



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

4.22.4

JANUARY 28, 2021

EFFECTIVE DATE

(01-28-2021)

PURPOSE

- (1) This transmits revised IRM 4.22.4, National Research Program, Examination of NRP Income Tax Returns.

MATERIAL CHANGES

- (1) This IRM content was revised to reflect current NRP examination processes and procedures.
- (2) 4.22.4.1 - Removed mention of Form 1120, 1120s, and 941 from list of examinations conducted by NRP.
- (3) 4.22.4.1.4(1)(b) - Added a paragraph to mandate NRP training for group managers.
- (4) 4.22.4.1.4(c) - Added a paragraph that requires NRP examiners and group managers complete ITM NRP training annually.
- (5) 4.22.4.1.5(1)(f)(g) - Added KITA and ITM to list of acronyms.
- (6) 4.22.4.1.6 - Updated the Related Resources list.
- (7) 4.22.4.2.3(3) - Added a paragraph to instruct examiners and managers to take NRP training every 12 months.
- (8) 4.22.4.3 - Removed mention of TCMP.
- (9) 4.22.4.3.1(5) - Added a reference to IRM 4.10.15.7.19.
- (10) 4.22.4.3.1(6) - Added Lead Sheet instructions and guidelines.
- (11) Throughout this IRM section, editorial changes were made to add clarity, correct punctuation, misspellings and grammar, and to update or add citations and references.

EFFECT ON OTHER DOCUMENTS

IRM 4.22.4, dated January 8, 2013, is superseded.

AUDIENCE

Small Business/Self-Employed (SB/SE), Large Business & International (LB&I), and Tax Exempt and Government Entities (TE/GE) examination employees.

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4.22.4

Examination of NRP Returns

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4.22.4.1
(01-28-2021)
Program Scope and Objectives

- (1) Purpose. This IRM section provides guidance for conducting examinations of NRP key case tax returns. The types of returns applicable to these cases include examinations of:
 - Form 1040, Individual Income Tax - IRM 4.22.6
- (2) Audience. This information applies to IRS employees who are involved in the examination process of NRP selected returns:
 - Territory managers
 - Group managers
 - Examiners
 - Reviewers
 - NRP staff
- (3) Director, Knowledge Development and Application under Research, Applied Analytics and Statistics (RAAS) is the policy owner.
- (4) NRP is the program office responsible for the oversight of the NRP studies.
- (5) For information about the National Research Program, visit the NRP website at: <https://nrp.web.irs.gov>.

4.22.4.1.1
(06-13-2018)
Background

- (1) The IRS needs reliable compliance measures to determine which key areas of noncompliance to address and which treatments to apply to maximize the use of its limited resources. Data provided by NRP examinations gives us the information to meet these needs.
- (2) NRP applies specific guidelines to existing examination techniques and processes to capture necessary compliance data. Using enhanced internal information and established processes, NRP minimizes the burden to both the taxpayer and examination personnel.
- (3) NRP results are available for the IRS to effectively manage its compliance programs and design pre-filing activities that help taxpayers comply with the tax law.
- (4) NRP is critical to the organizational transformation of the IRS. NRP is one of several efforts the IRS is using to enhance its compliance-oriented programs.

4.22.4.1.2
(06-13-2018)
Authorities

- (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

4.22 National Research Program (NRP)

possible. Data from NRP examinations enable the IRS to operate as a more efficient and effective tax administration organization.

4.22.4.1.3 (06-13-2018)

Roles and Responsibilities

- (1) Director, Research, Applied Analytics and Statistics (RAAS) oversees the NRP Program.
- (2) Director, Data Management Division (DMD) oversees the Compliance Data Warehouse (CDW).
- (3) Chief, National Research Program manages and monitors NRP operations and provides guidance. This is the office with primary responsibility for administering the NRP program.
- (4) For all NRP studies, the NRP Office manages and monitors NRP operations and provides guidance and assistance to all participating Business Operating Divisions (Small Business and Self Employed (SB/SE), Large Business and International (LB&I) and Tax Exempt and Government Entities (TE/GE)) as needed.
- (5) Examination Directors have responsibility for NRP examinations within their areas.
- (6) Territory Managers have responsibility for NRP examinations within their territories.
- (7) The Planning and Special Programs (PSP) Territory Manager (TM) will coordinate the receipt, control, and assignment of NRP returns. The PSP TM will monitor and report on the status of the NRP inventory, approve transfer of cases and have second line authority for approval/disapproval of exclusion requests.
- (8) Group Managers and Case Managers are responsible for NRP cases within their groups, including timely assignment of NRP cases, and providing guidance to examiners on the scope and requirements of these examinations. They are also responsible for maintaining a workflow throughout the entire examination cycle that ensures timely completion. To ensure the quality of NRP examinations, managers will review cases according to procedures outlined in this IRM.

4.22.4.1.4 (01-28-2021)

Program Management

- (1) Effective management of the NRP study is achieved by training the NRP managers and examiners. This ensures that quality examinations are conducted and the IRS gets good data.
 - a. Only examiners who complete NRP training will work NRP cases.
 - b. Group Managers with NRP cases in their group are also required to complete the applicable Integrated Talent Management (ITM) NRP training course.
 - c. Examiners with NRP cases assigned to them and group managers with NRP cases in their group are required to complete the Integrated Talent Management (ITM) NRP training course on an annual basis for as long as the NRP cases are active.
 - d. The number of NRP examiners appointed will be sufficient to handle the NRP workload.
 - e. Qualified examiners at appropriate grade levels will be assigned NRP cases.

4.22.4.1.5
(01-28-2021)

Terms and Acronyms

- (1) Acronyms relating to the NRP examination include:
- a. AIMS - Audit Information Management System
 - b. CDW - Compliance Data Warehouse
 - c. DIF - Discriminant Function
 - d. ERCS - Examination Returns Control System
 - e. EOAD – Examination Operational Automation Database
 - f. ITM - Integrated Talent Management
 - g. KITA - Killed In Terrorist Action
 - h. LB&I - Large Business and International Division
 - i. NRP - National Research Program
 - j. PSP - Planning and Special Programs
 - k. SAC - Special Agent in Charge
 - l. SB/SE - Small Business and Self Employed Division
 - m. TE/GE - Tax Exempt and Government Entities

4.22.4.1.6
(01-28-2021)

Related Resources

- (1) IRM 4.22.6, Area Office - Examination of Individual Returns
- (2) IRM 4.22.8, NRP EITC Component of the Individual Reporting Compliance Study

4.22.4.2
(06-13-2018)

NRP Examination Process

- (1) The NRP examination process follows the normal examination process to the extent possible. By adhering to normal examination processes and procedures, NRP is able to minimize the burden to both the taxpayer and examiner while still capturing the necessary data. Each NRP study consists of the following processes for a single tax year:
- a. **Sample Selection** – Each NRP study selects a statistically valid, stratified random sample of returns. Data from the sampled returns produce a set of data that is representative of the study population from which the returns were selected. With appropriate weighting, the results from the sample returns can be used to develop estimates for the study population.
 - b. **Case Building** – Refer to IRM 4.22.2 NRP Case Building, for detailed information about the NRP Case Building process.
 - c. **Classification** – Refer to IRM 4.22.3 Classification of NRP Returns, for detailed information about the NRP Classification process.
 - d. **Examination** – Except as otherwise specified in IRM 4.22.4 Examination of NRP Returns, existing examination processes and procedures are to be followed for NRP cases.
 - e. **Data Transmission** – Refer to IRM 4.22.4.4 Examination of NRP Returns, for detailed information about the NRP Data Transmission process.
- (2) To facilitate continued improvements to NRP studies and processes, the NRP staff will communicate with the Area, Territory, or Industry Offices in coordination with the NRP Coordinators, to solicit feedback and insights on each study. These discussions should include any recommended changes for future studies, taxpayer reactions to the program and ways of accomplishing NRP with reduced taxpayer and examiner burden.

4.22.4.2.1
(11-15-2012)

Receipt of NRP Cases

- (1) NRP electronic case files contain all case building items in electronic format. Contents of any paper case files will vary by study. Refer to IRM 4.22.2, NRP Case Building, for additional details.

- (2) Upon receipt of NRP case files, the receiving office will verify that the electronic and any paper case files are complete and agree with the accompanying transmittal list (Form 3210). If files don't agree with the accompanying transmittal, contact the NRP Office at the following e-mail address:
ctr.aus.nrp@irs.gov.
- (3) After verification, the receiving office will sign and date (on each page) the original and one copy of the transmittal lists (Form 3210) within five workdays.

4.22.4.2.2
(11-15-2012)

Processing of NRP Cases

- (1) NRP cases are processed as part of the normal examination workload unless otherwise specified herein.

4.22.4.2.3
(01-28-2021)

Assignment of Cases

- (1) After receipt of cases from the NRP Coordinator, Group Managers and Case Managers will assign cases to examiners as quickly as possible.
- (2) NRP examinations will only be conducted by examiners who have completed the required NRP training. NRP examinations should be completed promptly without sacrificing quality.
- (3) Examiners with NRP cases assigned to them and group managers with NRP cases in their group are required to complete the Integrated Talent Management (ITM) NRP training course on an annual basis for as long as the NRP cases are active.

4.22.4.3
(06-13-2018)

Examination of Returns

- (1) Examinations of NRP returns are generally held face-to-face. Exceptions to this will be made after concurrence by management on a case by case basis. There will be no surveys before or after assignment unless certain exclusion criteria are met.
- (2) Examinations will be conducted consistent with existing examination guidelines unless they conflict with instructions contained herein. If conflicts arise with existing examination guidelines, NRP guidelines take precedent.
- (3) Where possible, perform field examinations at the taxpayer's place of business to permit actual observation of the taxpayer's business facilities and extent of operations. See IRM 4.10.3.3.2(3) , Where to Conduct Interviews.
- (4) Prior/Subsequent or Related returns are not required for NRP Key cases. Examiners should follow IRM 4.10.5, Required Filing Checks, and determine that all required related returns and prior/subsequent year returns were filed.
 - a. If a prior/subsequent or related return is picked up for examination, use Source Code 91 when establishing the control on AIMS/ERCS.
 - b. If a prior/subsequent or related return is picked up for examination, also use the appropriate Project Code and Tracking Code for the applicable study and tax year.

e.g.	Tax year	Source Code	Project Code	Tracking Code
NRP Key Case	2019	80	0674	7719
Prior Year	2018	91	0674	7719
Subsequent Year	2020	91	0674	7719
Related Return	2019	91	0674	7719

- (5) If indications of fraud are discovered during the examination of an NRP or related return, make a referral in accordance with the procedures in IRM 25.1, Fraud Handbook.
 - a. Label the referral as an NRP case. Such identification is necessary so that the Special Agent in Charge (SAC) can recognize it as being an NRP return.
 - b. If the case is accepted for joint investigation and a reasonably accurate estimate of the results cannot be made during the NRP examination period, the NRP Office will provide additional guidance.
- (6) If an NRP return crosses Operating Divisions, contact your NRP Coordinator for guidance.
- (7) When an examiner determines or is notified that an NRP and/or any related return is being controlled by the Partnership Control System (PCS), the examiner will contact the agent working the related case to find out when reliable information can be expected concerning adjustments that affect the NRP examination. Follow-up periodically to ensure that reliable information is provided timely.
- (8) Alert Area Counsel immediately in all instances involving summons enforcement regarding an NRP case. Also, inform the NRP Office by memorandum of such cases as soon as they arise.
- (9) Under certain circumstances, NRP returns may be removed from the study. In addition to the exclusion criteria in this IRM, there are systemic conditions that

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the procedures for requesting exclusions of NRP cases.
- (10) If the examiner finds that an examination cannot be conducted for reasons other than those listed in this IRM, the manager should notify the NRP Coordinator. The NRP Coordinator will contact the NRP program office to determine if the NRP case can be excluded from the study.
- (11) All problems not specifically covered in this section will be resolved jointly by the NRP Office and participating Operating Divisions.

4.22.4.3.1
(01-28-2021)

**Scope and Depth of
Examinations**

- (1) **Importance of NRP Results** - The examination outcomes of NRP returns provide the data used to understand the extent and nature of noncompliance for the relevant population of returns from which the NRP returns are drawn. These data are used in many ways. Primary among these are developing non-compliance estimates, including the tax gap estimates; developing estimates to satisfy the reporting requirements of the Improper Payments Information Act (IPIA) of 2002 as amended; and developing or updating models for scoring returns as to their probability of significant tax understatement. The scope and depth of the examination of an NRP-selected return should be sufficient to provide reliable information for these purposes. Examiners should be mindful of causing unnecessary burden for the taxpayer.
- (2) **Scope of Examination** - Every classified item must be examined. An inquiry or an inspection of records and documents must be made for all classified line items. If an examiner has a question about the classified issues, refer to IRM 4.22.3, Classification of NRP Returns, for further instruction.
 - a. **Expansion of Audit Scope** - If the examination reveals issues in addition to those classified, the examiner should expand the examination to include the additional items. Materiality is never a factor for expanding the scope of the NRP key case.
 - b. **Related Entity Examinations** - If the examiner chooses to pick-up a related return or entity, controls must be established. If the related entity is outside the group control, the examiner will follow the procedures outlined in IRM 4.1.1.7.5, Collateral Referrals.

Note: *Related return examinations are not NRP sample returns. The examinations of any related entities are not subject to the requirements of an NRP examination. The scope is determined by the examiner. **Related returns are not subject to the NRP guidelines.***

- (3) **Depth of Examination** - Examiners must use their professional judgment concerning the depth of examination required for any item on the tax return bearing in mind the future uses of the data collected from the examinations. See IRM 4.22.4.3.2, Evaluation of Books and Records.
 - a. The depth of the examination of an NRP examination is the same as a non NRP examination. NRP taxpayers must not be held to a higher standard or more in-depth audit procedures.
 - b. Pursue issues to the depth necessary to reach a supportable conclusion. Oral testimony may be accepted in appropriate situations. See IRM 4.10.7, Issue Resolution.
- (4) **Mandatory Probes** - At a minimum, conduct some inquiry or inspection of records and documents supporting classified or mandatory items including, but not limited to, income, deductions, taxes and credits. In the examination of all NRP cases, be equally alert to discovering unreported income, as well as allowing taxpayers any additional deductions or credits to which they are entitled. Given the variety of taxpayers and types and sources of income and deductions, it is not practical to give specific guidelines for the scope and depth of such inquiry. This is a matter of judgment in each case. For minimum income probes refer to IRM 4.10.4, Examination of Income.
- (5) **Required Workpaper Documentation** - Lead sheets and any supporting workpapers are required for each issue, must be prepared electronically, and

included in the applicable electronic case file. Lead sheets must contain the adjustment amount, audit procedures and conclusion. In addition, certain issues require completion of an NRP-specific lead sheet that contains data capture features. All supporting workpapers must be properly named so they can be associated with the appropriate issue/lead sheet. RGS users refer to IRM 4.10.15.7.19 for general lead sheet and workpaper information and requirements.

- a. Audit procedures and conclusions for each issue audited must be supported by written comments in the workpapers regardless of whether an adjustment was made. This is necessary to ensure that the statistical data gathered for NRP is accurate and complete.
- b. Examiners must describe what inquiry or inspection of records or documents was made to verify reported or possible unreported income, deductions and credits.

(6) **NRP Data Capture Lead Sheets** - NRP Data Capture Lead Sheets are all presented in an Excel format and designed so that information entered by the examiner can be extracted and provided to the stakeholder requesting the information.

- a. Information on how to access and complete the Lead Sheets is provided in the training material and within the Lead Sheets.
- b. Do not delete any tabs on NRP Lead Sheets.
- c. NRP Lead Sheets must remain in Excel for proper data capture.
- d. NRP Lead Sheets can be renamed to include the Issue Reference Number according to revised SBSE electronic case file guidelines.
- e. An NRP initial interview supplemental questionnaire is provided to assist examiners with the initial interview.

4.22.4.3.2
(11-15-2012)
**Evaluation of Books and
Records**

- (1) NRP examiners should gather facts to determine the accuracy of any item classified for examination. This determination should include all the facts supporting both sides of an issue.
- (2) Documentary evidence is emphasized in the conduct of an NRP examination. Records kept contemporaneously with the occurrence of an event generally reflect accurately of that event. Books of original entry should be obtained if they exist. The contemporaneous records, invoices, bank statements, cancelled checks, and any other documents to support the books and records should be inspected to a depth adequate to support the accuracy of those books and records.
- (3) In situations where contemporaneous books and records do not exist or are incomplete, secondary written records (such as, copies of original documents obtained from third parties) or other reconstructions of records, if credible, may be used.
- (4) Oral testimony by a taxpayer is direct evidence which must be thoroughly considered. The degree of reliability placed on a taxpayer's oral testimony must be based on the credibility of the taxpayer and the surrounding circumstantial evidence.
- (5) Oral testimony by other than the taxpayer may also be credible if that person has first-hand knowledge of the facts and circumstances.

- (6) The steps to obtain evidence and the evaluation of it should be documented in the issue's workpapers.

4.22.4.3.3
(06-13-2018)

De Minimis Adjustments

- (1) Due to the future uses of the data collected through the NRP examinations, all adjustments must be entered and captured within RGS, IMS or the study specific Data Capture Instrument (DCI) on the key case examination only.
- (2) Each NRP Study has its own requirements regarding de minimis adjustments. For more information, refer to the applicable NRP training courses at <https://nrp.web.irs.gov/training>.

4.22.4.3.4
(06-13-2018)

Wrong-Line Adjustments

- (1) Wrong line adjustments occur when a taxpayer reports an amount on the wrong line of an income tax return. They include:
 - a. Decreasing an amount that was reported (solely or as part of a larger amount) on the return and then allowing the amount elsewhere on the return, OR
 - b. Decreasing an amount that was reported (solely or part of a larger amount) on the return and then allowing that amount split among two or more line items, AND
 - c. Affects or potentially affects the final tax liability.
- (2) All wrong line adjustments must net to zero.
- (3) Wrong line adjustments do not include:
 - a. Increasing an amount that was reported (solely or as part of a larger amount) on the return. If the increase relates to an amount that was reported by the taxpayer on the wrong line, make the adjustment to the correct line.
 - b. Increasing or decreasing an amount as a result of adjustment(s) made to another return (prior, subsequent or related).
- (4) Each NRP Study has its own guidance regarding wrong line adjustments. For more information, refer to the applicable NRP training courses at: <https://nrp.web.irs.gov/training>.
- (5) Guidelines for making wrong line adjustments include:
 - a. For each affected return line item, don't combine wrong line adjustments with other adjustments. If necessary, add issues in RGS to capture the wrong-line adjustments separately.

Note: It's acceptable to combine other adjustments (to the same line) into one issue.
 - b. Use Reason Codes "10" or "14", as appropriate, to describe all wrong line adjustments
 - c. The sum of wrong line adjustments made to the NRP key case must equal zero.
- (6) Cases with flow-through income and expenses to other entities have special considerations. Form 1065, Form 1120S, and Form 1041 provide for items of income and expense to be distributed as ordinary income or (loss) and as separately distributed items (per Schedule K-1 and return attachments). In completing a report for examination changes at the conduit level, the examiner should not reflect changes that are in name only and used to determine

ordinary income or (loss). If changes result in adjustments to the distributed items which could (based on statutory limitations and other requirements at the shareholder/partner level) affect tax liability, then the examiner should make those adjustments and use the appropriate Reason Code "10" or "14."

- (7) Even though wrong line adjustments may not affect the determination of taxable or ordinary income, their true nature can have a definite effect on the determination of tax liability for the NRP return or the shareholder associated with the NRP return. These changes (such as those to Self-Employment Tax, Minimum Tax, Earned Income Credit, etc.,) should be reflected on the report. In addition, changes should be made to misclassified items on a Form 1040 that could result in changes to the shareholder return due to statutory or other limitations at the recipient's level.

4.22.4.3.5
(11-15-2012)
Transfers

- (1) Once a decision has been made to transfer a case to another area and the requirements of IRM 4.11.29 , Transfer of Returns Open for Examination, have been met, the following procedures apply:
- (2) A completed Form 3185, Transfer of Return, with "NRP study cycle" clearly entered in the "Comments" section should be used to transmit NRP cases and any related data to the transferee Area NRP Coordinator for review and updating of control records. The Area NRP Coordinator should establish local procedures for expediting transfers, both into and out of the Area.
- (3) Upon receipt of the NRP package, the receiving Area must acknowledge receipt by updating the NRP control system and by signing and acknowledging Form 3210, Document Transmittal.
- a. The transferring Area NRP Coordinator should review Form 3210 periodically to see if the "Acknowledgment Copy" of Form 3210 has been received.
- b. If it has not been received within 30 days, follow-up action should be taken by contacting the transfer-out clerk within the Area and, if necessary, the receiving Area NRP Coordinator.
- (4) The NRP Coordinator should also review the "Transfer Pending" report on the NRP control system periodically to see if any cases are being transferred into the Area. If a case is not received within 30 calendar days of the "Sent" date, the transferee Area NRP Coordinator should contact the transfer-in clerk within the Area and if necessary, the transfer-out Area NRP Coordinator to ensure transfer completion.
- (5) Formal discussions between the transferrer and transferee Areas are strongly recommended, to eliminate questionable transfers.

4.22.4.3.6
(06-13-2018)
Exclusions

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[illegible]

4.22.4.4
(06-13-2018)
**Transmission of
Electronic Data to NRP
Databases**

- (1) After each NRP examination, the electronic data must be transmitted to the various NRP databases.
- (2) Procedures for transmitting NRP data have been established for each NRP study. See IRM 4.22.4.1 (1) for the applicable IRM section for each NRP study.

4.22.4.4.1
(06-13-2018)
**Data Consistency
Checks of NRP
Examination Records**

- (1) NRP will test all transmitted data to ensure it is complete and consistent. Transmitted case data consists of EOAD data extracted from the electronic case files as well as examiner responses to the NRP questionnaire, if one is used for the study, NRP lead sheets or other NRP data capture instruments.
- (2) Data that is incomplete or inconsistent will be identified for correction. Procedures for testing and correcting NRP data have been established for each NRP study. Data consistency tests for the Form 1040 NRP study are run by the NRP Coordinator.
- (3) Once the transmitted data has passed all NRP consistency tests, the case may be forwarded to the appropriate location.

