

possible.

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

Not applicable.

**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**

Regulations were published in the Federal Register initially as a Notice of Proposed Rulemaking, on November 13, 1996 (6 FR 58152). A public hearing was held on March 19, 1997. The final regulations were published in the Federal Register on October 2, 1998 (63 FR 52971).

In response to the request for comments in the **Federal Register Notice** dated **August 7, 2007 (72 FR 44224)**, we received no comments on REG-251520-96.

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

Not applicable.

**10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES**

Generally, tax returns and return information are confidential as required by 26 USC 6103.

**11. JUSTIFICATION OF SENSITIVE QUESTIONS**

Not applicable.

**12. ESTIMATED BURDEN OF INFORMATION COLLECTION**

Section 1.861-18(k)(3) of the regulations requires a taxpayer who must change its method of accounting to conform with the classification of a transaction under section 1.863-18 to file Form 3115 with its original return for the year of change and to send a copy of Form 3115 to the National Office. The burden of complying with this requirement is reflected in the burden of Form 3115.

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 **August 7, 2007 (72 FR 44224)**, 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**

Not applicable.

**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 collection 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.