MANUAL TRANSMITTAL

4.22.1

Department of the Treasury
Internal Revenue Service

MARCH 7, 2023

EFFECTIVE DATE

(03-07-2023)

PURPOSE

(1)   This transmits revised IRM 4.22.1, National Research Program (NRP), National Research Program Overview.

MATERIAL CHANGES

(1)   Some content was rearranged or emphasized for readability and clarity.

(2)   Dates, line numbers, and links were updated where needed.

(3)   Manual Transmittal information was updated. Deleted background tab and moved content below.

(4)   4.22.1.1.1 (1) - Moved content from background tab here.

(5)   4.22.1.1.1(4)(5)(7) - Added paragraphs for background detail.

(6)   4.22.1.1.2 - Added new subsection Authority to enhance internal control information.

(7)   4.22.1.1.6 - Added new subsection for related resources.

(8)   Exhibit 4.22.1-1 - Removed exhibit from the end of the document.

EFFECT ON OTHER DOCUMENTS

This revision supersedes IRM 4.22.1, National Research Program Overview, dated September 6, 2017.

AUDIENCE

This IRM will be used by all participants of an NRP study.

Erik Ogilvie, Chief, National Research Program

4.22.1
National Research Program Overview

Table of Contents

4.22.1.1
(03-07-2023)
**Program Scope and
Objectives**

(1) This IRM provides an overview of the need for current compliance measures and the National Research Program's (NRPs) approach to measuring and reporting compliance.

(2) The role of National Research Program (NRP) for IRS is to collect data on reporting, payment and filing compliance that supports strategic decisions about the placement and type of resources necessary to effectively address the needs of taxpayers. The IRS meets its need for current compliance information through the National Research Program (NRP).

(3) The audience for this IRM includes employees who participate and conduct NRP examinations:

- Examination program directors
- Territory managers
- Group managers
- Revenue agents and tax compliance officers
- Campus tax examiners

(4) **Policy Owner**: Director, Knowledge Development and Application under Research, Applied Analytics and Statistics (RAAS) is the policy owner.

(5) **Program Owner**: NRP is the program office responsible for the oversight of the NRP studies.

(6) For information about the National Research Program, visit the NRP website at: *https://nrp.web.irs.gov*.

4.22.1.1.1
(03-07-2023)
Background

(1) This IRM provides an overview of the National Research Program's approach to measuring and reporting compliance.

(2) IRS was charged with the responsibility to collect data on taxpayer compliance and non-compliance. For strategic planning and budget purposes, the IRS requires regular estimates of compliance. NRP supports this critical need. NRP seeks to increase public confidence in the fairness of our tax system by helping the IRS identify where compliance problems occur so that the IRS can efficiently and effectively utilize its resources to address those problems.

(3) The IRS needs to use its resources where they are of most value in reducing noncompliance while ensuring fairness, observing taxpayer rights, and reducing the need to burden those who do comply.

(4) NRP examinations enable the Service to determine what key areas of noncompliance to address and what treatments to apply to maximize the use of its limited resources. As the Service's ability to detect noncompliance diminishes, audits become less effective and compliant taxpayers continue to be burdened by unnecessary audits.

(5) Current information about taxpayer needs is critical to the IRS' ability to make each taxpayer's interaction with the IRS as positive and satisfactory as possible. Taxpayer belief in the IRS' ability to meet their expectations is essential for meeting customer service objectives, and for maintaining the integrity of a tax system founded on voluntary compliance. Administering a tax system that promotes fairness is dependent on the IRS' ability to distinguish between the many factors that impact compliance with the tax laws.

(6) The NRP approach to measuring reporting compliance balances research quality, efficiency, and taxpayer burden. NRP uses a hybrid of options for validating return information that maximizes use of data available to the IRS and, to the extent possible, minimizes taxpayer burden while collecting data.

4.22.1.1.2
(03-07-2023)
Authority

(1) By law, the Service has the authority to conduct examinations under Title 26, Internal Revenue Code, Subtitle F – Procedure and Administration, Chapter 78, Discovery of Liability and Enforcement of Title, Subchapter A, Examination and Inspection, which includes, but is not limited to, the following IRC sections:

- IRC 7602, Examination of books and witnesses
- IRC 7605, Time and place of examination

Note: Additional information related to conducting examinations is contained in 26 CFR 601.105, Statement of Procedural Regulations.

(2) Under the Reform and Restructuring Act of 1998 (RRA '98), Congress mandated the IRS to deliver service to taxpayers at a new and much higher level of performance in the most cost-effective and least burdensome manner possible. Data from NRP examinations enable the IRS to operate as a more efficient and effective tax administration organization.

4.22.1.1.3
(03-07-2023)
Roles and Responsibilities

(1) Director, Research, Applied Analytics and Statistics has overall responsibility for all of RAAS' operations and it's variety of services.

(2) Director, Knowledge, Development, and Application has overall responsibility for the KDA division within RAAS and is the policy owner.

(3) Chief, National Research Program oversees all aspects of NRP examinations. The NRP chief manages and monitors NRP operations and provides guidance. This is the office with primary responsibility for administering the NRP program.

(4) Director, Data Management Division (DMD) oversees the Compliance Data Warehouse (CDW).

(5) Small Business and Self Employed (SB/SE), Large Business and International (LB&I) and Tax Exempt and Government Entities (TE/GE) are partners as well as stakeholders.

4.22.1.1.4
(03-07-2023)
Program Management

(1) NRP is a comprehensive effort by the IRS to measure compliance for different types of taxes and various sets of taxpayers. NRP will provide a statistically valid representation of the compliance characteristics of taxpayers. Types of voluntary compliance include filing compliance, payment compliance and reporting compliance. Payment and filing compliance data are generated annually.

  a. The measure of filing compliance is the percent of reported tax on timely filed returns that are timely filed. The IRS measures filing compliance by comparing known filers (using IRS records) with expected filers using Census Bureau current population surveys. IRS receives no taxpayer specific data from the Census Bureau.

       b.   The measure of payment compliance is the percent of reported tax on timely filed returns that are timely paid and is generated annually. NRP measures payment by analyzing IRS Master Files for timely payment of taxes.

       c.   The measure of reporting compliance is the percent of true tax liability that is correctly reported on timely filed returns.

(2)   Emphasis in this IRM is given to measuring reporting compliance as it is the most sensitive, presents the most challenges, and represents the largest share of the gap between what the IRS estimates is owed to the Treasury and what is actually collected. Similarly, the IRS reporting compliance measures and tax gap estimates depend on proper accounting of both accurately-reported returns and returns with adjustments. The tax gap does not arise solely from tax evasion or cheating. It includes a significant amount of noncompliance due to tax law complexity that results in errors of ignorance, confusion, and carelessness. This distinction is important even though, at this point, the IRS does not have sufficient data to distinguish clearly the amount of noncompliance that arises from willful, as opposed to unintentional mistakes. Moreover, the line between intentional and unintentional mistakes is often a grey one. See *Reducing the Federal Tax Gap: A Reporting on Improving Voluntary Compliance*, IRS, August 2, 2007, Page 6.

(3)   The data compiled from the studies are housed on the Compliance Data Warehouse (CDW) where IRS and external researchers analyze the data. This data helps produce tax gap and Discriminant Function (DIF) formulas.

4.22.1.1.5
(03-07-2023)
Terms and Acronyms

(1)   DIF - Discriminant Function. The definition of Discriminant Function (DIF) is a methodology for developing workload selection systems.

(2)   CDW - Compliance Data Warehouse

(3)   KDA - Knowledge, Development, and Application

(4)   NRP - National Research Program

(5)   RAAS - Research, Applied Analytics, and Statistics

4.22.1.1.6
(03-07-2023)
Related Resources

(1)   IRM 4.22.2, NRP Case Building

(2)   IRM 4.22.3, Classification of NRP Returns

(3)   IRM 4.22.4, Examination of NRP Returns

(4)   IRM 4.22.6, Examination of Individual Returns

4.22.1.2
(03-07-2023)
Need for Compliance Measurement

(1)   Patterns of noncompliance in the population change over time. Measuring changes for noncompliance helps the IRS determine how well it is meeting the needs of America's taxpayers, and identifies vulnerabilities of the system so that weak links can be fortified or redesigned. The *Report of the National Commission on Restructuring the Internal Revenue Service* pointed out on page 28, *Estimating noncompliance* ...**one of the most significant criticisms of the IRS compliance research approach is the lack of current reliable data on noncompliance.** Without reliable compliance measures, the IRS will have limited capability to determine what key areas of noncompliance to address and what treatments to apply to maximize the use of its limited resources.

(2) When a compliant taxpayer is unnecessarily or ineffectively contacted by the IRS, the public's perception of the effectiveness and fairness of the federal tax system could be damaged. Compliant taxpayers want to know that the IRS is capable of ensuring that everyone pays their fair share of taxes. The IRS uses a variety of techniques such as document matching, correspondence and audits to verify that taxpayers accurately report their tax liability. The IRS should only audit those returns most likely to have errors. Various methods are used to identify errors prior to contacting the taxpayer with the most common method using Discriminant Function (DIF) formulas to select returns for examination.

(3) NRP results will increase the fairness of tax administration. They will improve the IRS' ability to detect noncompliance, reduce the burden of unnecessary IRS contacts on compliant taxpayers and support the strategic goals, program development, and resource allocation of the IRS Operating Divisions.

(4) The IRS must realize its organizational goals and strategic objectives in order to demonstrate to Congress and America's taxpayers that it is capable of maintaining the integrity of the federal tax system. This challenge is comparable to a corporation demonstrating to its shareholders that it is worthy of their investment and their business. Optimally, this is accomplished through objective measurement of the corporate financial health and the factors that contribute to it. Likewise, the IRS needs to measure taxpayer compliance with federal income tax laws along with contributing factors so that customer-focused programs and services can be enhanced or developed, and compliance information and tools can be improved.

4.22.1.3
(03-07-2023)
NRP Approach for Reporting Compliance

(1) Although the idea of compliance measurement is not new to the IRS, the NRP approach is vastly different from previous efforts. The NRP approach to measuring reporting compliance balances research quality, efficiency and the reduction of taxpayer burden. NRP focuses on obtaining reliable data in the most cost-effective manner possible by using innovative and efficient techniques that maintain taxpayer rights to privacy. Using this approach, NRP will:

    a. Measure reporting compliance by collecting audit data on individual and different types of business taxpayers.
    b. Provide Business Operating Divisions and Headquarters with data to aid in strategic planning.
    c. Use case building data whenever possible, comprised of internal IRS data and publicly available data associated with each tax return, to determine if the return should be considered accurate as filed.
    d. Streamline electronic data collection methods.

(2) After consideration of internal data, if more data collection is necessary, the classifier will follow the instructions in *IRM 4.22.3, Classification of NRP Returns* to make a determination about the best way to obtain the data.

(3) The NRP process for determining return accuracy, or reporting compliance, will minimize taxpayer burden through reliance on current data available to the IRS (some of which was not previously available) instead of line-by-line audits. Experienced examiners will be specially trained to analyze this data associated with every return in the program. Use of this data is intended to rule out compliance issues that can be determined to be correct before contacting a taxpayer.

(4) To ensure the validity of NRP's reporting compliance studies, IRS examiners will verify information on the sampled returns and capture all adjustments, no matter how small or whether the adjustments favor the IRS or the taxpayers. As randomly selected returns, NRP taxpayers can represent thousands of similar taxpayers in the population. Therefore, even the smallest adjustments can have significant impacts in compliance measurements. Reporting errors can favor either taxpayers or the IRS, and for NRP to properly define misreporting, both types of errors need to be identified.

(5) Quality review throughout the NRP process will ensure that high quality data is collected. The IRS has consulted with a variety of sources including other federal agencies, in the area of best practices to ensure its sample design, data and procedures are of the highest quality.

4.22.1.4
(03-07-2023)
NRP Benefits

(1) NRP will produce a number of benefits. The primary benefit is improvement to the workload selection systems. NRP cases with no adjustments are just as important as cases with large adjustments. Proper estimation of DIF formulas requires accurately reported returns against which to compare misreported items.

(2) NRP pioneered a comprehensive case building approach that provides examiners with a wide range of information about the taxpayer. This allows the examiner to focus on significant tax issues, potentially shortening examination time. This process is described in IRM 4.22.2, Case Building.

(3) NRP data will be used to update the DIF formulas. Better formulas will ensure that non-compliant taxpayers are more likely to be selected for examination and compliant taxpayers are less likely to be unnecessarily audited. With its new multi-year sampling approach, the IRS will be able to update its workload selection models more frequently.

(4) NRP data will identify line items on tax returns that create the most difficulty for taxpayers trying to comply with the tax law. Taxpayers will benefit from redesigned forms, improved communications and suggested law changes.

(5) Enforcement focused on non-compliant taxpayers will improve the public's perception of the fairness and accuracy of the tax system.

(6) Obtaining a measure of overall income tax compliance allows the IRS to allocate resources efficiently to improve overall performance.