

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **The IRS Cancelled Contracts Potentially Saving Hundreds of Millions of Dollars, but the Impact on Taxpayer Service Remains Unknown**

March 25, 2026

Report Number: 2026-150-015

# HIGHLIGHTS: The IRS Cancelled Contracts Potentially Saving Hundreds of Millions of Dollars, but the Impact on Taxpayer Service Remains Unknown

Final Report issued on March 25, 2026

Report Number 2026-1S0-015

## Why TIGTA Did This Review

Beginning in January 2025, the President issued executive orders that directed federal agencies to evaluate and, where necessary, cancel or modify contracts to reduce overall federal spending. In response, the IRS participated in the Defend the Spend initiative starting in February 2025. The General Services Administration developed the list of contracts for potential termination and provided them to the Department of the Treasury. The Department of the Treasury then forwarded the list to the IRS for further evaluation.

This review assessed the impact of contract cancellations and scope reductions (descope) initiated by the IRS.

## Impact on Tax Administration

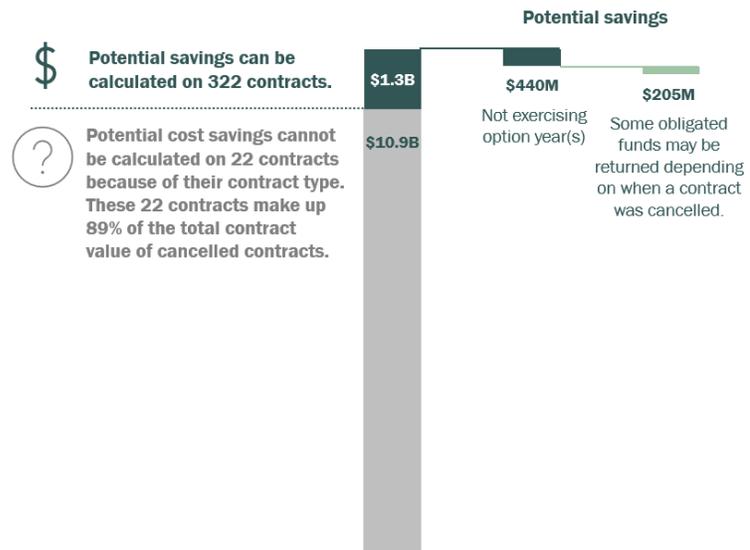
When the IRS cancels a contract, it avoids future spending because any remaining option periods will never be used. This is generally how the IRS calculated potential cost savings from a cancelled contract.

However, depending on the contract requirements, cancelling contracts that support taxpayer-facing services may affect service quality. This can disrupt core operations such as processing returns, providing customer service, or enforcing compliance.

## What TIGTA Found

As of January 2025, the IRS had over 3,000 active contracts. In response to the executive orders, the IRS identified 501 contracts for potential cancellation by May 2025 on its Procurement Hub (*i.e.*, the platform used to track and report all Defend the Spend contract dispositions). According to that platform, by July 2025, the IRS opted to cancel 344 of those contracts. However, the actual cost savings from these actions were either limited or unknown because most of the obligated funds had already been expended or the contracts had no obligated values.

The 344 cancelled contracts had potential cost savings of \$440 million in avoided costs and \$205 million in open obligations (*i.e.*, the difference between how much the IRS has committed to spending and how much has been spent to date).



The Secretary of the Treasury has indicated that customer service is one of the top priorities for the IRS. Of the 501 contracts, we identified 146 that included taxpayer-facing services such as updates to tax filing systems, interpreter support, and expert witness testimony. By July 2025, the IRS opted to cancel 115 of the 146 taxpayer-facing contracts, while the remaining 31 were either descope or retained. The 115 cancelled contracts represented nearly \$170 million in avoided costs and over \$85 million in open obligations. Cancelling taxpayer-facing contracts may create service gaps, delay assistance, and require the IRS to adjust resources to meet its mission.

This report provides information only, so we made no recommendations. We plan to evaluate the IRS's implementation and oversight of the Procurement Hub platform to administer its contract rationalization project.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**  
**WASHINGTON, D.C. 20024**

March 25, 2026

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in black ink that reads "Diana M. Tengesdal".

**FROM:** Diana M. Tengesdal  
Deputy Inspector General for Audit

**SUBJECT:** Final Report – The IRS Cancelled Contracts Potentially Saving Hundreds of Millions of Dollars, but the Impact on Taxpayer Service Remains Unknown (Review No.: 20251S0006)

This report presents the results of our review of the Internal Revenue Service's (IRS) cancelled contracts as of May 2025. We performed this review during the period June 2025 to December 2025. We are issuing this report to document general statistics of the contract cancellation efforts the IRS has undertaken in response to various executive orders that directed agencies to terminate or modify contracts with a goal of reducing overall federal spending. This review is part of our Fiscal Year 2026 discretionary work and addresses the major management and performance challenge of *Improving Operational Efficiencies*.

We made no recommendations as a result of the work performed during this review. However, IRS officials reviewed this report prior to its issuance.

If you have any questions, please contact me or Kasey Koontz, Acting Assistant Inspector General for Audit (Taxpayer Services and Operational Support).

## Background

Beginning in January 2025, the President issued three executive orders (EO) that directed federal agencies to evaluate and, where necessary, cancel or modify contracts to reduce overall federal spending. As of January 2025, the Internal Revenue Service (IRS) had over 3,000 active contracts. Figure 1 outlines the three EOs.

**Figure 1: Executive Orders Impacting Federal Contracts**

Date of EO	EO Number	EO Title
January 20, 2025	14151	<i>Ending Radical and Wasteful Government Diversity Equity and Inclusion Programs and Preferencing</i>
February 26, 2025	14222	<i>Implementing the President's "Department of Government Efficiency" Cost Efficiency Initiative</i>
March 20, 2025	14240	<i>Eliminating Waste and Saving Taxpayer Dollars by Consolidating Procurement</i>

Source: *The Federal Register*.

### Defend the Spend initiative

In response to EO 14222, the IRS participated in the Defend the Spend (DTS) initiative starting in February 2025, which was a governmentwide effort initiated by the Department of Government Efficiency. The goal of this initiative was to eliminate waste, reduce spending, and increase efficiency by eliminating non-essential contracts. Management officials from the IRS's Office of the Chief Procurement Officer (OCPO) stated that the General Services Administration provided the Department of the Treasury with a list of contracts that were identified for possible termination. The Department of the Treasury forwarded the list of contracts to the IRS and provided guidance on cancelling certain types of contracts. This also included determining which contracts the IRS considered as mission critical. OCPO officials coordinated with business unit senior officials to recommend which contracts could be cancelled, reduced in scope (descoped), or retained.<sup>1</sup> The IRS also self-identified contracts to consider for cancellation.

In May 2025, the IRS started using the Procurement Hub platform to track and report all DTS contract dispositions. Prior to that, the IRS tracked its decisions on spreadsheets. We plan to evaluate the implementation and oversight of the Procurement Hub platform to administer the IRS's contract rationalization project.

### Federal Acquisition Regulation contract termination process

The Federal Acquisition Regulation (FAR) outlines the procedures and responsibilities for contract termination, including the rights and obligations of both contractors and contracting officers. Part 49 of the FAR outlines the types of terminations and the process involved when the government decides to terminate a contract for convenience (*i.e.*, the contract is terminated

<sup>1</sup> See Appendix II for a glossary of terms.

when it is in the government’s interest), or for default (*i.e.*, contractor failure to perform or comply). The government can also order a contractor to stop work (temporarily suspend performance) or modify a contract for partial terminations/descoping. We refer to those contracts that the IRS terminated for convenience as cancelled contracts.

When the government cancels a contract for convenience, the contracting officer is responsible for issuing the termination notice to the contractor, ensuring compliance with applicable termination clauses, managing settlement processes, and protecting the government’s interest.<sup>2</sup> The contractor must promptly stop work, terminate subcontracts, safeguard property, and submit a timely settlement proposal with supporting documentation. However, the FAR allows contractors to submit the settlement proposal up to one year following the date of the termination notice. We may conduct future audits to assess whether the IRS followed contract cancellation processes and evaluate the impact the revised FAR had on those processes.

In April 2025, the President issued EO 14275, *Restoring Common Sense to Federal Procurement*, to simplify and streamline the FAR and ensure that it contains only provisions that are required by statute or are essential to efficient, secure, and cost-effective procurement. As of August 2025, updates to streamline the termination portions of the FAR were complete, but updates to the stop work portions were still being determined.

### **Contract value components used to determine cost savings**

Figure 2 includes definitions of contract value components used to determine potential cost savings of cancelled contracts.

#### **Figure 2: Definitions of Contract Values**

**Total Contract Value:** The total potential cost of the contract from inception through completion, including if the IRS exercises all option periods. An **option period** is a portion of time that extends the contract, which permits the IRS to purchase additional goods or services. If a contract is cancelled, **avoided costs** include the dollar value of the option periods that will not be exercised. This is generally how the IRS calculated potential cost savings from a cancelled contract.

**Obligated Value:** The total amount of funds the IRS has committed to spending. It includes:

- **Expended Amount:** The funds that have been spent or paid to date. This is the IRS-accepted invoiced amount from the contractor.
- **Open Obligations:** The difference between Obligated Value and the Expended Amount.

*Source: Summary of contract data elements described on the Federal Spending Transparency website.*

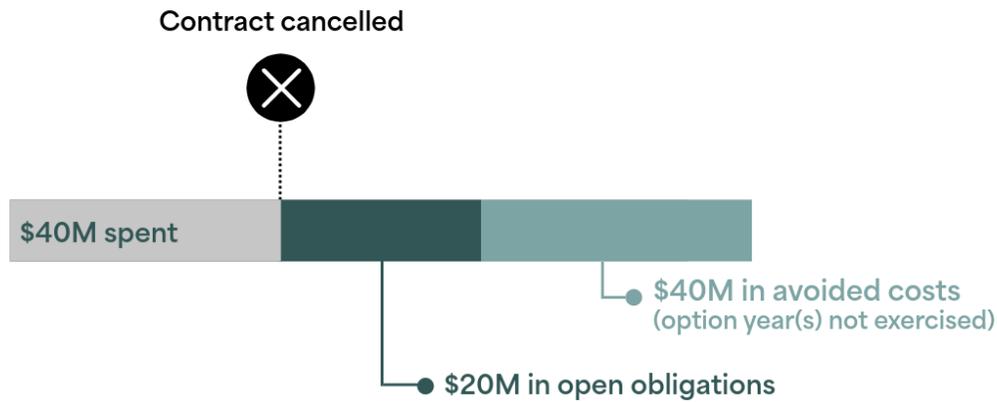
When the IRS cancels a contract, it avoids future spending because any remaining option periods will never be used. When only part of a contract is cancelled (descoped), it is treated like a cancellation but applies to a portion rather than the entire contract. For example, a contract might include requirements for both design and ongoing maintenance of a software application, and the contract is then descoped to remove the ongoing maintenance portion of those requirements.

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<sup>2</sup> See Appendix I for a template of an IRS contract termination notice letter.

Each time a contractor invoices the IRS for completed work, it reduces the open obligations amount by the same amount. The remaining open obligations represent potential savings from cancelling a contract. However, this amount may be reduced if the contractor submits valid settlement proposals or final invoices. Figure 3 provides a hypothetical example of potential cost savings (avoided costs) from cancelling a \$100 million contract.

**Figure 3: Hypothetical Example of a \$100 Million Contract and Potential Savings**



Source: Summary of contract data elements using a hypothetical example.

## Objective

The overall objective of this review was to assess the impact of IRS contract cancellations and scope reductions initiated since January 20, 2025.

## Results of Review

### The IRS Opted to Cancel 344 Contracts with Potential Cost Savings of Nearly \$645 Million

In response to the EOs, the IRS cancelled hundreds of contracts. As of May 2025, the IRS identified 501 contracts for potential cancellation and tracked these decisions on the Procurement Hub platform. According to that platform, by July 2025, the IRS opted to cancel 344 of those contracts.<sup>3</sup> However, the actual cost savings from these actions were either limited or unknown because most of the obligated funds had already been expended or the contracts had no obligated values.

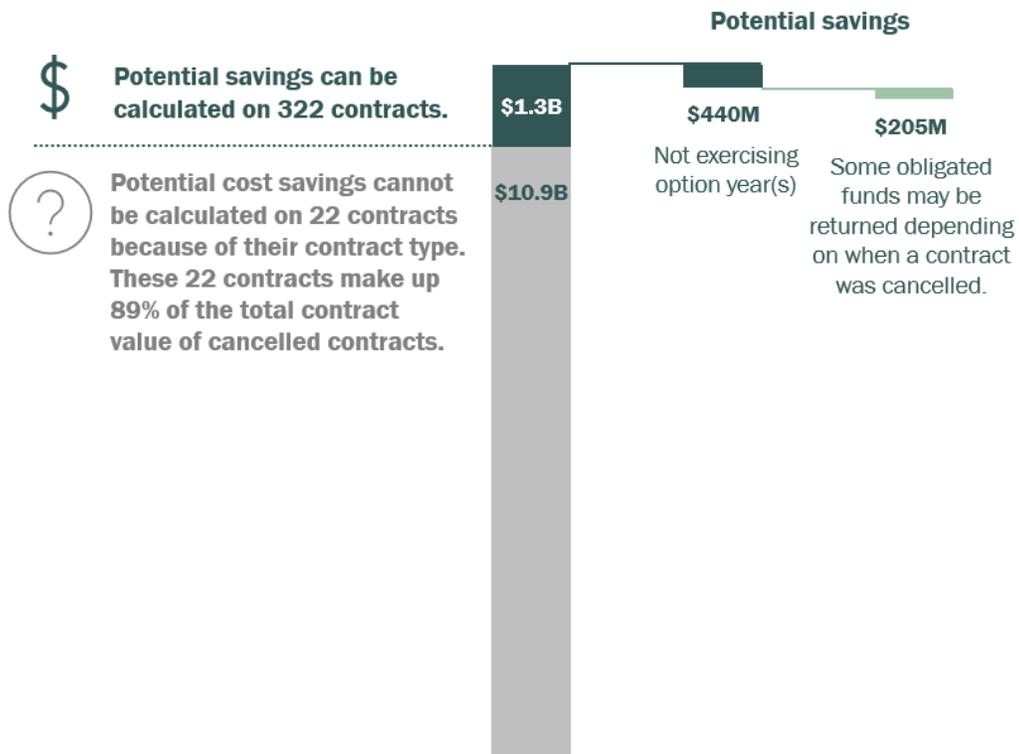
<sup>3</sup> The contract status in the Procurement Hub as of July 2025 shows that the IRS had not issued the formal cancellation action on 116 of those contracts.

**The IRS Cancelled Contracts Potentially Saving Hundreds of Millions of Dollars, but the Impact on Taxpayer Service Remains Unknown**

Certain contract award types do not carry obligated values and therefore do not allow for a direct calculation of potentially avoided costs or open obligations. These award types include Blanket Purchase Agreements and Indefinite-Delivery Contracts. For example, a Blanket Purchase Agreement is a simplified contracting method that establishes charge accounts for recurring needs with qualified vendors. These charge accounts include total contract values, but do not obligate the IRS to spend anything until an order is placed. For the descope contracts, the information available at the time of our review did not identify the dollar value of the work removed. As a result, we limited our analysis to the remaining open obligations on those contracts.

Figure 4 shows the potential savings associated with the 344 cancelled contracts.

**Figure 4: Potential Cost Savings Associated with 344 Cancelled Contracts**



Source: Analysis of IRS contract cancellation tracking records. B = billions. M = millions.

**Many contract cancellations could impact taxpayer-facing services**

The Secretary of the Treasury has indicated that customer service is one of the top priorities for the IRS. We identified 146 contracts that included requirements that may impact taxpayer-facing services. The IRS OCPO Procurement Hub user guide identifies factors IRS business unit representatives should consider when cancelling contracts, including whether cancelling the contract will impact taxpayer support. A part of the IRS’s mission is to provide taxpayers with quality service by helping them understand and meet their tax responsibilities. Cancelling contracts that support taxpayer-facing services could prevent the IRS from completing this mission. This can disrupt core operations such as processing returns, providing customer service,

or enforcing compliance, and may require the IRS to reallocate resources or adopt alternative solutions to sustain mission delivery. Potentially impacted services include efforts to update individual and business tax return filing, over the phone interpreter services, and expert witness testimony. As of July 2025, IRS officials opted to cancel 115 (79 percent) of the 146 contracts that contain taxpayer-facing services, while the remaining 31 were either descoped, retained, ended, or were suspended. The cancelled contracts represented nearly \$170 million in avoided costs and more than \$85 million in open obligations. Figure 5 shows the taxpayer-facing cancelled contracts by impacted service, highlighting those with the highest avoided cost values.

**Figure 5: Some Taxpayer-Facing Services Were Potentially Impacted by Multiple Contract Cancellations**

Impacted Service	Count of Contracts	Avoided Costs	Open Obligations
E-File Updates	1	\$114.4M	\$4.7M
Information Returns Updates	2	\$16.4M	\$4.6M
Taxpayer 180 Support Services <sup>4</sup>	1	\$11.8M	\$6.2M
Taxpayer First Act Initiative Support <sup>5</sup>	1	\$11.2M	\$2.9M
Expert Witness Testimony <sup>6</sup>	85	\$5.4M	\$6.3M

*Source: Analysis of IRS contract cancellation tracking records. M = millions.*

Of the 146 contracts affecting taxpayer-facing services, we judgmentally sampled 15 for further review.<sup>7</sup> This included asking IRS officials whether they considered if cancelling the contract will impact taxpayer support, and if there are plans to provide the services through other means. As of July 2025, 8 of the 15 sampled contracts had been cancelled, 5 were descoped, and 2 were retained. Impacted services included tax professional account support, Taxpayer 180 support services, and Taxpayer First Act initiative support. The IRS expects to fulfill tasks on cancelled contracts with existing IRS employee capabilities. OCPO representatives stated that for 2 of the 8 cancelled contracts they did not know why an assessment was not completed about whether those contracts included taxpayer-facing services before making their cancellation decision. For the remaining 6 contracts, IRS officials stated that they completed the assessment for 5 of the contracts, and they were unable to determine whether this assessment was completed on 1 of the contracts because all IRS employees related to that contract have left the IRS.

<sup>4</sup> Taxpayer 180 Support Services are part of a long-term goal to develop a comprehensive set of tools IRS employees can use to access information and efficiently resolve taxpayer questions or issues.

<sup>5</sup> The Taxpayer First Act focused directly on IRS reform and mandated a comprehensive customer service strategy to assist taxpayers. Pub. L. No. 116-25, 133 Stat. 981 (2019).

<sup>6</sup> We categorized Expert Witness Testimony contracts as taxpayer facing because the contractor or the services they provide may include direct interaction with taxpayers as part of litigation. These expert witnesses support the IRS's mission to enforce the law with integrity and fairness to all, which also aligns with a taxpayer's right to pay no more than the correct amount.

<sup>7</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population. Our sample was based upon contracts with the highest remaining open obligations.

## Overall Data for Cancelled Contracts

The following sections present data for the 322 cancelled contracts with potential cost savings. This information illustrates the impact of the contract cancellations by funding category, IRS business unit, deliverable type, state of performance, and small business type.

### Cancelled contracts by funding category

The majority of the IRS’s funding is divided into four main categories: Taxpayer Services, Operations Support, Enforcement, and Business Systems Modernization. Because government contracts are funded at the line-item level, a single contract can receive funding from more than one category. Of the 322 cancelled contracts, 45 (14 percent) were funded with more than one category. Figure 6 summarizes the cancelled contracts by funding category.

**Figure 6: Cancelled Contracts With the Highest Potential Cost Savings Were Funded by Multiple Categories**

Funding Category	Count of Contracts	Avoided Costs	Open Obligations
Multiple	45	\$214.0M	\$81.5M
Operations Support	110	\$168.5M	\$41.6M
Enforcement	111	\$13.1M	\$30.4M
Business Systems Modernization	32	\$30.0M	\$47.2M
Taxpayer Services	13	\$6.3M	\$2.4M
Other <sup>8</sup>	11	\$8.3M	\$1.6M
<b>Totals</b>	<b>322</b>	<b>\$440.1M</b>	<b>\$204.7M</b>

*Source: Analysis of IRS contract cancellation tracking records. Numbers may not add up to the totals due to rounding. M = millions.*

Additionally, 116 (36 percent) of 322 cancelled contracts were funded, fully or in part, by the Inflation Reduction Act of 2022 (IRA).<sup>9</sup> Figure 7 summarizes cancelled contracts with IRA funding.

<sup>8</sup> Other funding sources include COVID-19, Reimbursable, Income Verification Express, and Treasury Executive Office for Asset Forfeiture.

<sup>9</sup> Pub. L. No. 117-169, 136 Stat. 1818. The Fiscal Responsibility Act of 2023 (Pub. L. No. 118-5, 137 Stat. 10) rescinded \$1.4 billion; the Further Consolidated Appropriations Act, 2024 (Pub. L. No. 118-47, 138 Stat. 460) rescinded \$20.2 billion; the Full-Year Continuing Appropriations and Extensions Act, 2025 (Pub. L. No. 119-4) rescinded another \$20.2 billion, and the Consolidated Appropriations Act, 2026 (Pub. L. No. 119-75) rescinded \$11.7 billion.

**Figure 7: IRA-Funded Cancelled Contracts Accounted for Over Half the Potential Cost Savings**

Funding Category	Count of Contracts	Avoided Costs	Open Obligations
Multiple (Partial IRA)	17	\$128.4M	\$22.3M
Multiple	15	\$53.4M	\$54.4M
Operations Support (Partial IRA)	11	\$34.4M	\$4.5M
Operations Support	32	\$30.7M	\$16.7M
Business Systems Modernization	32	\$30.0M	\$47.2M
Enforcement	7	\$5.2M	\$18.2M
Taxpayer Services	2	\$2.6M	\$1.5M
<b>Totals</b>	<b>116</b>	<b>\$284.8M</b>	<b>\$164.8M</b>

Source: Analysis of IRS contract cancellation tracking records. Numbers may not add up to the totals due to rounding. M = millions.

### Cancelled contracts by business unit

The Information Technology business unit had the most contracts cancelled, with 133 (41 percent) contracts of the 322 total cancelled contracts. These cancelled contracts totaled almost \$300 million in avoided costs and almost \$100 million in open obligations. Figure 8 shows the business units with the most cancelled contracts along with the potential savings resulting from avoided costs and open obligations.

**Figure 8: The Information Technology Business Unit Had the Most Cancelled Contracts and Highest Potential Cost Savings**

Business Units	Count of Contracts	Avoided Costs	Open Obligations
Information Technology	133	\$299.5M	\$99.0M
Headquarters <sup>10</sup>	35	\$107.2M	\$67.9M
Taxpayer Services	15	\$9.5M	\$20.8M
Office of Chief Counsel	85	\$5.8M	\$4.3M

Source: Analysis of IRS contract cancellation tracking records. M = millions.

### Cancelled contracts by deliverable type

Contracts for services accounted for 252 (78 percent) of the 322 cancelled contracts, with almost \$360 million in avoided costs and over \$191 million in open obligations. Some examples of cancelled services include electronic filing (e-file) modernization, consulting, and training. Figure 9 shows the cancelled contracts by deliverable type along with the potential savings resulting from avoided costs and open obligations.

<sup>10</sup> This category represents a high-level funding classification for contracting and encompasses multiple business units such as the Office of the Commissioner, Chief of Staff, Enterprise Case Management, etc.

**Figure 9: Service Deliverables Were the Majority of Cancelled Contract Types**

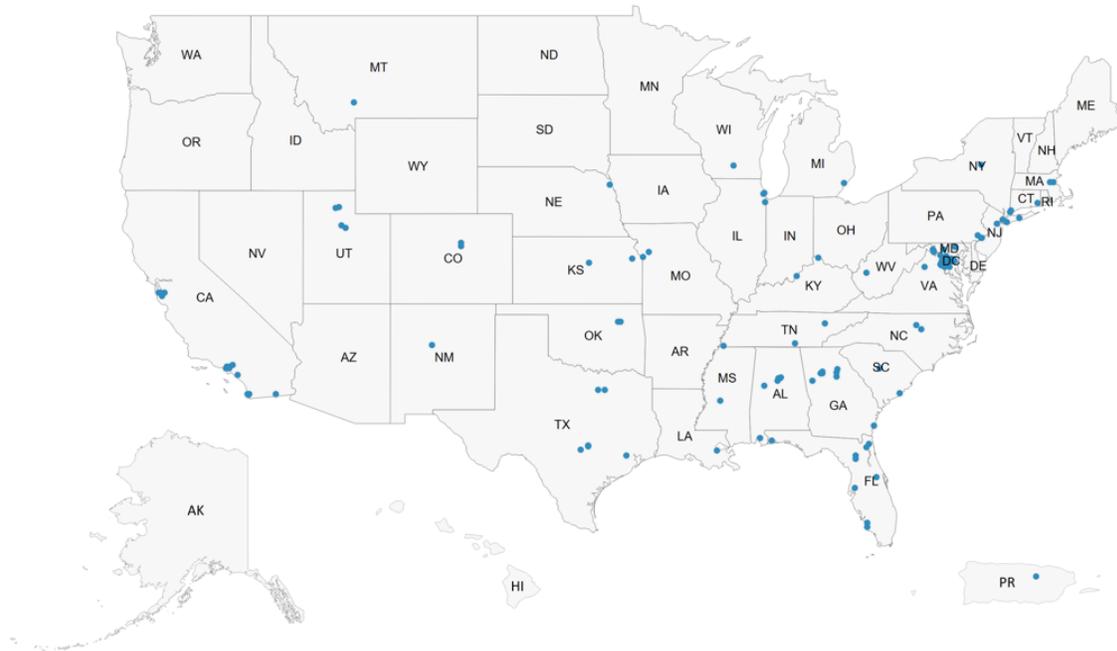
Deliverable	Count of Contracts	Avoided Costs	Open Obligations
Services	252	\$359.6M	\$191.6M
Goods	26	\$56.7M	\$650.6K
Goods and Services <sup>11</sup>	31	\$20.6M	\$12.4M
Subscriptions	8	\$3.1M	\$7.6K
Facilities	2	\$32.9K	\$29.6K
Memberships	3	\$26.4K	\$0
<b>Totals</b>	<b>322</b>	<b>\$440.1M</b>	<b>\$204.7M</b>

Source: Analysis of IRS contract cancellation tracking records. Numbers may not add up to the totals due to rounding. M = millions. K = thousands.

### Cancelled contracts by state

The cancelled contracts' primary places of performance were in 30 states, the District of Columbia, and Puerto Rico. Figure 10 shows the geographical distribution with a dot identifying zip codes with at least one cancelled contract.

**Figure 10: Zip Codes With at Least One Cancelled Contract**



Source: Analysis of IRS contract cancellation tracking records.

<sup>11</sup> For example, consulting is a Services-type contract, purchase of office chairs is a Goods-type contract, and purchase of software licenses and the ongoing support for that software is a Goods and Services-type contract.

## Cancelled contracts by small business type

Small business vendors were party to 251 (78 percent) of the 322 cancelled contracts, with over \$234 million in avoided costs and almost \$147 million in open obligations. Figure 11 shows cancelled contracts by the small business type with the greatest amount of avoided costs. Some small businesses are in multiple categories (*e.g.*, a small business can be in both the Women Owned and Veteran Owned categories), so the sum of each column will not match the total of the 251 cancelled contracts.

**Figure 11: Small Disadvantaged Businesses Had the Most Cancelled Contracts**

Small Business Types	Count of Contracts	Avoided Costs	Open Obligations
Small Disadvantaged	113	\$144.1M	\$127.1M
Women Owned	69	\$66.3M	\$37.6M
HUBZone	34	\$58.8M	\$37.2M
Veteran Owned	33	\$30.4M	\$17.4M
Service-Disabled Veteran Owned	28	\$25.0M	\$15.3M

*Source: Analysis of IRS contract cancellation tracking records. M = millions.*

## Descoped contracts

A descoped contract happens when the government reduces the scope of work, quantities, or deliverables, but allows the rest of the contract to continue. We are not reporting avoided costs on descoped contracts because the information provided by the IRS did not include those details. Of the 61 descoped contracts, 27 (44 percent) were for the Information Technology business unit.

## Conclusion

In response to the EOs, the IRS has cancelled and descoped hundreds of contracts. Of the 501 contracts identified for potential cancellation as of May 2025, the IRS opted to cancel 344 contracts by July 2025, according to the Procurement Hub platform. However, the actual cost savings from these actions were either limited or unknown because most of the obligated funds on these contracts had already been expended or the contracts had no obligated values. We estimate that the IRS could avoid up to \$645 million in future costs primarily because:

- It is not exercising option years on cancelled contracts (approximately \$440 million in potentially avoided costs).
- Some obligated funds may be returned depending on when a contract was cancelled (up to \$205 million in potential cost savings).

More than 100 of the cancelled and descoped contracts supported taxpayer-facing services. Cancelling taxpayer-facing contracts may create service gaps, delay assistance, and require the IRS to adjust its resources to meet its mission. The IRS OCPO Procurement Hub user guide

identifies factors IRS business unit representatives should consider when cancelling contracts, including whether cancelling the contract will impact taxpayer support.

This report was prepared to provide information only. Therefore, we made no recommendations. We may initiate future audits to assess whether the IRS followed contract cancellation processes correctly and evaluate the impact the revised FAR had on those processes.

### **Performance of This Review**

We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General*. Those standards require that the work adheres to the professional standards of independence, due professional care, and quality assurance and follows procedures to ensure accuracy of the information presented. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the objective of our review.

## Appendix I

### Glossary of Terms

<b>Term</b>	<b>Definition</b>
Blanket Purchase Agreement	A Blanket Purchase Agreement is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply.
Descoped	Descoping a contract means reducing the amount of work instead of ending the whole contract.
HUBZone	The HUBZone Program provides federal contracting assistance for qualified small businesses that are at least 51 percent owned by someone who is both economically and socially disadvantaged and located in a HUBZone. The goal of the program is to increase employment opportunities, investment, and economic development in those areas.
Indefinite-Delivery Contract	An Indefinite-Delivery Contract provides for an indefinite quantity of supplies or services over a fixed period.
Procurement Hub	The Procurement Hub consolidates publicly available procurement information on Treasury Department contracts, including the IRS, and facilitates active contract disposition justification, review, and approvals.
Settlement Proposal	A contractor's formal cost submission under FAR Part 49 after Termination for Convenience, used to negotiate the final settlement amount.

## Appendix II

### Abbreviations

DTS	Defend the Spend
EO	Executive Order
FAR	Federal Acquisition Regulation
IRA	Inflation Reduction Act
IRS	Internal Revenue Service
OCPO	Office of the Chief Procurement Officer
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,  
contact our hotline on the web at  
<https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems  
affecting taxpayers, contact us at  
[TIGTACommunications@tigta.treas.gov](mailto:TIGTACommunications@tigta.treas.gov).**

Information you provide is confidential, and you may remain anonymous.