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Department of the Treasury
Internal Revenue Service

4.22.6

DECEMBER 14, 2022

EFFECTIVE DATE

(12-14-2022)

PURPOSE

- (1) This transmits a revised IRM 4.22.6, National Research Program, Examination of Individual Income Tax Returns.

MATERIAL CHANGES

- (1) This IRM content was revised to reflect current NRP and individual income tax examination processes and procedures. The information was also revised for readability and clarity
- (2) 4.22.6.1.4 - Added instructions for examiners and managers to complete training and a requirement to do so annually
- (3) 4.22.6.1.5(2)(f) - Added ITM to list of acronyms
- (4) 4.22.6.3(2)(c) - Added Letter 6316 - used for correspondence contact
- (5) 4.22.6.3(3) - Updated instructions regarding when relevant Publications should be used
- (6) 4.22.6.5 - Added a new subsection titled Audit Reconsiderations
- (7) 4.22.6.6(2) - Revised training course from ELMS to ITM and added requirements to complete training annually
- (8) 4.22.6.6.1(1) - Updated training reference from ELMS to ITM
- (9) 4.22.6.6.1(3) - Added additional resources for managing electronic records
- (10) 4.22.6.7(2) - Added paragraph that give instructions to run tax computations after modifying adjustment data
- (11) 4.22.6.7(3) - Added a NOTE with instruction not to set the deficiency to zero
- (12) 4.22.6.9.1(1) - Removed the bullet list and replaced that information by including a link to IRM 1.4.40.7.10
- (13) 4.22.6.7 - Moved former subsection 4.22.6.6.2 to new subsection 4.22.6.9.2 for readability and enhanced IRM organization
- (14) 4.22.6.8 - Added new subsection titled Transmission of Electronic Data to NRP Databases for the Form 1040 Study
- (15) 4.22.6.9.1.2 - Moved from 4.22.6.6.1.1.1 for clarity, readability, and appropriateness
- (16) Added Exhibit 4.22.6-1 at the end of the document and details considerations for conducting and NRP examination by correspondence
- (17) Throughout this IRM section, editorial changes were made to add clarity, correct punctuation, and to update or add citations and references

EFFECT ON OTHER DOCUMENTS

IRM 4.22.6, dated June 25, 2018, is superseded.

AUDIENCE

Small Business/Self-Employed (SB/SE) Field Examination employees

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4.22.6

Examination of Individual Income Tax Returns

Table of Contents

4.22.6.1 Program Scope and Objectives

4.22.6.1.1 Background

4.22.6.1.2 Authority

4.22.6.1.3 Roles and Responsibilities

4.22.6.1.4 Program Management

4.22.6.1.5 Terms and Acronyms

4.22.6.1.6 Related Resources

4.22.6.2 NRP Form 1040 Individual Income Tax Return Examination Process

4.22.6.3 Initiating Examinations

4.22.6.4 Amended Returns

4.22.6.5 Audit Reconsiderations

4.22.6.6 Individual Income Tax Examination Guidelines

4.22.6.6.1 NRP Leadsheets

4.22.6.6.1.1 NRP Backup/Validation Program

4.22.6.6.1.1.1 Case Closing Checksheets

4.22.6.7 Individual Income Tax Examination Reports

4.22.6.8 Transmission of Electronic Data to NRP Databases for the Form 1040 Study

4.22.6.9 Area NRP Program Monitoring

4.22.6.9.1 Group Manager Responsibilities

4.22.6.9.1.1 New NRP Examiners

4.22.6.9.1.2 Returning NRP Examiners

4.22.6.9.2 Area Quality Reviews

4.22.6.9.3 National Quality Review System (NQRS)

Exhibits

4.22.6-1 Proper Consideration of NRP Exams to be Conducted by Correspondence

4.22.6.1
(12-14-2022)
Program Scope and Objectives

- (1) This IRM section provides guidance for conducting examinations of Form 1040 NRP key case individual income tax returns.
- (2) Audience. The following IRS employees who participate in an National Research Program (NRP) individual income tax study are:
 - 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>.

4.22.6.1.1
(12-14-2022)
Background

- (1) The IRS needs reliable compliance estimates 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.

4.22.6.1.2
(12-14-2022)
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, Examination of returns and claims for refund, credit or abatement; determination of correct tax liability.
- (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 enables the IRS to operate as a more efficient and effective tax administration organization.

4.22.6.1.3
(12-14-2022)

**Roles and
Responsibilities**

- (1) Director, Knowledge Development and Application, Research, Applied Analytics and Statistics (RAAS) is the policy owner.
- (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) Compliance employees under Small Business and Self Employed (SB/SE Division) are involved in the examination process of NRP selected returns.

4.22.6.1.4
(12-14-2022)

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 ITM NRP training course.
 - c. NRP examiners, group managers, and reviewers with assigned or unassigned NRP cases are required to complete the NRP training course annually.
 - 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.

4.22.6.1.5
(12-14-2022)

Terms and Acronyms

- (1) A defined term applicable to individual income tax Examination of Returns: **Report Generation Software (RGS)** is a comprehensive software program used to perform a variety of audit and review tasks. In addition to computing tax, penalties and interest on the examination report, RGS generates correspondence, work papers and case closing documents.
- (2) Following is a list of acronyms relating to NRP:
 - a. CCP - Centralized Case Processing
 - b. CEAS - Correspondence Examination Automation Support
 - c. EIC - Earned Income Credit
 - d. EOAD - Examination Operational Automation Database
 - e. EQRS - Embedded Quality Review System
 - f. ITM - Integrated Talent Management
 - g. NQRS - National Quality Review System
 - h. RA - Revenue Agent
 - i. RAR - Revenue Agent Report
 - j. RGS - Report Generation Software
 - k. SB/SE - Small Business and Self Employed Division
 - l. TCO - Tax Compliance Officer

4.22.6.1.6
(12-14-2022)
Related Resources

- (1) IRM 4.22.1, National Research Program Overview
- (2) IRM 4.22.2, NRP Case Building
- (3) IRM 4.22.3, Classification of NRP Returns
- (4) IRM 4.22.4, Examination of NRP Returns

4.22.6.2
(12-14-2022)
**NRP Form 1040
Individual Income Tax
Return Examination
Process**

- (1) Information specific to the NRP individual income tax returns study is addressed in the following IRM sections:
 - Case building - see IRM 4.22.2.3, Form 1040 Study Case Building Elements
 - Classification - see IRM 4.22.3.3, NRP Classification of Form 1040 Returns
 - Case assignment - see IRM 4.22.4.2.3, Assignment of Cases
- (2) For detailed information on examining EIC, please refer to the procedures in IRM 4.22.8, NRP EITC Component of the Individual Reporting Compliance Study.
- (3) Additional guidance on NRP research and accurate data gathering requirements are outlined in IRM 4.22.4., Examination of NRP Returns.
- (4) It is recommended that cases with a Schedule C or F be assigned to revenue agents. The primary reasons for establishing these guidelines include the need to tour the business and the potential for e-business activities. Exceptions to this can be made by area Management on a case by case basis.

4.22.6.3
(12-14-2022)
Initiating Examinations

- (1) Contacting a taxpayer for an NRP examination adheres to existing examination guidance as outlined in IRM 4.10.2, Examination of Returns, Pre-Contact Responsibilities. Due to the importance of NRP results, all possible efforts should be made to contact NRP taxpayers whose cases are to be examined.
- (2) All initial taxpayer contacts to initiate an NRP examination must be made by mail using the following letters developed for NRP individual income tax key case examinations:
 - a. Letter 2205-B, NRP2 Initial Contact Letter, for revenue agents
 - b. Letter 3572-B, NRP TCO Initial Contact Letter, for tax compliance officers
 - c. Letter 6316, NRP Field Correspondence Contact

Note: Letter 6316 should be used only when initiating an exam to be conducted by correspondence. See IRM 4.22.6.9.1.2 , Proper Consideration of NRP Exams to be Conducted by Correspondence, for more information.

- (3) Send the following enclosures along with the initial contact letters.
 - Notice 1332, Why Your Return is Being Examined
 - Notice 609, Privacy Act Notice
 - Publication 1, Your Rights as a Taxpayer
 - Publication 4134, Low Income Taxpayer Clinic List (Letter 2205-B Only) - Field cases only

- (4) Use standard examination letters for any other correspondence to taxpayers or their representatives. This would include, but not be limited to, confirmation letters, appointment letters for related returns, no-change letters, and no change with adjustment letters.
- (5) If the initial contact letter or certified (or registered) return receipt is returned undeliverable, see IRM 4.10.2.8.4, Undeliverable Initial Contact Letters, for additional guidance.

4.22.6.4
(12-14-2022)

Amended Returns

- (1) Review command code IMFOLT to determine if the taxpayer filed an amended return and whether it was processed by the Campus.
 - a. If an amended return WAS filed and processed, provide a copy of the processed amended return along with ALL supporting schedules to your NRP coordinator immediately upon discovery.
 - b. If the supporting schedules are not included with the processed amended return, secure the supporting schedule information from the taxpayer and provide everything to your NRP coordinator.
- (2) The RGS Return Setup information MUST be modified to reflect the processed amended return amounts.
- (3) If the amended return WAS NOT processed, DO NOT provide the amended return and supporting schedules to the NRP coordinator. DO NOT modify the RGS Return Setup information; however, DO consider the amended return information during the audit.

4.22.6.5
(12-14-2022)

Audit Reconsiderations

- (1) NRP cases are subject to the same audit reconsideration rules as any other examination as discussed in IRM 4.13, Audit Reconsideration.
- (2) When a closed NRP case is later accepted for an audit reconsideration, it is no longer part of the NRP study.
- (3) All NRP audit reconsideration cases must be worked on the applicable area RGS schema. The original NRP RGS exam record must be maintained on the NRP RGS schema. For instructions on copying the RGS file and working the audit reconsideration case refer to the Audit Reconsideration Cases and IRS Special Procedures for RGS and CEAS on the *Exam System Knowledge Base*.

4.22.6.6
(12-14-2022)

Individual Income Tax Examination Guidelines

- (1) Individual income tax examination guidelines contained in the NRP training module must be followed to ensure accurate examination and data capture.
- (2) SB/SE NRP examiners, managers, and reviewers must complete NRP Training, **ITM #32289 NRP Examination Training Form 1040 Study**, after receiving their first NRP case. The current course is sufficient for any year under examination. Examiners, reviewers, and group managers with NRP cases must complete the NRP Training on an annual basis.
- (3) All NRP cases are worked on a separate NRP RGS schema. Instructions for gaining access to the specific NRP RGS schema are provided in the NRP training course, *ITM #32289, NRP Examination Training Form 1040 Study*.
- (4) Do NOT create the NRP key case in RGS. NRP key cases are created by the NRP office and include all applicable case building information and issue

creation. Refer to the NRP training course, *ITM #32289, NRP Examination Training Form 1040 Study*, for instructions about accessing and downloading the NRP key case file.

- (5) All Information Document Requests (IDRs) must be tailored to each return and the issues identified. IDRs must list the specific records and documents that the taxpayer should provide.
- (6) Examination of all classified issues is mandatory. The Classified Issue List in RGS Case File Documents provides a list of all classified issues.
- (7) Prior, subsequent, or related returns are not required to be picked up for NRP cases. The examiner will determine whether to expand the scope of the audit. If expanding the scope of the audit to other returns, follow standard examination procedures and do not use NRP Lead Sheets. NRP lead sheets are used for the key case year only. Any prior, subsequent and related returns, must be established on the NRP RGS 1040 schema with Source code 91, Project code 0674 and the same tracking code as the key case year.
- (8) NRP taxpayers are held to the same standard of proof required in a regular examination. Follow existing guidelines in IRM 4.10.7.3, *Evaluating Evidence*, for determining the proper examination depth for each issue.
- (9) Data is compiled from the NRP examination; consistency and accuracy are essential. Therefore, guidance provided in the NRP Issue Reference Guide must be followed. The guide provides specific information on various issues including:
 - Internal Revenue Code Section 183 (not for profit activities)
 - Net Credit Adjustments
 - Passive Activity Limitations
 - Change in Filing Status
 - Ministers/Self Employment Deductions
 - Change in Accounting Method
 - At Risk Limitations
- (10) A T-Account must be completed as part of the financial status analysis. If the T-Account shows a potential for unreported income, a formal indirect method should also be considered.
- (11) Minimum income probes are required on all NRP cases. Information on the minimum income probes is contained in IRM 4.10.4.3., *Minimum Requirements For Examination of Income*.
- (12) All NRP cases closed must go through area NRP coordinator for final data testing and transmission, see IRM 4.22.6.8, *Transmission of Electronic Data to NRP Databases for the Form 1040 Study*.

4.22.6.6.1
(12-14-2022)
NRP Leadsheets

- (1) NRP administrative and issue-specific lead sheets are required for each key case return. Refer to the NRP Training course, *ITM #32289*, for a list of required NRP administrative and issue-specific lead sheets.
- (2) If the examiner adds an issue to the key year, any applicable NRP issue-specific lead sheets **MUST** be added and completed electronically.
- (3) Comprehensive electronic case files are required so reviewers, analysts and researchers can access the content remotely to better understand how the

examiners arrived at their determinations. All lead sheets, supporting workpapers, and source documents critical to examination findings **MUST** be saved electronically. Only include files which are relevant to the examination results and reduce large PDF file sizes by using various optimize tools, where possible. Critical paper documents should be scanned or sent via Enterprise Electronic Fax to create an electronic workpaper. For additional resources please see IRM 4.33.1, Managing Electronic Records from Taxpayers and Third Parties.

4.22.6.6.1.1
(12-14-2022)
**NRP Backup/Validation
Program**

- (1) The NRP Backup/Validation Program was developed to verify that all required NRP lead sheets were completed, to transmit lead sheet data, and copy the RGS case to a secure server location.
- (2) The NRP Backup/Validation Program must be run successfully by the examiner after all final lead sheet data has been input, prior to closing the case to the group manager.

4.22.6.6.1.1.1
(12-14-2022)
**Case Closing
Checksheets**

- (1) The NRP examiner Case Closing Checksheet summarizes the required examination procedures and data capture elements for NRP cases. The examiner will complete the Case Closing Checksheet electronically at the conclusion of the examination as follows:
 - a. The Case Closing Checksheet is attached to Section 615 - NRP Items in RGS.
 - b. Complete the case closing checksheet electronically and save it in RGS.
- (2) The NRP manager Case Closing Checksheet summarizes the required examination procedures and data capture elements for the NRP cases. The manager will follow the same guidelines outlined above.

4.22.6.7
(12-14-2022)
**Individual Income Tax
Examination Reports**

- (1) For NRP key cases, ALL adjustments must be made and included on the Form 4549, regardless of size.

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- (3) When adjustments are proposed, and the deficiency is either \$0 or set to \$0 by the examiner (see # 2 above), use Disposal Code "01 - No change with adjustments". Zero Deficiency reports require **ONLY** one report and should follow regular examination closing procedures.

Note: Do NOT set the deficiency to \$0 if there are adjustments to prepayment credits.

- (4) When no adjustments are made, a valid no-change case will require two tax computations and two reports.
 - a. The first report must be generated in RGS with an Agreement Status of "No Change" and issued to the taxpayer.

- b. The second report must be generated in RGS with an Agreement Status of "Agreed". Generate Form 5344 using Disposal code 02, **AFTER** the Agreed tax computation to ensure the capture of all necessary examination data.

4.22.6.8
(12-14-2022)

**Transmission of
Electronic Data to NRP
Databases for the Form
1040 Study**

- (1) For the NRP Form 1040, Individual Income Tax Study, the transmission of all final case data is performed by the area NRP coordinator.
- (2) Once the group manager has reviewed the closed case and completed the NRP manager Closed Case Review Checksheet, the case file is forwarded to the area NRP coordinator for final data testing and transmission.
- (3) The electronic NRP RGS case file is forwarded to the appropriate area NRP coordinator RGS group. Any paper case file may also be forwarded to the area NRP coordinator or held by the exam group according to area practices. The case will be updated to AIMS Status Code 41 to reflect the case is in transit to the area NRP coordinator.
- (4) Once the area NRP coordinator acknowledges receipt of the case file, the AIMS Status Code is updated to 43.
- (5) The NRP coordinator will merge the case into their NRP RGS inventory and conduct the data testing and transmission to the NRP databases. Any identified data errors must be corrected by the NRP coordinator or returned to the exam group for correction before the case can be closed.
- (6) After the NRP data has passed all consistency tests, the case may be updated on AIMS and forwarded to the appropriate destination for final processing. If the paper file was held by the exam group, area PSP will provide the field group an electronic copy of F3210 and inform field group to mail physical case file to CCP or Technical Services.
- (7) The NRP coordinator will re-transmit and test case data if data was changed after the last testing. If Technical Services makes changes to the issues or RAR, this new data will have to be captured by the NRP coordinator before the case closes to CCP.

4.22.6.9
(12-14-2022)

**Area NRP Program
Monitoring**

- (1) Various processes will be used to ensure quality NRP cases. These include:
 - a. Group manager evaluative in-process and closed case reviews,
 - b. Mandatory non-evaluative closed case reviews and,
 - c. Any closed case reviews completed by SB/SE or NRP quality review teams

4.22.6.9.1
(12-14-2022)

**Group Manager
Responsibilities**

- (1) When making case assignment decisions, group managers should consider the complexity of the case plus the experience and training level of the examiner. See IRM 1.4.40.4.6 - Assigning Returns.
- (2) Program/project cases, including NRP, may be assigned to newly-trained examiners, when appropriate, to enhance their career development.
- (3) Evaluative case reviews are critical to guarantee the highest quality of NRP cases for **new** or **returning** NRP examiners. The requirements to complete the evaluative case reviews are different for **new** or **returning** NRP examiners. Managers are required to conduct the following case reviews:

- a. One in-process review and one closed case review for new examiners, and
 - b. One in-process review for returning examiners
 - (4) Group managers will complete a 100 percent non-evaluative closed case review on all NRP examinations. NRP 100 percent non-evaluative closed case reviews will focus on:
 - a. Overall case quality
 - b. Technical correctness of the examination
 - c. Adherence to NRP examination guidelines (all classified issues completed), procedural requirements, and case closing/data accuracy requirements
 - (5) The non-evaluative closed case reviews will be completed and documented electronically by the manager using the *NRP Group Manager Closed Case Review Checksheet (Non-Evaluative)*. This form is included in the electronic NRP RGS case file in the Office Documents folder. If a paper case file exists, a printed copy of the form is included behind the Form 9984 (Examining Officer's Activity Record) or in Section 615 of the workpapers or according to existing guidelines.
 - a. By checking "yes" on the review checksheet the manager is indicating that the item (Income Probe, IDR, etc.) was properly completed by the examiner.
 - b. If any item is incomplete the case should be returned to the examiner for clarification/corrections.
-
- (1) A new NRP examiner is defined as one who has not conducted an NRP examination within the past three tax years. For example, if an examiner is assigned a TY 2021 return for examination and did not examine an NRP return for the TY 2020, 2019 or 2018 studies, they would be considered a new NRP examiner. If the examiner is assigned a TY 2021 return for examination and participated in the 2018 study, they would be considered a returning examiner (see Returning NRP Examiners below).
 - (2) A new examiner is only considered "new" for a single study year. For example, if a new examiner is assigned both a TY 2020 and TY 2021 return, they can only be considered a new examiner for one of the study years.
 - (3) For new NRP examiners, two separate reviews (one in-process and one closed) would be required. If the examiner is assigned two or more returns for the study year, separate reviews would need to be completed on different taxpayers.
 - (4) The first evaluative in-process review should take place within 60 days of the first appointment on one of the earliest started cases for the study year.
 - a. For revenue agents, the in-process evaluative review should take place after the concurrence meeting, if applicable, and when enough audit work has been completed for meaningful feedback on the quality of the examination.
 - b. For tax compliance officers, if the examination was completed after the first appointment, the case can still be reviewed as in-process.

4.22.6.9.1.1
(12-14-2022)
New NRP Examiners

- (5) An evaluative closed case review is required on an additional return for the same tax year. The purpose of the review is to provide meaningful timely feedback. This review should be on any subsequent NRP return assigned and generally be completed within 180 days of case assignment. Evaluative reviews must be recorded in the Embedded Quality Review System (EQRS) in accordance with IRM 1.4.40.7.10, Closed Case Review.

4.22.6.9.1.2
(12-14-2022)
**Returning NRP
Examiners**

- (1) A returning NRP examiner is defined as one who has conducted an examination of an NRP return for any of the past three tax years.

Example: An examiner assigned a TY 2021 return for examination, who participated in either a TY 2020, 2019 or 2018 study, is considered a returning NRP examiner.

If an examiner is assigned a TY 2021 return for examination and only participated in the 2017 study, they are considered a new examiner.

- (2) For returning NRP examiners, only one in-process review is required. The evaluative in-process review should take place within 90 days of the first appointment on one of the earliest started cases for the study year.
 - a. For revenue agents, the in-process evaluative review should take place after the concurrence meeting, if applicable, and when enough audit work has been completed for meaningful feedback on the quality of the examination.
 - b. For tax compliance officers, if the examination was completed after the first appointment, the case can still be reviewed as in-process.

4.22.6.9.2
(12-14-2022)
Area Quality Reviews

- (1) Area participation in the review process is required. Area quality reviews are an important part of NRP to ensure quality for subsequent analysis.
- (2) For each new NRP tax year, the area will complete NRP Quality Reviews using the following processes:
 - a. Test to see if managers (up to 10 revenue agent and 10 tax compliance officer cases) are completing the required evaluative case reviews, and
 - b. Review the quality of the feedback provided in any reviews.
- (3) During the fiscal year, the area should generate an ERCS listing that shows NRP Status 12 cases for each group. This ERCS listing should be generated during the fiscal year which allows a sufficient amount of returns where managers were required to complete the first evaluative review.
- (4) There are two ways to obtain the completed EQRS reviews:
 - a. SB/SE Headquarters EQRS analyst will extract the EQRS NRP case reviews for each of the areas/managers/groups in the sample (this is the preferred method as it minimizes area burden), or
 - b. SB/SE Headquarters EQRS analyst will provide an ERCS listing to the area managers selected for review. The group managers can send copies of their evaluative case reviews to the area NRP territory manager. The area NRP territory manager can send copies of the completed EQRS reviews to SB/SE Headquarters NRP analysts. The area NRP territory manager, group managers or area technical analyst

will consider the same EQRS evaluative reviews for the quality of the feedback. It's preferable to do this jointly with the SB/SE Headquarters analyst(s).

- (5) NRP and SB/SE Exam Headquarters analysts will work with the area NRP coordinators to select an appropriate number of revenue agent and tax compliance officer closed cases for review.
- (6) Prior to the case review process, the area NRP coordinator will transmit the EOAD closed case data to the NRP Database on these cases, but they will not make any corrections to closed cases.
- (7) Area case reviews will be completed using the electronic RGS case files. To the extent possible, RGS data reviews will be completed by NRP analysts, and if possible, the area NRP coordinator and an area RGS coordinator on the same closed cases.
- (8) SB/SE Exam Headquarters analysts will complete the closed case reviews jointly with area managers. The reviews will focus on NQRS case quality attributes found in IRM 4.2.8.
- (9) On site area visitations by Headquarters will be considered if the managerial reviews are not being completed in a quality manner and/or the cases reviewed consistently show low attribute scores.
- (10) Feedback from the completed reviews may be provided to area examiners and managers by the area NRP territory manager. The preferred way to provide feedback is through conference calls with area managers.

4.22.6.9.3
(12-14-2022)

**National Quality Review
System (NQRS)**

- (1) NRP individual income tax cases and related returns will be subject to the same operational national review sample guidelines as other examinations.

Exhibit 4.22.6-1 (12-14-2022)**Proper Consideration of NRP Exams to be Conducted by Correspondence**

The National Research Program (NRP) was established as part of IRS' efforts to develop and monitor strategic measures of taxpayer compliance. SBSE Field Exam is a key partner for meeting this objective. Due to the unbiased requirement of compliance data, we recognize that SB/SE resources do not always align with NRP needs.

Although face to face examinations are our primary procedural objective, there can be instances where a quality audit can be conducted without face-to-face contact. To provide flexibility in conducting NRP examinations, correspondence criteria has been developed which will provide consistency across the areas. These criteria should be used when appropriate and are not meant to convert all returns that meet these criteria from face-to-face examinations to correspondence.

The examiners must use their professional judgement when determining if a return that started as correspondence should be converted to a face-to-face examination to ensure that both the taxpayer's and government's interest is protected.

New NRP examinations **appropriate for correspondence examination** will be initiated using Letter 6316, NRP Field Exam Correspondence Contact.

The following criteria is provided as a framework for determining if a return could be considered for correspondence, if necessary:

- No more than 10 issues on the return
- No Schedule F
- No Schedule C except for those that meet the following criteria:
 - Cash basis
 - No cost of goods sold
 - No depreciation
 - No business use of home deduction
 - No net loss
 - Tour of business is not needed
 - Schedule E may be worked by correspondence:
- If the examiner does not need to conduct a tour of the rental property
- If the examiner will not examine flow thru entities
- Any return where there is a financial status concern should be conducted face to face regardless of the above attributes.

Regardless of how the examination is conducted (face to face or correspondence), NRP procedures still apply. The examiner should ensure that all lead sheets are completed and required data is collected. The depth of the examination should be evaluated by the examiner to sufficiently ensure taxpayer compliance and quality standards.

