



## News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

[www.irs.gov/newsroom](http://www.irs.gov/newsroom)

Public Contact: 800.829.1040

### **IRS Updates National Research Program for Individuals**

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WASHINGTON — Internal Revenue Service officials today announced plans to launch a new National Research Program (NRP) reporting compliance study for individual taxpayers that will provide updated and more accurate audit selection tools and support efforts to reduce the nation's tax gap.

The latest NRP study will be the first of an ongoing series of annual individual studies using an innovative multi-year rolling methodology. The study will start in October 2007 and examine about 13,000 randomly selected tax year 2006 individual returns. Similar sample sizes will be used in subsequent tax years.

An advantage of using this method, which combines results over rolling three-year periods, is the IRS will be able to make annual updates to compliance estimates and develop more efficient workload plans on an annual basis, after the initial three annual studies. Previous studies started from scratch, drew tax returns from a single tax year and involved examinations of more than 45,000 taxpayers.

"The new program will be a big step forward for tax research," said Acting IRS Commissioner Kevin M. Brown. "Our approach will reduce burden on taxpayers, improve our audit selection techniques and give us more timely information to help reduce the tax gap."

The tax gap is the difference between what taxpayers should have paid and what they actually paid on a timely basis. Based in part on the prior NRP reporting compliance study of individual income tax returns, IRS officials estimate that the net tax gap for tax year 2001 was \$290 billion.

Using research from the prior NRP study, the IRS updated its audit selection system. Updated statistics enable the IRS to audit more efficiently and improve the detection of underreported income and overstated deductions and credits. The data also enables the IRS to audit fewer taxpayers with accurate tax returns, which lessens the burden on compliant taxpayers.

The research on individuals needs updating because as time passes, patterns of noncompliance change. The sample for the latest individual NRP is constructed to ensure that it contains sub-samples of individuals at different income levels as well as those engaged in farm and sole proprietor business activities.

The initial group of taxpayers whose returns are selected for audit under the new NRP study will start receiving official letters in October informing them that they are part of the

research study. The majority of individuals will have specific lines of their returns confirmed through in-person audits with an IRS examiner. Some of the individuals whose returns are selected for inclusion will not be contacted if the IRS can obtain matching and third-party data that confirms the accuracy of their return. The targeted research design of the new individual NRP avoids the need for IRS agents to routinely check all the lines of a taxpayer's return.

In addition to the NRP for individuals, the IRS is in the final stages of a compliance research project examining reporting compliance of S corporations. This research encompasses approximately 5,000 returns filed for tax years 2003 and 2004. Since the income and expense items for S corporations flow through to individual shareholders, this study will also help refine the tax gap estimates for individual income tax.