

DEPARTMENT OF THE TREASURY

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MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE



FROM: Diana M. Tengesdal
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SUBJECT: The Internal Revenue Service's Readiness for the 2026 Filing Season (Audit No.: 2026400002)

The annual tax return filing season is a critical time for the Internal Revenue Service (IRS) because it is when most individuals file their income tax returns and contact the IRS if they have questions. However, recent workforce reductions efforts returned IRS staffing to October 2021 levels. At the same time, key inventories waiting to be processed (such as amended tax returns and taxpayer correspondence) have significantly increased. Efforts to hire filing season employees were delayed due to the government shutdown and changes to the hiring process within the Department of the Treasury. Lastly, new efforts to modernize tax administration are delayed and their expected efficiencies may not occur during the upcoming filing season.

This memorandum summarizes our concerns regarding the IRS's readiness for the 2026 Filing Season.¹ Accordingly, we have numerous ongoing reviews related to taxpayer services, tax processing, and modernization efforts.

Status of Key Program Inventories

We have previously reported that the IRS continues to reduce inventory levels due to the backlog created by the pandemic.² However, as of December 2025, overall inventory levels in key return processing programs have increased due to efforts to reduce staff and the government shutdown. Inventory levels as of December 2025 are significantly higher than inventories before the pandemic (129 percent higher). Figure 1 shows the increase in

¹ See Appendix I for a glossary of terms.

² TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* (May 2023), and Report No. 2024-408-024, *Interim Results of the 2024 Filing Season* (April 2024).



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inventory levels for the key tax return processing inventories leading up to the 2026 Filing Season.

Figure 1: Individual Tax Return Inventory Levels in Key Tax Return Processing Programs Increased Leading into the 2026 Filing Season

Inventory	Pre-Pandemic	Pre-Staffing Losses	Post Staffing Losses and Government Shutdown
	December 2019	December 2024	December 2025
Amended Returns (AM)	132,831	492,204	548,736
Amended Returns (SP)	15,098	76,325	41,643
Correspondence (AM)	201,910	324,769	375,268
Error Resolution	24,621	35,758	126,594
Paper Tax Returns	182,000	52,293	294,052
Rejects	121,397	169,374	267,890
Unpostables	193,536	359,567	343,350
Total inventory	871K	1.5M	2.0M

Source: IRS weekly inventory reports as of the weeks ending December 28, 2019; December 7, 2024; and December 6, 2025; respectively. K = Thousand, M = Million, AM = Accounts Management and SP = Submission Processing. Inventory definitions are available in the glossary. The inventory levels listed are limited to individual tax returns only.

The government shutdown on October 1, 2025, impacted the IRS's ability to reduce inventories. The IRS was funded for five business days after the lapse in funding and furloughed employees beginning October 8, 2025. Employees returned to normal operations on November 13, 2025. The IRS exempted approximately 23,000 of its 39,000 (59 percent) staff in key filing season positions from furlough to continue preparing for the 2026 Filing Season. The IRS used multi-year funding from the Inflation Reduction Act of 2022 to pay employees who continued working during the shutdown.³

Inventory that is not worked during the current processing year will be carried into the 2026 Filing Season and may affect the IRS's ability to timely process tax returns during the filing season, especially with reduced staff. This could result in delays in taxpayers receiving refunds and could result in the IRS paying interest. During Processing Year 2025, the IRS paid more than \$2.6 billion in interest to individuals as of November 30, 2025. The interest paid includes interest due to tax return processing delays and other individual interest payments.

³ Pub. L. No. 117-169, 136 Stat. 1818.

Status of Staffing

As of October 2025, the IRS lost approximately 19,000 (19 percent) of its employees due to federal workforce reduction efforts. Specifically, the key filing season programs lost approximately 8,300 (17 percent) employees. These programs are responsible for processing original and amended tax returns, resolving tax return errors, assisting taxpayers on the telephone and in-person, stopping tax-related fraud before refunds are issued, and updating IRS computer systems.

As of October 2025, total staffing in these programs was similar to October 2021 staffing levels, before Inflation Reduction Act of 2022 funding was available, with three exceptions. The Submission Processing function had 1,626 (17 percent) fewer employees than in October 2021 and the Return Integrity and Compliance Services function had 213 (11 percent) fewer employees. While the Accounts Management function had 2,028 (12 percent) more employees than in October 2021. Figure 2 shows the staffing changes in key processing programs since October 2021.

Figure 2: Staffing in Key IRS Programs as of October 2025 is Generally at Pre-Inflation Reduction Act Levels

Key Program Areas	Employees as of October 2021	Employees as of October 2024	Employees as of October 2025
Overall IRS	81,492	100,435	81,456
Key Filing Season Programs			
Accounts Management	17,326	23,773	19,354
Field Assistance	2,621	3,477	2,852
Information Technology	7,091	8,504	7,135
Media and Publications	597	620	557
Return Integrity and Compliance Services	1,855	1,923	1,642
Submission Processing	9,401	9,320	7,775
Total Key Filing Season Program	38,891	47,617	39,315

Source: IRS Human Capital Office reports for employees on roll for the week ending October 9, 2021; October 5, 2024; and October 4, 2025.

The Submission Processing function has only onboarded two percent of approved hires and may not be able to train them in time for the filing season

The Submission Processing function processes original and amended tax returns and resolves tax return errors. The Submission Processing function received approval to hire 2,200 employees for the 2026 Filing Season, *i.e.*, 1,700 external positions approved and 500 internal positions approved. The approved positions included tax examiners and clerks. However, as of December 30, 2025, the Submission Processing function had onboarded just 50 of the 2,200 (2 percent) employees it was approved to hire. Submission Processing

management stated it can take between 60 and 80 days to train new employees, so they may not be ready to assist during the 2026 Filing Season. Submission Processing management stated that they plan to continue onboarding the remaining employees during the 2026 Filing Season.

Despite having direct hire authority for filing season positions, the IRS was delayed in posting these job announcements because of a new hiring process. The new process includes getting approvals to hire from the IRS's Chief Executive Officer and the Department of the Treasury before announcements can be posted. Selections must also be approved by the IRS Chief Executive Officer and the Department of the Treasury before employment offers can be made. Although the Submission Processing function was able to announce open positions during the shutdown, they could not conduct in-person direct hiring events. However, the IRS was able to conduct an in-person hiring event in January 2026.

The Accounts Management function onboarded 66 percent of approved hires but delays forced the IRS to reduce new hire training, which may limit their ability to help taxpayers

The Accounts Management function generally handles taxpayer contacts through telephone and mail. It is also responsible for processing adjustments to tax accounts and certain amended tax returns. Accounts Management uses the same employees to answer the telephones and process its adjustments inventory. As a result, Accounts Management has to balance their resources during the filing season to ensure that they are meeting their telephone level of service goals while managing their paper inventory.

In August 2025, the Accounts Management function received approval to hire approximately 3,500 employees for the 2026 Filing Season, which was approximately four months later than the approval for the 2025 Filing Season. Accounts Management onboarded 2,300 (66 percent) employees in September 2025 through December 2025, including during the shutdown.

Accounts Management leadership stated that they would typically onboard new hires no later than August 31, 2025, to ensure that employees are fully trained and ready by January 1, 2026. Since approval was not received until August 2025, the Accounts Management function modified its training for new employees to allow as many new employees as possible to be ready to assist taxpayers during the filing season. For example, new hires are typically trained to answer individual telephone questions and individual amended tax return questions. Now, they are only being trained to screen calls, *i.e.*, route them to the right assistor, and answer basic questions on refunds. Accounts Management leadership also plans to increase overtime usage throughout the fiscal year to mitigate any negative impact of their hiring shortfall. We plan to monitor IRS's use of overtime and taxpayer service performance in upcoming reviews.

Status of Customer Service Preparations

Telephone service

To address the staffing shortfall, Accounts Management leadership stated that they will use overtime to reduce inventories. More importantly to taxpayers, they will also reduce the telephone level of service goal to 70 percent compared to the 85 percent goal during the 2025 Filing Season. The last time the IRS achieved a level of service at 70 percent or lower was during the 2022 Filing Season when the level of service was 18 percent due to the surge of calls the IRS received after the pandemic. This level of service is equivalent to Accounts Management assistants answering fewer than one-in-five incoming calls to the IRS toll-free telephone lines. However, on January 20, 2026, the Chief Executive Officer of Internal Revenue stated that the agency will replace how it measures telephone service with enterprise metrics that reflect new technologies and service channels.

Face-to-face service

The Field Assistance function generally assists taxpayers in-person at Taxpayer Assistance Centers (TAC) across the nation. During the government shutdown in October 2025, all 362 TAC offices were closed. With the end of the shutdown in November 2025, the TAC offices have reopened. However, the operating status of the TACs can vary day-to-day due to illness, staff leaving, or staff taking other positions within the IRS. Reductions in the number of open TAC offices could potentially result in fewer taxpayers being served during the 2026 Filing Season. As of May 3, 2025, the IRS assisted nearly 1 million taxpayers in-person at a TAC office. Additionally, approximately 27 TAC offices were closed temporarily or were not staffed. As of December 2025, 35 TAC offices are closed.

Status of the Information Technology Function

The IRS's Information Technology function plays a critical role in ensuring that tax processing systems are updated before the start of the filing season. As of October 2025, the Information Technology function lost approximately 16 percent of its staff that are responsible for updates for inflation and expiring or new tax provisions. According to the IRS readiness reports, implementation of these legislative changes is at risk for the 2026 Filing Season. There were approximately 4,100 (58 percent) Information Technology employees reporting to duty during the shutdown out of approximately 7,100 employees on roll in October 2025. These employees primarily worked on testing the readiness of programs for the 2026 Filing Season.

The Information Technology function also plays a role in the IRS's initiatives to offset staffing losses, e.g., Zero Paper Initiative, amended tax return automation, Taxpayer 360, etc. With the staffing losses, the IRS may be unable to update its tax return processing systems for the 2026 Filing Season. Additionally, the IRS has reported delays in the Zero Paper Initiative and Taxpayer 360.

Initiatives to offset staffing losses may not yield expected benefits during the 2026 Filing Season

The IRS has implemented several modernization initiatives to help offset reduced staffing levels. For example, the Zero Paper Initiative focuses on converting incoming paper tax returns, correspondence, and information returns into a digital format with the goal to reduce processing times, lower costs, and better serve taxpayers. For the 2026 Filing Season, the Zero Paper Initiative focuses on using contractors to digitize most paper-filed Forms 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*; Forms 941, *Employer's QUARTERLY Federal Tax Return*; and Forms 1040, *U.S. Individual Income Tax Return*; so they can be processed electronically.⁴ The IRS selected four contractors to digitize paper tax returns for the 2026 Filing Season and has begun sending vendors documents to scan. As of December 6, 2025, vendors have scanned and digitized approximately 379,000 (4 percent) of the 10.7 million Form 1040 paper-filed tax returns. We are conducting a separate review of the IRS's efforts to modernize the processing of paper-filed tax returns.

Additionally, the IRS has started testing the automated processing of Forms 1040X, *Amended U.S. Individual Income Tax Return*, that are electronically-filed and contain certain adjustments. Submission Processing management estimates that implementation for the automated process will be completed by January 2026. However, they noted that not all capabilities will be available for the 2026 Filing Season. We plan on conducting additional testing on this during the 2026 Filing Season.

Finally, the IRS is developing Taxpayer 360, which will provide intuitive, artificial intelligence enabled tools, and user-friendly interfaces to enable more efficient issue resolution for taxpayers and the IRS. Taxpayer 360 should make it faster and easier for employees to help taxpayers. However, Taxpayer 360 is facing delays due to the shutdown and resource prioritization and realignment. Users in the pilot program are reporting bugs, along with enhancements and other issues that require remediation before a larger scale release. One of the key initiatives for Fiscal Year 2026 is to have Taxpayer 360 available to 5,000 or more Accounts Management assistants by September 2026, which will be after the 2026 Filing Season.

⁴ This includes 23 forms or schedules not including Form 940, Form 941, and Form 1040.

Glossary of Terms

Term	Definition
Amended Tax Return	A tax return that is submitted by a taxpayer after their original tax return has been submitted to the IRS. Individual amended tax returns are processed by both the Submission Processing and Accounts Management functions, depending upon certain criteria on the tax return.
Amended Tax Return Automation	A systemic process used by the Submission Processing function which automates certain adjustments related to amended tax returns.
Correspondence	Correspondence is all written communications initiated by a taxpayer or taxpayer representative, excluding tax returns, whether solicited or unsolicited.
Error Resolution Cases	Tax returns identified with an error condition are suspended from processing and sent to the Error Resolution function for correction by a tax examiner.
Filing Season	The period from January through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The federal government's fiscal year begins on October 1 and ends on September 30.
Level of Service	The primary measure of service to taxpayers. It represents the relative success rate of taxpayers who call the IRS Accounts Management function's telephone lines seeking assistance from an assistor. Further, it is a budget measure used to determine the resources for the toll-free telephone lines. The IRS's measure is titled Customer Service Representative Level of Service.
Paper Tax Returns	Tax returns that are submitted to the IRS by mail and must be manually worked through the IRS processing pipeline.
Processing Year	The calendar year that the IRS processes the tax return or document.
Rejects	Tax returns that cannot be processed, usually due to missing or incomplete information. Tax examiners correspond with the taxpayer to clarify an entry on a tax return. When the taxpayer responds, the tax examiner will resolve the issue, and the tax return will continue processing.
Taxpayer 360	An integrated case management system that consolidates all relevant information an Account Management employee may need to help taxpayers in a single database.
Taxpayer Assistance Center	Local offices nationwide staffed by IRS employees who are trained to provide a variety of services including answering tax account questions, taking cash payments, and authenticating the identity of individuals who have been identified as potential victims of tax-related identity theft.
Unpostables	Transactions that will not post to the taxpayer's account because they failed validity checks. The unpostable condition must be resolved to complete processing of the transaction.
Zero Paper Initiative	The IRS's combined modernization and digitalization efforts for the processing of paper-filed tax returns, correspondence, and other documents.