

**SUPPORTING STATEMENT**

**(T.D. 8746)**

**OMB # 1545-1491**

**1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

The regulations address the tax treatment of bond premium. In general, bond premium arises when a holder acquires a bond for more than the principal amount of the bond. Similarly, bond issuance premium arises when an issuer issues a bond for more than its principal amount when the stated interest rate on the bond is higher than the market yield for the bond. The holder's treatment of bond premium is addressed in the regulations under Code section 171 and the issuer's treatment of bond issuance premium is addressed in the regulations under Code section 163. Bond premium amortized as an offset to interest income, and bond issuance premium is amortized as an offset to interest expense.

Under section 171(b), the amortization of bond premium on a taxable bond is elective. Once made, the election applies to all bonds held by the taxpayer and can only be revoked with the consent of the Commissioner. Under regulation section §1.174-4(a)(1), a holder makes the election to amortize bond premium by offsetting interest income with bond premium in the holder's timely filed federal income tax return for the first taxable year to which the holder desires the election to apply. This section also provides that the holder should attach to the return a statement that the holder should attach to the return a statement that the holder is making the election under this section. This information is required by the IRS to determine whether a holder of a bond has elected to amortize bond premium.

In addition, to comply with the regulations, a taxpayer, whether an issuer or a holder may have to change its method currently used to account for premium. Under §446(e), a taxpayer must secure the consent of the Commissioner to change a method of accounting. §§1.163-13(h)(2) and 1.171-5(c)(2)(iii) provide for automatic consent provided the taxpayer attaches to its federal income tax return a

statement that it has changed its method of accounting. This information is required by the IRS to determine whether an issuer or a holder has changed its method of accounting for premium.

2. **USE OF DATA**

The information is required by the Internal Revenue Service to monitor compliance with the federal tax rules for amortizing bond premium and bond issuance premium.

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**

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**

A notice of proposed rulemaking was published in the Federal Register on June 27, 1996 (61 FR 33396) relating to the federal income tax treatment of bond premium and bond

insurance premium. Although IRS did receive a few comments on the proposed regulations, a public hearing was not held because no one requested to speak at the hearing that had been scheduled for October 23, 1996. After considering the public comments, the final regulation (REG-209798-95) was published in the Federal Register on December 31, 1997 (62 FR 68173).

In response to the *Federal Register* Notice dated July 15, 2014, (79 FR 41366) we received no comments during the comment period regarding T.D. 1491.

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**

In accordance with the Privacy Act of 1974, Treasury has published its complete Privacy Act systems of records notices, which include all maintained records systems as of January 2, 2014; six systems have been amended, altered, or added since April 20, 2010, when the complete notices were last published. See 79 F.R. 209-261 and 79 F.R. 183-206, which was published on January 2, 2014.

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the "Business Master File (BMF)" system and a Privacy Act System of Records notice (SORN) has been issued for this system under IRS 24.046-Customer Account Data Engine Business Master File. The Department of Treasury PIAs can be found at <http://www.treasury.gov/privacy/PIAs/Pages/default.aspx>.

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**

(1) Under §1.171-4(a)(1), a holder makes the election to amortize bond premium in the holder's timely filed income tax return for the first taxable year to which the holder desires the election to apply. This section also provides that the holder should attach to the return a statement that the holder is making the election under this section. We estimate 5,000 taxpayers will be affected by this requirement and that it will take approximately 0.5 hours to prepare this statement. The burden for the requirement is approximately 2,500 hours.

(2) Under §§1.163-13(h)(2) and 1.171-5(c)(2)(iii), a taxpayer may receive automatic consent to change its method to account for premium provided the taxpayer attaches to its federal income return a statement that it has made the change. We estimate 10,000 taxpayers will be affected by this requirement and that it will take approximately 0.5 hours to prepare this statement. The burden for this requirement is approximately 5,000 hours. Estimates of annualized cost to the 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 July 15, 2014, (79 FR 41366) 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, during the comment period 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.