

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Snapshot: The IRS's Inflation Reduction Act Spending Through September 30, 2025**

March 25, 2026

Report Number: 2026-IE-R003

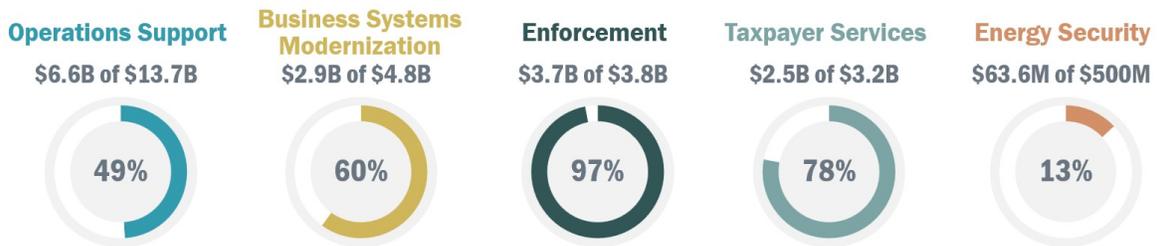
### Why TIGTA Did This Evaluation

The IRS initially received \$79.4 billion in supplemental funding when the Inflation Reduction Act of 2022 (IRA) was signed into law in August 2022. By September 2025, Congress had subsequently reduced IRA funding to \$37.6 billion. In January 2026, legislation further reduced the funding by another \$11.7 billion. The IRA funding available to the IRS through September 30, 2031, now stands at \$26 billion.

We initiated this evaluation to provide periodic reporting on the IRS's use and accounting for expenditures using IRA funding. This report provides a snapshot of how the funding has been spent through September 30, 2025.

### What TIGTA Found

As of September 30, 2025, the IRS has spent approximately \$15.7 billion in IRA funding (61 percent of current funding). In addition to the amounts shown on the graphic, the IRS spent approximately \$11.6 million in Fiscal Year (FY) 2023 for the direct e-file tax return study, which is included in the total amount spent.

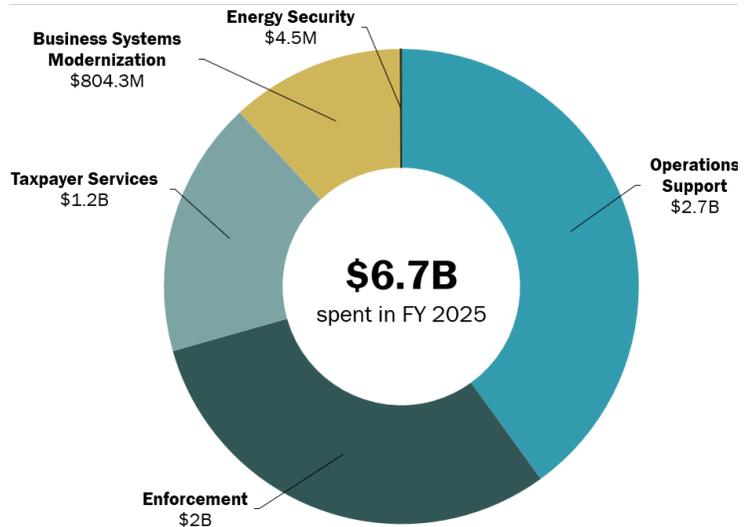


The IRS reported that as of September 30, 2025, the largest IRA expenditure was for employee compensation (*i.e.*, pay/benefits), totaling approximately \$7.3 billion; and contractor advisory and assistance services, totaling approximately \$5.2 billion. We recently reported that the IRS reduced its workforce by approximately 25 percent from February through May 2025.<sup>1</sup> However, the impact to employee compensation was not significant because most employees took workforce reduction incentives and continued to get paid until September 30, 2025.

As of September 30, 2025, the IRS has cancelled 146 IRA-related contracts that originally totaled approximately \$776 million in obligated funds. The IRS reduced the obligations for those contracts by \$70 million, designated an additional \$195 million of potential funding reductions for the contracts, and spent \$542 million before the contracts were terminated or revised. The majority of the contracts were for IT-related services.

During FY 2025 (October 1, 2024, through September 30, 2025), the IRS spent approximately \$6.7 billion (excluding prior year obligation adjustments) in IRA funding.

Our report is informational only. We made no recommendations.



<sup>1</sup> TIGTA Report No. 2025-IE-R027, [Snapshot Report: IRS Workforce Reductions as of May 2025](#) (July 2025).



# TREASURY INSPECTOR GENERAL

## for Tax Administration

**DATE:** March 25, 2026

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

**FROM:** Nancy A. LaManna   
Deputy Inspector General for Inspections and Evaluations

**SUBJECT:** Final Evaluation Report – Snapshot: The IRS’s Inflation Reduction Act Spending Through September 30, 2025 (Evaluation No.: IE-26-003-I)

This report presents the results of our review to provide periodic reporting on the Internal Revenue Service’s use and accounting for expenditures using Inflation Reduction Act funding through September 30, 2025.<sup>1</sup> This review is part of our Fiscal Year 2026 Annual Program Plan and addresses the major management and performance challenge of *Managing a Reduced Workforce and Budget*. Our report is informational only. We made no recommendations.

If you have questions, please contact me or Kent Sagara, Director, Inspections and Evaluations.

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<sup>1</sup> Pub. L. No. 117-169, 136 Stat. 1818.

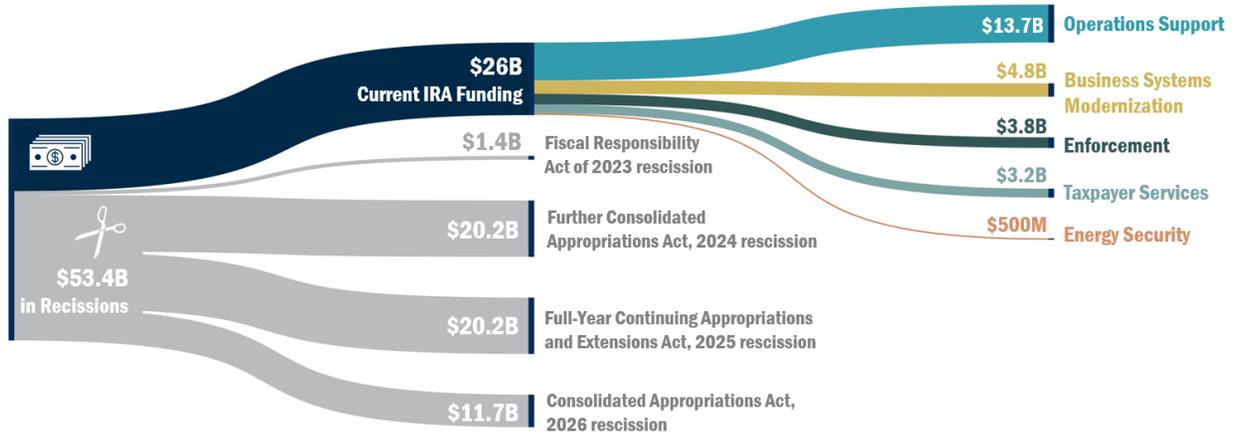
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## Background

The Internal Revenue Service (IRS) initially received approximately \$79.4 billion in supplemental funding when the Inflation Reduction Act of 2022 (IRA) was signed into law in August 2022.<sup>1</sup> However, as of January 2026, Congress subsequently reduced IRA funding to \$26 billion.<sup>2</sup> The rescissions totaled \$53.5 billion with \$41.8 billion taken from Enforcement funding activities and \$11.7 billion taken from Operations Support funding activities.

**Figure 1: Current IRA Funding and Rescissions**



Source: The IRA; the Fiscal Responsibility Act of 2023; the Further Consolidated Appropriations Act, 2024; the Full-Year Continuing Appropriations and Extensions Act, 2025; and the Consolidated Appropriations Act, 2026.

In October 2022, the Congressional Budget Office (CBO) estimated that additional enforcement activities funded by the IRA would generate \$204 billion in revenues through Fiscal Year (FY) 2031. After the first two IRA rescissions, a CBO analysis in February 2024 estimated that:

- A \$20 billion rescission in IRA spending could result in a \$44 billion drop in federal revenues from FY 2024 to FY 2034.
- A \$35 billion rescission in IRA spending could result in a \$89 billion drop in federal revenues from FY 2024 to FY 2034.

As of December 2025, the CBO has not published an updated analysis to determine the impact of additional rescissions. However, in its January 2026 cost estimate for the Consolidated Appropriations Act, 2026, the CBO anticipated that rescinding the additional \$11.7 billion would result in fewer enforcement actions and a reduction in revenue collections over the next decade. The CBO estimated the proposed rescission would reduce revenues by:

- \$2.7 billion in 2026.
- \$25.6 billion from 2026 through 2030.
- \$38.6 billion from 2026 through 2035.

<sup>1</sup> Pub. L. No. 117-169, 136 Stat.1818.

<sup>2</sup> 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 another \$11.7 billion.

The IRA supplemental funding is available to the IRS through September 30, 2031. The supplemental funding is intended to help the IRS transform tax administration and improve taxpayer services. The IRS currently has IRA funding for the following primary budget activities:

- Operations Support - \$13.7 billion.
- Business Systems Modernization (BSM) - \$4.8 billion.
- Enforcement - \$3.8 billion.<sup>3</sup>
- Taxpayer Services - \$3.2 billion.

In addition to these primary budget activities, the IRA included \$500 million to implement energy security provisions and \$15 million to conduct a feasibility study for a direct e-file tax return system.<sup>4</sup>

Prior to FY 2026, the IRS asked Congress to change the "Operations Support" appropriation category to "Technology and Operations Support." The request was meant to acknowledge that technology is the largest component of Operations Support.

### IRA Strategic Operating Plan outlines transformation objectives

In April 2023, the IRS issued its IRA Strategic Operating Plan (SOP) that covers FYs 2023 through 2031. The plan was structured to achieve five transformation objectives through a series of initiatives and projects aligned to each objective. Successful delivery of these objectives is interdependent on each other. Figure 2 outlines the five objectives.

Figure 2: IRS Transformation Objectives



Source: The IRA SOP (April 2023).

<sup>3</sup> Enforcement funding was reduced to \$3.8 billion after the rescissions.

<sup>4</sup> The \$15 million in funding for the direct e-file tax return study was only available through September 30, 2023.

The IRS updated the SOP in May 2024 to further refine the IRS's transformation and near-term priorities to achieve its vision. A key component of this work was developing the outcomes aligned with the five objectives in the SOP.

In March 2025, the IRS announced that it was standing down the Transformation and Strategy Office, which was responsible for overseeing IRS transformation efforts. The IRS indicated that it was reviewing projects and initiatives under the SOP. The IRS also wanted to determine the status of the projects and initiatives and ensure that they align with future priorities.

### **Fiscal Year 2025 annual appropriation**

The IRS's operating budget is a mix of annual appropriations and miscellaneous resources, such as unobligated balances from previous years and reimbursable items. The IRS has considerable leeway in how it uses nonappropriated funds.

The Full-Year Continuing Appropriations and Extensions Act, 2025, provided annual appropriations funding of approximately \$12.3 billion for three of the four primary funding activities for FY 2025. However, Congress did not provide any appropriated funding for BSM, which normally funds upgrades to IRS information technology systems.

The Act included:

- **\$2.8 billion for Taxpayer Services.** These funds are to be used to support prefilling assistance and education, filing and account services, and taxpayer advocacy services. Funds can also be used for Tax Counseling for the Elderly Program, low-income taxpayer clinic grants, and the Community Volunteer Income Tax Assistance matching grants program.
- **\$5.4 billion for Enforcement.** These funds are to be used to support enforcement efforts, such as determining and collecting taxes owed, providing legal and litigation support, and conducting criminal investigations (including investigative technologies).
- **\$4.1 billion for Operations Support.** These funds are to be used to support the agency's normal operating expenses, including rent payments, facilities service, printing and postage, physical security, research and statistics of income, and telecommunications; as well as information technology development, enhancement, operations, maintenance, and security.

The Act provided transfer authority that allows the IRS to transfer up to 5 percent of funds from one funding activity to another, with House Committee on Appropriations approval. However, these funds could not be transferred to the Enforcement budget activity.

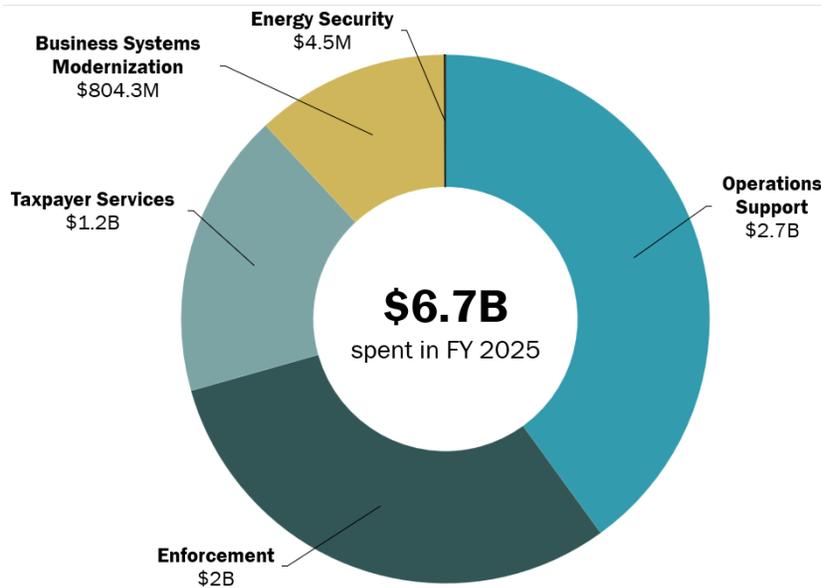
The intent of the IRA funding was to supplement, not replace, the IRS's annual appropriation. However, in FY 2025, the IRS officials indicated that approximately \$4.8 billion in IRA funds were used to supplement its annual discretionary appropriations to deliver a successful filing season and comply with tax laws. Specifically, \$3.5 billion was used for labor costs and \$1.3 billion in Information Technology Operating and Maintenance costs. IRS officials noted that IRA funding was needed since the IRS's annual appropriation did not cover normal operating expenses.

## Results of Review

### IRA Expenditures in Fiscal Year 2025 and Cumulative Amounts

The IRS spent approximately \$6.7 billion of IRA funding in FY 2025, which covers the period of October 1, 2024, through September 30, 2025. Figure 3 shows the breakdown of IRA expenditures by the four primary funding activities and energy security.

**Figure 3: FY 2025 IRA Expenditures**



Source: The Integrated Financial System report provided by the Office of the Chief Financial Officer.

As of September 30, 2025, the IRS has spent approximately \$15.7 billion of the \$26 billion in IRA funding (61 percent). Figure 4 shows IRA expenditures by funding activity since the passage of the legislation through September 30, 2025. In addition to the amounts shown in Figure 4, the IRS spent approximately \$11.6 million in FY 2023 for the direct e-file tax return study.

**Figure 4: Cumulative IRA Expenditures Through September 30, 2025**



Source: The Integrated Financial System report provided by the Office of the Chief Financial Officer.

To monitor IRA funds, the IRS uses the same established procedures that the agency uses to track its annual appropriation and spending. The IRS uses a series of object class categories to track IRS funding and spending.<sup>5</sup> The categories are how the IRS tracks its spending in the Integrated Financial System.<sup>6</sup> Figure 5 highlights cumulative IRA expenditures by object class category and funding activity.

**Figure 5: Cumulative IRA Expenditures by Object Class Category and Funding Activity**

	Taxpayer Services	Enforcement	Operations Support	Business Systems Modernization	Energy Security	Direct E-File	Grand Total
<b>Labor</b>							
IRS Employee Pay & Benefits	\$2,218,944,186.01	\$2,956,317,419.16	\$1,766,940,106.41	\$329,585,558.31	\$63,624,736.06	\$814,199.62	\$7,336,226,205.57
<b>Non-Labor</b>							
Contractor Support - Advisory and Assistance	\$229,108,390	\$351,360,584	\$2,356,102,833	\$2,261,963,721	—	\$8,167,460	\$5,206,702,988
Communications, Utilities, and Misc. Charges	—	\$1,040,045	\$217,199,403	\$3,495,439	—	—	\$221,734,887
Equipment	—	\$60,931,217	\$1,917,986,809	\$241,803,504	—	\$254,897	\$2,220,976,426
Land and Structures	—	\$98,626	\$114,165,836	—	—	—	\$114,264,462
Operation & Maintenance of Equipment	—	\$1,002,569	\$50,714,470	\$10,334,904	—	—	\$62,051,943
Operation & Maintenance of Facilities	—	\$84,897	\$63,711,891	\$136,872	—	—	\$63,933,659
Services from Federal Sources	\$27,618,652	\$244,598,859	\$70,582,199	—	—	\$1,808,668	\$344,608,377
Other Goods and Services from Non-Federal Sources	\$15,300	\$33,735,041	\$53,930,106	—	—	—	\$87,680,447
Printing and Reproduction	—	\$267,445	\$11,839,714	—	—	—	\$12,107,159
Supplies and Materials	\$42,434	\$26,464,831	\$3,485,012	\$6,801	—	—	\$29,999,078
Employee Travel	\$334,800	\$30,033,542	\$6,692,981	\$859,274	—	—	\$37,920,598
Unvouchered	—	\$324,442	—	—	—	—	\$324,442
Rental Payments to GSA	—	—	\$2,785,693	—	—	—	\$2,785,693
Transportation of Things	—	\$2,670,965	\$9,995	—	—	—	\$2,680,960
<b>Non-Labor Total</b>	<b>\$257,119,576</b>	<b>\$752,613,062</b>	<b>\$4,869,206,943</b>	<b>\$2,518,600,515</b>	<b>\$0</b>	<b>\$10,231,024</b>	<b>\$8,407,771,120</b>
<b>Grand Total</b>	<b>\$2,476,063,762</b>	<b>\$3,708,930,481</b>	<b>\$6,636,147,049</b>	<b>\$2,848,186,073</b>	<b>\$63,624,736</b>	<b>\$11,045,224</b>	<b>\$15,743,997,325</b>

Source: The Integrated Financial System report, as of September 30, 2025, provided by the Office of the Chief Financial Officer.

Figure 5 notes that as of September 30, 2025, the IRS reported that the largest IRA expenditure was for employee compensation (*i.e.*, pay/benefits), totaling approximately \$7.3 billion; and contractor advisory and assistance services, totaling approximately \$5.2 billion.

<sup>5</sup> Object classes are categories that present obligations by the items or services purchased by the federal government.

<sup>6</sup> The Integrated Financial System is a packaged system software solution. It enables the IRS to integrate most of its internal financial management processes, share common financial data and practices across the entire organization, and produce and access financial data online in a real-time environment.

## IRS Staffing

Of the approximately \$7.3 billion of IRA funds spent on labor costs, 50 percent (approximately \$3.7 billion) was spent in FY 2025. Since January 2025, the President has issued several executive orders to reduce the size of the federal government's workforce. The U.S. Office of Personnel Management (OPM) issued guidance to help agencies comply with the executive orders. The following OPM and IRS actions had a significant impact on IRS staffing:

- **OPM Deferred Resignation Program (DRP) and Treasury DRP.** In January 2025, OPM released information on its DRP, which allowed federal employees to resign but retain all pay and benefits through September 30, 2025. In April 2025, the IRS partnered with the Department of the Treasury (Treasury) to offer a second and final DRP to IRS employees. This iteration mirrored the first offer, including paid leave and benefits until separation no later than September 30, 2025. The IRS determined that 21,646 employees took these offers.
- **Other Separations Including Early Retirement.** The IRS also offered voluntary early retirement and voluntary separation incentive payments (also known as "buyouts") to entice employees to leave. Some employees also left on their own accord. The IRS determined that 3,740 employees separated under these circumstances.
- **Probationary Employees.** In January 2025, OPM asked agencies to identify all employees on probationary periods and determine whether those employees should be retained. This included employees who have served less than one year in a competitive service appointment, or who have served less than two years in an excepted service appointment.
  - The IRS originally identified more than 16,000 probationary employees. After exempting some employees for various reasons, the IRS sent termination notices to 7,315 probationary employees.
  - In May 2025, IRS and Treasury leadership decided that all 7,315 probationary employees must return to full work status. Of these, 3,531 probationary employees subsequently opted to take the Treasury DRP.

In July 2025, we reported that according to IRS records, the IRS lost 25,386 employees as of May 2025. This represented approximately 25 percent of the IRS workforce.<sup>7</sup>

While workforce reduction actions decreased IRS staffing levels, they did not significantly impact employee compensation in FY 2025. For example, the IRS had to pay and provide benefits to the 21,646 employees approved for the DRPs through the end of FY 2025.

We plan to continue to perform periodic evaluations regarding IRS staffing.

## Contractor Support

Since the passage of the IRA legislation through September 30, 2025, the IRS has spent approximately \$5.2 billion of its IRA funding to pay contractor support, which is classified as advisory and assistance services. Types of services include:

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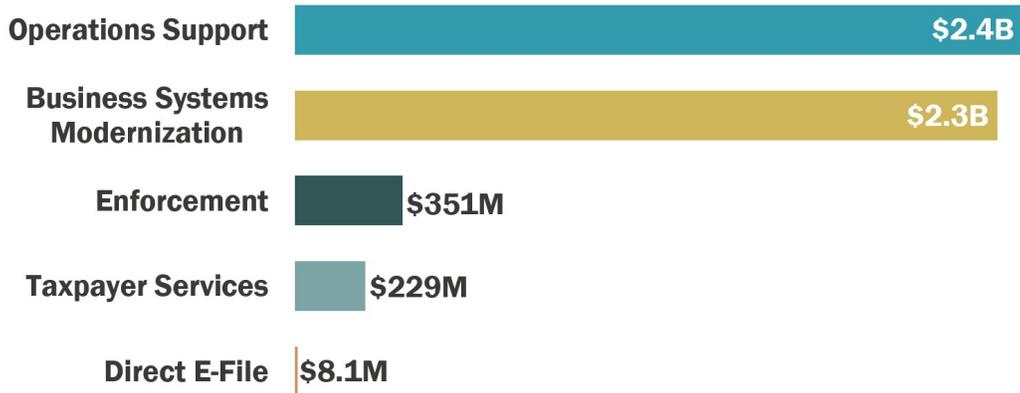
<sup>7</sup> TIGTA, Report. No. 2025-IE-R027, [Snapshot Report: IRS Workforce Reductions as of May 2025](#) (July 2025).

- **Management and professional support services.** These services assist, advise, or train staff to achieve efficient and effective management and operations, activities, or systems. Such services are normally closely related to the agency's responsibilities and mission.
- **Studies, analyses, and evaluations.** This includes studies that support information technology research and development activities, models, methodologies, and related software support.
- **Engineering and technical services.** These services support the program office during the acquisition cycle by providing information technology architecture development, systems engineering, and technical direction. This also includes consulting services, such as information technology architecture design; capital programming; and software services associated with implementing web-based commercial off-the-shelf products.

Figure 6 shows that most of the \$5.2 billion in contractor support was spent on the Operations Support (approximately \$2.4 billion) and BSM (approximately \$2.3 billion) funding activities. Figure 6 also notes IRA expenditures for contractor advisory and assistance support services spent through September 30, 2025.

**Figure 6: IRA Expenditures for Contractor Support by Funding Activity<sup>8</sup>**

### The IRS Paid \$5.2 Billion for Contractor Services



*Source: The Integrated Financial System report, as of September 30, 2025, provided by the Office of the Chief Financial Officer.*

As of September 30, 2025, the IRS has cancelled 146 IRA-related contracts that originally totaled approximately \$776 million of obligated funds. The IRS reduced the obligations for those contracts by \$70 million, designated an additional \$195 million of potential funding reductions for the contracts, and spent \$542 million before the contracts were terminated or revised. The contracts were for various IRA projects and included support for the Office of Digital Assets Initiative, business accounts, the Integrated Data Retrieval System, the enterprise data platform migration, cybersecurity architecture, enterprise case management, and data-at-rest encryption.

<sup>8</sup> No funds were spent on contractor services for the Energy Security funding activity.

## Appendix I

### Detailed Objective, Scope, and Methodology

The overall objective was to provide periodic reporting on the IRS's use and accounting for expenditures using IRA funding through September 30, 2025. To accomplish our objective, we:

- Obtained Integrated Financial System reports regarding IRA expenditures, as of September 30, 2025, from the Office of the Chief Financial Officer. We also identified expenditures by funding activities (e.g., Taxpayer Services, Operations Support) and object class code.
- Determined the impact of IRS appropriations and the rescissions of funding.
- Analyzed IRA expenditures and highlighted any trends and concerns.

### **Performance of This Review**

This review was performed with information obtained from the Office of the Chief Financial Officer during the period of November 2025 through February 2026. We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *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 followed procedures to ensure the accuracy of the information presented. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

### **Data Validation Methodology**

We used data from the IRS's Integrated Financial System for our analysis. We evaluated the data by reviewing existing data produced from the system and interviewing personnel in the Office of the Chief Financial Officer to ensure that the information was accurate. Data related to funding allocations were based on testimonial evidence obtained from the Office of the Chief Financial Officer.

## Appendix II

### Abbreviations

BSM	Business Systems Modernization
CBO	Congressional Budget Office
DRP	Deferred Resignation Program
FY	Fiscal Year
IRA	Inflation Reduction Act
IRS	Internal Revenue Service
OPM	U.S. Office of Personnel Management
SOP	Strategic Operating Plan
TIGTA	Treasury Inspector General for Tax Administration
Treasury	U.S. Department of the Treasury



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