



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

4.22.3

NOVEMBER 6, 2023

EFFECTIVE DATE

(11-06-2023)

PURPOSE

- (1) This transmits revised IRM 4.22.3, National Research Program (NRP), Classification of NRP Returns.

MATERIAL CHANGES

- (1) Updated the Title in the Signature section on the first page.
- (2) 4.22.3.1(1) - Removed bulletlist showing related tax forms because they pertain to studies that are no longer active.
- (3) 4.22.3.1(2) - Added territory managers to list of audience.
- (4) 4.22.3.1.1(1) - Changed “randomly” to “statistically” regarding the NRP sample return selection and also revised the second sentence.
- (5) 4.22.3.1.1(3) - Added a new paragraph under the subsection “Background” describing the now fully automated NRP Classification Program and also where to locate previous versions of this IRM.
- (6) 4.22.3.1.2 - Added a new subsection titled “Authority” to provide authorities and legal obligations for the NRP program. This establishes consistency with other NRP IRM’s and aligns with standard IRM formatting for internal control information.
- (7) 4.22.3.1.3 - Changed title to “Roles and Responsibilities” and updated information when necessary.
- (8) 4.22.3.1.3(4) - Removed LB&I and TE/GE from list because they no longer share compliance responsibilities with this program. Audits are conducted in accordance with NRP and SB/SE.
- (9) 4.22.3.1.4(1)(c) - Edited the definition for “Classified Issue List” to remove the sentence about “comments added to the bottom of the document.” Now that classification is fully automated it is no longer relevant.
- (10) 4.22.3.2 - The subsection titled “General NRP Classification Requirements and Standards” was revised throughout. Most paragraphs in this section or referencing this section have been edited or removed. The NRP classification process is now fully automated so all references to previous practices were updated. Some edits were minor and not referenced specifically.
- (11) 4.22.3.2(2) - Paragraph was completely revised to describe the NRP Classification process that is now fully automated and to include possible classification outcomes.
- (12) 4.22.3.2(3) - Paragraph was deleted because classification is now automated making the instructions for classifiers irrelevant. A new sentence describes how and why issues and outcomes are established.
- (13) 4.22.3.2(4) - Deleted paragraph because the instructions to classifiers were for paper case files and irrelevant now that the process is automated.
- (14) 4.22.3.2(5) - Revised paragraph to establish how LUQ issues are determined and classified.
- (15) 4.22.3.2(6) - Deleted paragraph because classification is now automated and the instructions to classifiers is no longer correct.

- (16) 4.22.3.2(8) - Deleted paragraph because the resources offered to classifiers are no longer needed now that classification is automated.
- (17) 4.22.3.3(1) - Changed 1040A to 1040SR.
- (18) 4.22.3.3(2) - Removed paragraph because the training mentioned is obsolete and irrelevant now that NRP Classification is automated.
- (19) 4.22.3.3.1 - The subsection titled "Classification Review" was revised throughout for clarity and outdated information has been removed or updated.
- (20) 4.22.3.3.1(2) - Edited to explain the NRP Office will now serve as the classification reviewers replacing NRP Coordinators. The sentence about classifiers receiving feedback was deleted because it is irrelevant now that the process is automated.
- (21) 4.22.3.3.1(3) - Revised content for updated accuracy. Reference to NRP coordinator as well as mention of the classification session were removed because they are not part of the automated process.
- (22) 4.22.3.3.1(4) - Deleted sentence that instructed classifiers because it is irrelevant now that classification is automated.
- (23) 4.22.3.3.1(5) - Deleted paragraph because the instructions are not current now that classification is automated.
- (24) 4.22.3.3.1(6) - Deleted paragraph because it is inaccurate now that classification is automated.
- (25) 4.22.3.3.2 - Removed subsection titled "Missing Forms, Schedules, or Line Items" because the information is no longer applicable now that the NRP classification is fully automated.
- (26) 4.22.3.3.3 - Changed title of subsection to "NRP Form 1040 Classification Program." Effected language was edited where appropriate to accommodate the title change.
- (27) 4.22.3.3.3(2) - Removed paragraph and list of return displays because now only the 1040 displays.
- (28) 4.22.3.3.3(5) - Deleted first sentence about a Classifier's SEID because it was describing a part of the process that is outdated now that classification is automated.
- (29) 4.22.3.3.3(8) - Deleted paragraph because classification is now automated so the instructions for classifiers is obsolete.
- (30) 4.22.3.3.4(1) - Removed second sentence for being outdated and inaccurate now that NRP classification is automated.
- (31) 4.22.3.3.4.1(3) - Removed exemptions from list of qualifying issues because they are no longer valid.
- (32) 4.22.3.3.4.1(4) - Removed dependants from the list of classified issues related to EIC because it is no longer valid.
- (33) 4.22.3.3.4.2(5) - Deleted sentence about classifying income amounts because the reference to case building is no longer accurate with an automated process.
- (34) 4.22.3.3.4.2(7) - Deleted paragraph about classifying income items regarding a taxpayer's occupation because the process is now automated.
- (35) 4.22.3.3.4.2(8) - Added instruction to provide a note in the comments box for "Other Income" classified issue. Deleted paragraph "c" for describing outdated classifier instructions.

- (36) 4.22.3.3.4.3(2) - Revised language to reflect classification procedures that are now automated and removed item “d” from the list because it is not a part of the criteria used to label an item LUQ.
- (37) 4.22.3.3.4.6 - Deleted subsection titled “Foreign Tax Credit” and its content because classification of a foreign tax credit discrepancy is now an automated process. The instructions here are out of date.
- (38) 4.22.3.3.4.7(3) - Removed “Job Expenses” and “Certain Miscellaneous Deductions” as Schedule A deductions limited by AGI.
- (39) 4.22.3.3.4.8 - Removed subsection titled Employee Business Expenses - Form 2106/Form 2106-EZ because it is no longer classified.
- (40) 4.22.3.3.4.9 - Removed Schedule C-EZ because it is no longer classified.
- (41) 4.22.3.3.4.10(2) - Deleted paragraph instructing classification of like-kind exchanges because this process is now automated.
- (42) 4.22.3.3.4.11(2) - Modified last sentence to say the Classification Program will consider only the taxpayer’s percentage ownership of the entity and removed criteria that is no longer used for classification.
- (43) 4.22.3.3.5.1(3) - Deleted paragraph because classification is now automated and this instruction is inaccurate.
- (44) 4.22.3.3.5.2(2) - Deleted paragraph because it is inaccurate now that classification is automated.
- (45) 4.22.3.3.5.4(3) - Changed NRP office to SB/SE Liaison for source of guidance determining whether a classified return should be assigned a TCO or RA.
- (46) 4.22.3.3.5.4.1 - Deleted subsection because it is explained in the “Roles and Responsibilities” subsection.
- (47) 4.22.3.3.5.4.2 - Deleted subsection because it is explained in the “Roles and Responsibilities” subsection.
- (48) 4.22.3.4 - Deleted subsection and all nested subsections about classification of Form 1120S because it is not currently part of the NRP study.
- (49) 4.22.3.5 - Deleted subsection about classification of Form 1120 because it is not currently part of the NRP study.
- (50) 4.22.3.6 - Deleted subsection about classification of Employment Tax Returns because it is not currently part of the NRP study.
- (51) 4.22.3.7 - Deleted subsection about classification of Form 720, Fuel Excise Tax Returns because it is not currently part of the NRP study.
- (52) 4.22.3-1 - Updated the exhibit where necessary.
- (53) Throughout this IRM section, editorial changes were made to correct grammar and punctuation or to update citations and references.

EFFECT ON OTHER DOCUMENTS

This supersedes IRM 4.22.3 dated December 29, 2017.

AUDIENCE

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

Erik Ogilvie
Supervisory Project Analyst, National Research Program
Knowledge Development and Application
Research Applied Analytics and Statistics

4.22.3

Classification of NRP Returns

Table of Contents

4.22.3.1 Program Scope and Objectives

4.22.3.1.1 Background

4.22.3.1.2 Authority

4.22.3.1.3 Roles and Responsibilities

4.22.3.1.4 Terms and Acronyms

4.22.3.1.5 Related Resources

4.22.3.2 General NRP Classification Requirements and Standards

4.22.3.3 NRP Classification of Form 1040 Returns

4.22.3.3.1 Classification Review

4.22.3.3.2 NRP Form 1040 Classification Program

4.22.3.3.3 Specific Guidelines for Classifying Forms and Schedules

4.22.3.3.3.1 Earned Income Credit

4.22.3.3.3.2 Income Issues

4.22.3.3.3.3 Large, Unusual or Questionable (LUQ) Criteria

4.22.3.3.3.4 Filing Status – Head of Household

4.22.3.3.3.5 Net Operating Loss Deduction

4.22.3.3.3.6 Schedule A - Itemized Deductions

4.22.3.3.3.7 Schedule C – Business Income or Loss

4.22.3.3.3.8 Schedule D – Capital Gains and Losses

4.22.3.3.3.9 Schedule E – Income or Loss from Rental Real Estate, Royalties, Partnerships, S Corporations, etc.

4.22.3.3.3.10 Schedule F – Income or Loss from Farming

4.22.3.3.4 Classification Results

4.22.3.3.4.1 Accepted as Filed

4.22.3.3.4.2 Accepted with Adjustments

4.22.3.3.4.3 Correspondence Examination

4.22.3.3.4.4 Area Examination (RA / TCO)

Exhibits

4.22.3-1 Correspondence Examination Issues

4.22.3.1
(11-06-2023)
Program Scope and Objectives

- (1) *Purpose.* This IRM contains information related to the classification of NRP Form 1040 Individual tax returns.
- (2) *Audience.* This information applies to IRS employees who participate in an NRP study including:
 - Classifiers
 - Examiners
 - Group Managers
 - Territory Managers
 - Reviewers
 - NRP staff
- (3) NRP is the program office responsible for the oversight of the NRP studies.
- (4) For information about the National Research Program, visit the NRP website at: <http://nrp.web.irs.gov>.

4.22.3.1.1
(11-06-2023)
Background

- (1) Each return in the NRP sample is statistically selected and weighted to represent hundreds or thousands of similar returns in the general filing population. Because of the importance of each return in the sample in generating statistically significant estimates, all returns should be carefully scrutinized for indications of noncompliance.
- (2) In the NRP classification process, every item on the return and on all attachments will be considered, regardless of materiality or tax impact. There is no limit to the number of issues that may be classified for NRP.
- (3) Beginning with the Tax Year 2017 study, NRP classification is a fully automated process. The NRP Classification Program and process described in this IRM section were developed and managed by the NRP office using issue selection and audit stream criteria established by both NRP and SB/SE. For information on the NRP classification process prior to TY2017, refer to *prior versions of IRM 4.22.3*.

4.22.3.1.2
(11-06-2023)
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, 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.

4.22.3.1.3
(11-06-2023)

Roles and Responsibilities

- (1) Chief Data and Analytics Officer, Research Applied Analytics and Statistics (RAAS) has overall responsibility for all of RAAS' operations and it's variety of services.
- (2) Director, Data Management Division (DMD) oversees the Compliance Data Warehouse (CDW).
- (3) Director, Knowledge Development and Application (KDA) oversees NRP and is the policy owner.
- (4) Supervisory Project Analyst, National Research Program (NRP) manages and monitors NRP operations and provides guidance. This is the office with primary responsibility for administering the NRP program.
- (5) Compliance employees under Small Business and Self Employed (SB/SE), conduct audits in accordance with NRP and operational guidelines.

4.22.3.1.4
(11-06-2023)

Terms and Acronyms

- (1) Following is a list of the defined terms applicable to classification:
 - a. **Case Building:** The process of collecting information for classification and adding information to the case file, from both IRS and non-IRS sources. Use of this information during the classification process will help identify or eliminate potential issues and provide the examiner with the maximum amount of information to guide the examination activity. For specific case building items related to each study, see IRM 4.22.2, *NRP Case Building*.
 - b. **Classification:** The process of identifying cases and issues for examination.
 - c. **Classified Issue List:** A list of the issues identified during classification and included in each electronic case file. Each issue includes the IMF/ SAIN code, issue name, per return amount, form/schedule, line number, and any issue-related comments entered by the Classification Program or NRP Analyst reviewer.
 - d. **Information Reporting Program (IRP):** Matching program that compares income reported by third party entities to the amount reported by the taxpayer on the tax return.
 - e. **Key case returns:** Returns identified by NRP through a random selection process. Key case returns use AIMS Source Code 80.
 - f. **Report Generation Software:** A comprehensive program used throughout the examination process 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 classification:
 - a. **AIMS** - Audit Information Management System
 - b. **CDE** - Certified Data Environment
 - c. **CRN** - Credit Reference Number
 - d. **EIC** - Earned Income Credit
 - e. **FAX** - Facsimile
 - f. **IDRS** - Integrated Data Retrieval System
 - g. **IMF** - Individual Master File
 - h. **IRP** - Information Reporting Program
 - i. **IRPTR** - Information Returns Processing Transcript Requests
 - j. **LB&I** - Large Business and International Division

- k. **LUQ** - Large, Unusual and Questionable
- l. **NRP** - National Research Program
- m. **PSP** - Planning and Special Programs
- n. **RA** - Revenue Agent
- o. **RGS** - Report Generation Software
- p. **SB/SE** - Small Business and Self Employed Division
- q. **SSN** - Social Security Number
- r. **TCO** - Tax Compliance Officer
- s. **TE/GE** - Tax Exempt and Government Entities Division

4.22.3.1.5
(11-06-2023)
Related Resources

- (1) IRM 4.22.1, National Research Program Overview
- (2) IRM 4.22.2, Case Building
- (3) IRM 2.3, IDRS Terminal Responses, for command code information
- (4) IRM 4.10.2, Pre-Contact Analysis

4.22.3.2
(11-06-2023)
General NRP Classification Requirements and Standards

- (1) In the NRP classification process, every item on the return and on all attachments will be considered regardless of materiality or tax impact. There is no limit to the number of issues. *Collectability Indicator will not be a consideration to accept a return as filed.*
- (2) Classification of sampled NRP cases is conducted by the NRP Office. The NRP Classification process is fully automated using an NRP developed Classification Program which applies rules-based criteria against a complete set of return data. The NRP Classification Program determines the initial scope of the examination and the resulting outcome. Classification outcomes include:
 - Accepted as Filed (no taxpayer contact needed)
 - Accepted with Adjustments (no taxpayer contact needed)
 - Revenue Agent
 - Tax Compliance Officer
 - Correspondence (Campus) Exam
- (3) Classification issues and outcome criteria were established by NRP and SB/SE to minimize examiner and taxpayer burden while also meeting research goals.
- (4) Generally, all Large, Unusual and Questionable (LUQ) issues (defined in IRM 4.22.3.1.4), will be classified for examination. The determination of whether an issue is LUQ is driven by rules-based criteria established by NRP and SB/SE.
- (5) Many tax return amounts can be corroborated using case building material. If the case building material matches the items reported on the tax return, generally the item will not be classified.

4.22.3.3
(11-06-2023)
NRP Classification of Form 1040 Returns

- (1) The information in this section applies to the classification of NRP Form 1040 Individual tax returns. This information also covers Form 1040SR.

4.22.3.3.1
(11-06-2023)
Classification Review

- (1) All classified NRP returns are available for review by a trained reviewer. For each classified return, the NRP reviewer must perform a full review, a partial review, or accept the classification results without review.

- (2) The NRP Office will serve as the classification reviewers. Initially, all classified NRP returns will be fully reviewed with the goal of consistent application of the classification guidelines by the NRP Classification Program.
- (3) After the reviewers are satisfied as to the accuracy of the NRP Classification Program, classification review will be limited to only the required classification outcomes as defined in the next paragraph, IRM 4.22.3.3.1(4).
- (4) All classified NRP returns selected as "Accepted as Filed," "Accepted with Adjustments" and "Correspondence" will be reviewed.

4.22.3.3.2

(11-06-2023)

NRP Form 1040**Classification Program**

- (1) The NRP Classification Program is accessed through a secure web site.
- (2) The NRP Form 1040 Classification Return form is completed automated and reviewed electronically. Specific instructions for accessing and using the automated NRP 1040 Classification Program are provided to reviewers as needed.
- (3) The classification data will be accumulated for analysis and used to populate the classified items in RGS prior to the returns being sent to the Area PSP or Campus for audit.
- (4) If the classified return is reviewed, the Classification Reviewer's SEID and the date reviewed will be captured.
- (5) The Classification Return form will display the dollar amounts as shown on the tax return. Every item with an amount other than zero must be considered and a classification determination of **Verified**, **Classified** or **Not LUQ** must be made.
- (6) After the classified issues on the return are selected by the NRP Classification Program, the program will then determine the classification outcome based on established criteria of:
 - a. Accepted as Filed,
 - b. Accepted with Adjustments,
 - c. Correspondence,
 - d. TCO, or
 - e. RA.
- (7) There are several issues on the Classification Return form that require the Classification Program to select whether the item pertains to the primary or secondary Social Security Number (or both).
 - a. "P" refers to the first (primary) Social Security Number listed on the return and
 - b. "S" refers to the second Social Security Number on the return.

4.22.3.3.3

(11-06-2023)

**Specific Guidelines for
Classifying Forms and
Schedules**

- (1) Following are some specific guidelines to help identify the mandatory and most prevalent issues to be classified.

4.22.3.3.3.1
(11-06-2023)
Earned Income Credit

- (1) The examination and documentation of the Earned Income Credit is an integral part of an NRP Form 1040 study.
- (2) If the Earned Income Credit is claimed on the return it will always be classified.
- (3) To classify EIC, select one or more of the following issues:
 - EIC for Qualifying Children (Not Listed as Dependents)
 - EIC With No Children
- (4) When EIC is classified and the above issues are selected, the Classification Program will also select any or all the issues that may be related to EIC including:
 - Filing Status
 - Child and Dependent Care Credit
 - Credit for the Elderly or the Disabled
 - Education Credits
 - Child Tax Credit
 - Adoption Credit
- (5) Taxpayers claiming EIC with qualifying children must be examined by an RA or TCO.
- (6) Taxpayers claiming EIC with no children may be examined by the Campus Correspondence Unit.

4.22.3.3.3.2
(11-06-2023)
Income Issues

- (1) In general, every income item on the return that cannot be substantiated by case building materials is classified.
- (2) Generally, the IDRS IRPTR data is the best source of case building information for verifying an income amount on a given tax return line item. IRP data can be used to verify wages, interest, dividends, and miscellaneous income. The IRP data will also verify flow-through amounts from Forms 1065, 1120S and 1041.
- (3) Schedule C income items will always be classified even when verified by IRP.
- (4) Some Schedule F income items will be classified regardless of their amount, even if they match IRP documents. The remaining Schedule F income items will be classified unless verified by case building material. For additional guidance, see IRM 4.22.3.3.3.10.
- (5) Schedule B, Schedule D and Schedule E income items will be classified unless they can be verified by case building.
- (6) In using the IRP documents to verify amounts reported on the tax return, the Classification Program will disregard a specific mismatch if it is below the tolerance set by NRP or appears to be a rounding discrepancy.
- (7) The Classification Program will consider indications on the return that the taxpayer(s) had insufficient income to support their standard of living. For example:
 - a. If gross itemized deductions exceed Adjusted Gross Income, classify "income."

- b. If the Classification Program questions whether the taxpayer(s) has enough income to sustain their apparent lifestyle, the "Other Income" issue will be classified and a note in the "Comments" box will state **Standard of Living**.

4.22.3.3.3.3
(11-06-2023)

Large, Unusual or Questionable (LUQ) Criteria

- (1) All LUQ items on the return will be classified for examination. The established LUQ criteria are applied to any line items that are not required to be classified. LUQs are items that appear on the return which, if left unexplained, might raise doubt or cause confusion to a reviewer of the completed examination.
- (2) The definition of an LUQ item was developed by NRP and SB/SE and includes rules for each potential issue on the return. Some factors that went into the development of LUQs criteria are:
 - a. The comparative size of the item
 - b. The absolute size of the item
 - c. The inherent character of the item

4.22.3.3.3.4
(11-06-2023)

Filing Status – Head of Household

- (1) The Head of Household filing status will always be classified on all NRP returns.

4.22.3.3.3.5
(11-06-2023)

Net Operating Loss Deduction

- (1) If the NRP return claims a Net Operating Deduction under Other Income, it will always be classified.

4.22.3.3.3.6
(11-06-2023)

Schedule A - Itemized Deductions

- (1) Schedule A (Itemized Deductions) items above a pre-determined NRP threshold will be classified. This is the most significant exception to applying LUQ criteria for NRP. Small adjustments to itemized deduction amounts are extremely significant for NRP research purposes because of the great number of taxpayers that itemize their deductions.
- (2) Items on Schedule A that can be corroborated by case building information do not need to be classified. For example, Home Mortgage Interest and Points deducted on Schedule A can be verified from Form 1098 information on the IRPTR document. Because some taxpayers may be limited in the amount of their allowable deduction, the Classification Program will classify this issue if it is a high dollar amount rather than accept the amount claimed because it matches the Form 1098 amount.
- (3) The Classification Program will not consider total itemized deduction phase-out rules based on income. For Schedule A deductions limited by AGI (Medical and Dental Expenses), the items will be classified after the AGI limitation is taken into account.

4.22.3.3.3.7
(11-06-2023)

Schedule C – Business Income or Loss

- (1) Income items on Schedule C , Profit or Loss From Business, will be classified even if the amounts match IRP documents.
- (2) Expenses on this schedule (including Cost of Goods Sold) will generally be classified using the LUQ criteria.

- (3) The Classification Program will designate whether the schedule pertains to the primary or secondary Social Security Number or both.
- (4) If it is believed the Schedule C being classified may not be engaged in for a profit, the Classification Program will classify the issue under “Section 183 – Not for Profit Activity.”
- (5) The Classification Program will also classify “Interest – Mortgage” and “Taxes and Licenses.” These expenses are classified as they may be claimed on the Schedule C but may be allowable on Schedule A.

4.22.3.3.3.8
(11-06-2023)
**Schedule D – Capital
Gains and Losses**

- (1) In general, all line items on Schedule D are classified using the LUQ criteria, including any IRP discrepancies.

4.22.3.3.3.9
(11-06-2023)
**Schedule E – Income or
Loss from Rental Real
Estate, Royalties,
Partnerships, S
Corporations, etc.**

- (1) On Schedule E Part I (Supplemental Income and Loss - Rental Real Estate and Royalties), income items will be classified unless they can be corroborated by case building information. Expenses will be classified using the LUQ criteria except for “Mortgage Interest” which must be verified using case building information.
- (2) On Schedule E Part II (Income or Loss from Partnerships and S Corporations), the Classification Program will classify any Partnership or S Corporation item(s) that does not reconcile to the IRP document provided in the case building materials. The Classification Program will identify any other flow-through entity for examination using the LUQ criteria. The Classification Program will consider the taxpayer’s percentage ownership of the entity.
- (3) Schedule E Parts III (Income or Loss from Estates and Trusts) and IV (Income or Loss From Real Estate Mortgage Investment Conduits) will be classified similarly to Part II using LUQ criteria.

4.22.3.3.3.10
(11-06-2023)
**Schedule F – Income or
Loss from Farming**

- (1) The following Schedule F income items will be classified regardless of their amount, even if they match IRP documents:
 - Sch F Sales of Livestock & Other Resale Items (Cash)
 - Sch F Sales of Livestock, Produce, Grains and Other Products You Raised (Cash)
 - Sch F Custom Hire (Machine Work) Income (Cash)
 - Sch F Other income (Cash)
 - Sch F Sales of Livestock, produce, grains, and other products (Accrual)
 - Sch F Custom Hire (Machine Work) Income (Accrual)
 - Sch F Other Income (Accrual)
- (2) The remaining Schedule F income items will be classified unless verified by case building material. Schedule F expenses are classified using the LUQ criteria except for “Mortgage Interest” which must be verified using case building information. The Classification Program will designate whether the schedule pertains to the primary or secondary Social Security Number or both.
- (3) If it is believed the Schedule F being classified may not be engaged in for profit, the Classification Program will classify the issue under “Section 183 – Not for Profit Activity.” The classification program will also classify “Interest-

Mortgage,” “Interest-Other” and “Taxes.” These expenses are classified as they may be claimed on the Schedule F but may be allowable on Schedule A.

4.22.3.3.4
(11-06-2023)
Classification Results

- (1) The NRP tax return will be completely classified prior to the determination of the classification results.
- (2) After classifying the return, the Classification Program will indicate the overall result on the Classification Return Form based on criteria defined in the following sections.
- (3) All returns designated as “Accepted as Filed,” “Accepted with Adjustments” or “Correspondence” will be reviewed and concurred by the classification reviewer.

4.22.3.3.4.1
(11-06-2023)
Accepted as Filed

- (1) The classified NRP return will be designated as “Accepted as Filed” if **ALL** the following criteria apply:
 - a. The total of all classified issues is less than the total return tolerance.
 - b. There are no income items which cannot be verified by case building.
 - c. There are no non-dollar items for related party transactions.
 - d. There are no discrepancies related to IRP documents or processing errors.
- (2) If there are issues for which dollar amounts are *not* known, (such as, Other income - standard of living, Schedule C/F - Gross Receipts, etc.), the Classification Program will select the return for audit.

4.22.3.3.4.2
(11-06-2023)
Accepted with Adjustments

- (1) A return will be “Accepted with Adjustments” if it would have been “Accepted as Filed” except there are discrepancies related to IRP documents or processing errors.

4.22.3.3.4.3
(11-06-2023)
Correspondence Examination

- (1) Correspondence examiners will audit returns containing no more than five of the issues shown in Exhibit 4.22.3-1, **Correspondence Examination Issues**. More than one issue in a category of similar classified issues are only counted as one issue for the total Correspondence issue count.

Example: The Classification Program may select “Schedule A State and Local Income Taxes,” “Schedule A Real Estate Taxes” and “Schedule A Personal Property Taxes.” These three issues relate to the Schedule A Taxes and they are counted as only one issue towards the total Correspondence issue count.

- (2) Certain IRP discrepancies where the taxpayer has underreported income may be sent to Correspondence if the combined total of underreported income does not exceed a low threshold amount.
- (3) Earned Income Credit returns with No Children can be selected for Correspondence exam. EIC with children, any other EIC related issues, or returns with financial status concerns will not be selected for a Correspondence examination.

4.22.3.3.4.4
(11-06-2023)

**Area Examination (RA /
TCO)**

- (1) The Classification Program will select returns for Area Examination (TCO or RA) if the classified issues exceed the total return tolerances or there are non-dollar items for related party transactions or indications of potential unreported income.
- (2) Returns are selected for Area Examination if they do not meet the issue guidelines for Correspondence returns.
- (3) The Classification Program will determine whether the classified return should be assigned to a TCO or RA based on Area guidance solicited from the SB/SE Liaison. This designation by the Classification Program will determine the type of mandatory issues and workpapers that will be provided in the NRP RGS case file.
- (4) The initial determination of the type of case may be changed by the Area depending on the issues selected on the return or the availability of examiners in locations that may be trained and available to examine NRP returns.

This Page Intentionally Left Blank

Exhibit 4.22.3-1 (11-06-2023)**Correspondence Examination Issues**

The NRP Correspondence Examination Issue list is used by the Form 1040 NRP classifiers to determine which issues can be worked in Correspondence Examination and drives the determination of which Form 1040 NRP returns will be assigned to the Campus Compliance Operations Site for examination.

Note: For any line item with multiple categories, one or more issues count as one for purposes of the total Correspondence issue count (identified with an asterisk*)

IRP Discrepancy Income Items (Underreported - the taxpayer reported less than the IRP)

- Wages
- Taxable Interest
- Ordinary Dividends
- Qualified Dividends
- Taxable Refunds, Credits or Offsets of State and Local Income Taxes
- Taxable IRA Distributions
- Taxable Pensions and Annuities
- Unemployment Compensation
- Social Security Benefits
- Alaska Permanent Fund Dividend

Filing Status (other than related to EIC)

Certain Business Expenses from Form 2106/2106-EZ

Health Savings Account Deduction

Penalty on Early Withdrawal of Savings

Alimony Paid

Individual Retirement Account (IRA) Deduction

Non Itemized Charitable Contributions

Child Related Credits (other than related to EIC; one or more issues count as one for purposes of the total Correspondence issue count)*

- Child and Dependent Care Expenses - Number of qualified persons (not listed as dependents) (Form 2441)
- Qualified Child and Dependent Care Expenses (Form 2441)

Education Related Deductions and Credits*

- Educator Expenses
- Student Loan Interest Deduction
- Tuition and Fees Deduction
- Education Credits
- American Opportunity Credit

Retirement Savings Contributions Credit

Residential Energy Credits

Exhibit 4.22.3-1 (Cont. 1) (11-06-2023)**Correspondence Examination Issues**

Additional Tax on IRAs, Other Qualified Retirement Plans, etc.

Federal Income Tax Withholding

EIC with no Qualifying Children

Excess Social Security and Railroad Retirement Tax Amount (RRTA) Tax Withheld

Federal Fuel Tax Credit

Schedule A Items:

- Medical and Dental Expenses
- Taxes*
 - State and local income taxes *or*
 - State and local general sales taxes
 - Real estate taxes
 - Personal property taxes
 - Other taxes
- Interest*
 - Home mortgage interest and points from Form 1098
 - Home mortgage interest and points *not* from Form 1098
 - Points *not* from Form 1098
 - Mortgage insurance premiums
 - Investment interest
- Gifts to Charity*
 - Gifts by cash or check
 - Gifts *other than* by cash or check
 - Contribution carryover
- Other Miscellaneous Deductions