

**IRS****Fact Sheet****Media Relations Office****Washington, D.C.****Tel. 202.622.4000****For Release: January 2002****Release No: FS-2002-07****NATIONAL RESEARCH PROGRAM****What Is NRP?**

The National Research Program (NRP) is a comprehensive effort by the IRS to measure payment, filing and reporting compliance for different types of taxes and various sets of taxpayers. The first stages will focus on individual income taxes, while future stages will measure other taxes and other types of taxpayers.

The innovative program will be far less intrusive and burdensome on taxpayers than previous compliance studies. And it will help the IRS build better compliance programs to more effectively catch tax cheating and help ensure everyone pays a fair share.

Administering a tax system that serves America's taxpayers by promoting fairness and operating efficiently and effectively is dependent on the agency's ability to measure and distinguish between the many factors that impact compliance with the tax laws.

Without reliable measures, the IRS faces major challenges in improving its ability to detect noncompliance, improving overall compliance and developing methods for allocating resources more effectively.

NRP will measure the different types of compliance as follows:

- Filing compliance will be measured using sample data from the Census Bureau.
- Payment compliance will be measured using information the IRS has available.
- Reporting compliance will be measured by analyzing a sample of tax returns.

**Why Now?**

For individual income tax audits, the no-change rate is going up. This means the IRS is devoting resources to auditing compliant taxpayers, which increases taxpayer burden and does not help improve overall compliance. NRP data will be used to update the formulas used for selecting returns for audit. (These current formulas are based on data from the late 1980s.)

The new NRP data will help reduce the burden of unnecessary IRS contacts on

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compliant taxpayers. An increasing number of taxpayers will be unnecessarily audited each year unless formulas for selecting audits can be updated.

### **Why the NRP?**

The NRP will help ensure the tax system has fairness. The U.S. tax code is predicated on fairness – that individuals are taxed fairly and everyone pays a fair share.

This sense of fairness inspires confidence in our tax system. While no one likes paying taxes, they want to know the money is collected fairly to meet our national needs. Fairness leads to high compliance with the law. This leads to greater efficiency in our tax system, reducing the cost of collecting revenue and the amount that honest taxpayers have to pay.

### **NRP Supports IRS Strategic Goals**

For tax year 1998 the gross tax gap was estimated at more than \$278 billion, indicating ample room for improvement. The gross tax gap represents amounts that are not collected due to filing, reporting, and payment non-compliance for taxes imposed by the federal government. Patterns of noncompliance in the population change over time, so it is essential to periodically estimate non-compliance. Only then can the IRS rely on the compliance measures as strategic performance indicators.

For strategic planning and budget purposes, the IRS requires regular estimates of compliance. The NRP approach supports this critical need. Payment compliance data will be generated annually and reporting compliance surveys will be conducted every three years. To estimate reporting compliance for years between surveys, the IRS will statistically calibrate the data. The IRS proposes to begin in September 2002 to start gathering data for individual taxpayers. Plans are being made for future surveys of small corporations, partnerships and trusts.

The IRS Operating Divisions are partners in the NRP design process and implementation, and they are customers of the results. NRP compliance data will be made available through processes and electronic systems that provide flexibility for accessing, selecting and analyzing data, and will support the needs of a diverse set of users in the Operating Divisions and in the IRS national headquarters.

Reporting compliance results will be collected to help the IRS identify some of the problems taxpayers have in complying with the tax laws. This will allow the IRS to address noncompliance by redesigning forms, suggesting law changes, improving communications with taxpayers and tax preparers, and focusing enforcement on intentionally non-compliant taxpayers.

## **NRP Supports the IRS Mission**

In the long term, analysis and use of the NRP results by the IRS will help ensure that agency contacts with taxpayers are necessary, appropriate and effective. The IRS plans to use NRP results to more effectively manage its compliance programs and design pre-filing activities to help taxpayers comply with the tax law.

### Benefits of Filing Compliance Data

Filing rate data can allow IRS to assess the scale of non-filing to develop specific strategies to address pockets of non-filing activity. For example, these data will allow the IRS to help taxpayers meet their filing obligation through development of educational programs that help taxpayers understand their filing requirements.

### Benefits of Payment Compliance Data

Payment compliance data will help the IRS understand the factors associated with non-payment of taxes, particularly the difference between taxpayers who would pay if they could and those who will not pay. Strategies can be developed to prevent the escalation of payment problems – such as taking rapid action to stop diversion of withheld employment taxes – or to prioritize activities to account for the risk of non-payment of taxes owed.

### Benefits of Reporting Compliance Data

Compliance data from the 1970s showed that there was sufficient noncompliance in claiming dependent exemptions to warrant the requirement for a valid Taxpayer Identification Number (generally a Social Security Number) for each dependent. This requirement in the Tax Reform Act of 1986 resulted in 5 million fewer dependents being claimed annually. As specific compliance issues are uncovered by the NRP, we can expect similar responses.

- Taxpayers will benefit from redesigned forms, improved communications, suggested law changes, and enforcement focused on non-compliant taxpayers. The IRS will have an improved ability to do this because NRP examiners will determine likely reasons for observed noncompliance and NRP data will identify line items on tax returns that create the most difficulty for taxpayers trying to comply with the tax law.
- Obtaining a measure of overall income tax compliance will allow the IRS to measure its “bottom line” and make resource allocation decisions in ways that can improve overall performance.

The IRS will use existing resources in its audit program to implement NRP, and the NRP sample will account for only about 1.1 percent of the total audit-related contacts planned

for the year. The IRS will rigorously test the methodology prior to implementation and ongoing reviews throughout the process will ensure that the data collected are high quality.

It is not possible to predict what the overall improvements to taxpayer compliance would be as a result of NRP. However, if the IRS were to deploy resources to increase the overall compliance rate based on NRP results, there should be some improvement. Simple arithmetic suggests that a 0.1 percentage point improvement in the compliance rate would increase revenue by more than \$1 billion per year.

### **Limiting Taxpayer Burden**

The NRP process will limit the burden on taxpayers selected to be in the NRP sample by making maximum use of data the IRS already has collected:

- Through extensive case-building, well-trained NRP examiners will be able to determine that some taxpayers have plausibly met their reporting responsibility without resorting to an intrusive audit.
- Other taxpayers will receive correspondence from NRP examiners to support items that cannot be otherwise verified.
- Other taxpayers will have complicated tax returns with significant items that NRP examiners can verify only with a face-to-face audit. However, these audits will generally be no more burdensome than ordinary operational audits, due to the case-building activities that NRP examiners will have done in advance of the audit. This case-building will allow examiners to focus more attention on questionable items and should improve examiner productivity.

In the most cost-effective and least burdensome manner possible, NRP intends to provide the IRS with current, reliable data on filing, payment, and reporting compliance. These data will support the IRS's commitment to apply its limited resources where they are of most value in reducing noncompliance while ensuring fairness, observing taxpayer rights and reducing the need to burden honest taxpayers.

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