

SUPPORTING STATEMENT  
(TD 7927)

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Section 194 of the Internal Revenue Code was enacted by Congress in order to allow a taxpayer to elect to amortize up to \$10,000 per year of certain qualifying reforestation expenditures over a 7-year period. Prior to enactment of this provision, these reforestation expenditures had to be treated by taxpayers as capital expenditures for timber, which could only be recovered on the disposition of the timber by harvest, sale, or otherwise. Section 194 and its legislative history set forth explicit definitions and requirements for the expenditures made and the property on which the timber is being grown. These requirements must be met before a taxpayer is eligible to elect the special tax treatment provided by section 194. A taxpayer may elect to amortize reforestation expenditures by entering the proper amortization deduction for the tax year on the taxpayer's income tax return (Form 1040 for individuals and Form 1120 for corporations). In order to support the amortization deduction, the taxpayer must attach a statement with the information required in section 1.194-4(a) of the Income Tax Regulations so that it may be determined if the expenditures qualify under section 194 for amortization.

Taxpayers who are members of a controlled group of corporations must allocate the \$10,000 deduction among themselves under section 194 of the Code. Under section 1.194-2(b)(4) of the regulations, if a consolidated income tax return is not filed by all members of the controlled group, each member claiming a deduction under section 194 on a separate return must attach to its income tax return a copy of the allocation agreement and a statement describing how the \$10,000 deduction under section 194 was divided among the members of the controlled group.

Section 1.194-4(c) of the regulations provides for the revocation of an election under section 194 of the Code. It specifies information to be provided in writing to the Commissioner for consent to revoke an election.

2. USE OF DATA

The data is used by the Internal Revenue Service to verify that the taxpayer qualifies for the deduction being claimed under section 194 of the Code.

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

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

These regulations were published in the Federal Register initially as both temporary regulations and as a Notice of Proposed Rulemaking on March 15, 1983. No public hearing was held. The regulations were published in the Federal Register as final regulations on December 16, 1983. No

comments, either written or oral, had been received concerning the reporting requirement.

We received no comments during the comment period in response to the Federal Register notice dated March 5, 2013 (78 FR 14421).

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

We estimate there will be 12,000 elections made each year to amortize certain reforestation expenditures, and that it will take .5 hours to complete the statement required by section 1.194-4(a) of the regulations. The total of 12,000 elections includes the number of elections expected to be made by controlled groups filing consolidated returns that are required by section 1.194-2(b)(4) to file the same statement that section 1.194-4(a) requires all electing taxpayers to file. Section 1.194-2(b)(4) also requires a separate statement of election to be filed by any member of a controlled group filing a separate return if a portion of the section 194 deduction of the group is allocated to it. The number of additional statements estimated to result from this requirement is negligible and is included in the overall estimate of 12,000 elections. Thus, the total burden estimated for filing the statement required to make the section 194 election is 6,000 hours.

Section 1.194-4(c) of the regulations provides that

taxpayers may apply in writing to the Commissioner for consent to revoke an election under section 194 of the Code. It is estimated that no more than two will apply to revoke their elections and the required application will take .5 hours to complete. Thus the burden for applications for revocation is estimated to be 1 hour. Therefore, the total reporting burden is estimated to be 6,001 hours annually.

Reporting respondents:	12,000	
Hours per response:	<u>x .5</u>	
Total reporting burden:		6,000
Number of revocations:	2	
Hours per statement:	<u>x .5</u>	
Total revocation burden:		<u>1</u>
Total burden:		6,001

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 5, 2013 (78 FR 14421), 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.