

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Snapshot: The IRS's Inflation Reduction Act Spending Through March 31, 2025

August 1, 2025

Report Number: 2025-IE-R026

HIGHLIGHTS: Snapshot: The IRS's Inflation Reduction Act Spending Through March 31, 2025

Final Evaluation Report issued on August 1, 2025

Report Number 2025-IE-R026

Why TIGTA Did This Evaluation

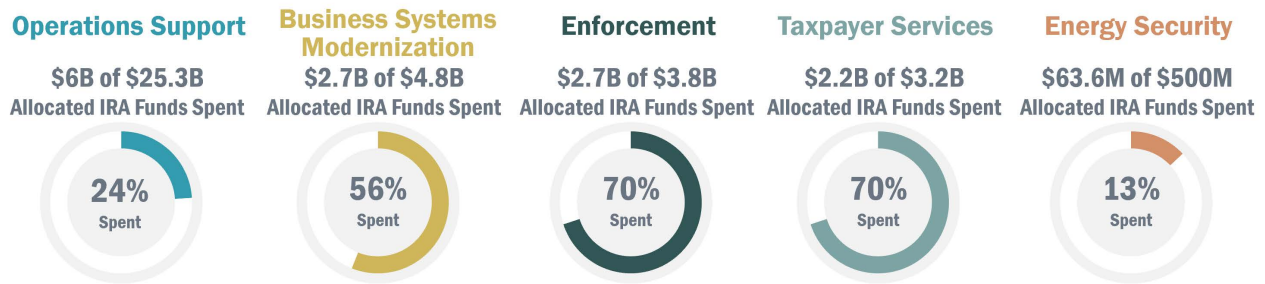
The IRS initially received \$79.4 billion in supplemental funding when the Inflation Reduction Act of 2022 (IRA) was signed into law in August 2022. As of March 2025, Congress subsequently reduced IRA funding to \$37.6 billion. This supplemental funding is available through September 30, 2031.

This evaluation provides 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 March 31, 2025. The IRS's supplemental funding is intended to help improve taxpayer services, modernize technology, and increase compliance and enforcement actions.

What TIGTA Found

Overall, as of March 31, 2025, the IRS has spent approximately \$13.8 billion in IRA 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.

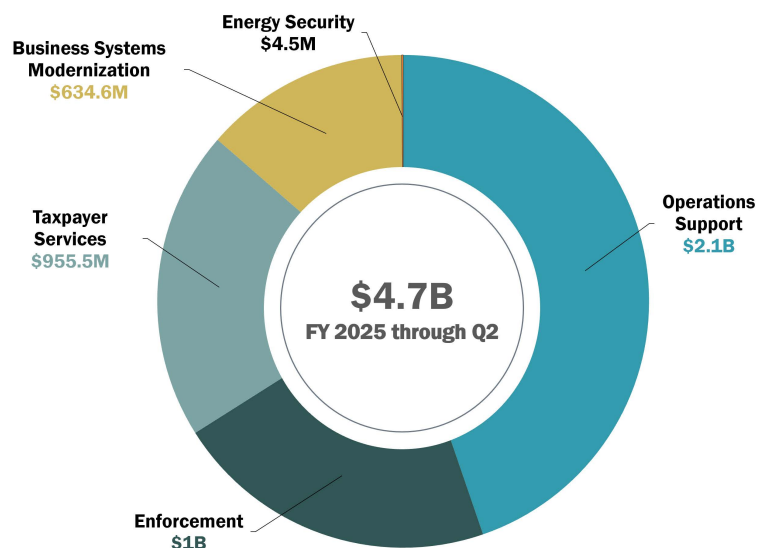
Cumulative IRA Expenditures Through March 31, 2025



The IRS also reported that as of March 31, 2025, the largest IRA expenditures were for employee compensation (*i.e.*, pay/benefits), totaling approximately \$6.1 billion; and contractor advisory and assistance services, totaling approximately \$4.9 billion.

As of the end of the second quarter of FY 2025 (March 31, 2025), the IRS has spent approximately \$4.7 billion in IRA funding.

This report was prepared to provide information only. No recommendations were made in the report.





TREASURY INSPECTOR GENERAL

for Tax Administration

DATE: August 1, 2025

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM:

Nancy A. LaManna

A handwritten signature in cursive script that reads "Nancy LaManna".

Deputy Inspector General for Inspections and Evaluations

SUBJECT:

Final Evaluation Report – Snapshot: The IRS’s Inflation Reduction Act Spending Through March 31, 2025 (Evaluation No.: IE-25-002-I.3)

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 of 2022 funding through March 31, 2025.¹ This review is part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenge of *Managing IRA Transformation Efforts*.

This report was prepared to provide information only. No recommendations were made in the report.

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

¹ Pub. L. No. 117-169, 136 Stat. 1818.

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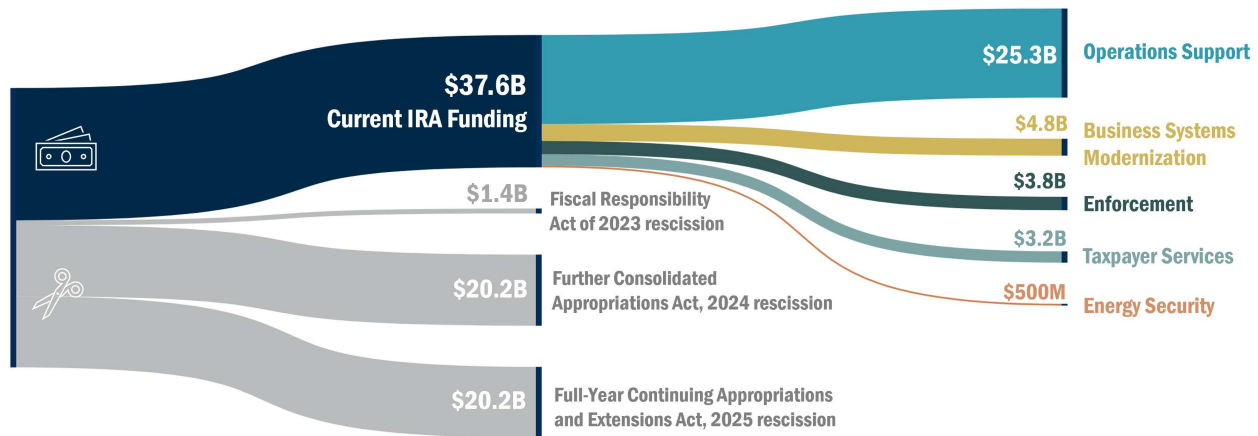
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Background

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 2022.¹ As of March 2025, Congress subsequently reduced IRA funding to \$37.6 billion.² The \$41.8 billion in rescissions were all made to the Enforcement funding activity.

Figure 1: Current IRA Funding and Rescissions



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

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. In April 2024, a CBO analysis estimated that a \$20 billion rescission in IRA enforcement spending could result in a \$44 billion drop in federal revenues from FY 2024 to FY 2034. As of May 2025, the CBO has not published an analysis to determine the impact of additional rescissions.

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 received IRA funding for the following primary budget activities:

- Operations Support - \$25.3 billion.
- Business Systems Modernization - \$4.8 billion.
- Taxpayer Services - \$3.2 billion.
- Enforcement - \$3.8 billion.³

¹ Pub. L. No. 117-169, 136 Stat.1818.

² 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; and the Full-Year Continuing Appropriations and Extensions Act, 2025 (Pub. L. No. 119-4) rescinded another \$20.2 billion.

³ Enforcement funding was reduced to \$3.8 billion after the rescissions.

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.⁴

Inflation Reduction Act Strategic Operating Plan outlines transformation objectives

On April 6, 2023, the IRS issued its IRA Strategic Operation Plan (SOP) that covers FYs 2023 through 2031. The plan is 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 Strategic Operating Plan (April 2023).

In May 2024, the IRS issued the following updates to the plan:

- 2024 IRA SOP Annual Update.
- 2024 IRA SOP Annual Update Supplement.

The update further refined the IRS's transformation and near-term priority efforts to achieve its vision. A key component of this work was the development of outcomes aligned with the five objectives in the SOP. The updated documents also outlined the IRS's priority efforts and key results to be delivered in FYs 2024 and 2025.

In March 2025, the IRS announced it was standing down the Transformation and Strategy Office, which was responsible for overseeing the IRS's transformation efforts. At that time, the IRS

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

indicated it was reviewing projects and initiatives under the SOP. The IRS 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 non-appropriated funds.

The Full-Year Continuing Appropriations and Extensions Act, 2025, provided annual appropriations funding of approximately \$12.3 billion for 3 of the 4 primary funding activities for FY 2025.⁵ However, Congress did not provide any appropriated funding for Business Systems Modernization, 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 gave the IRS authority 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 IRS intended IRA funding to supplement, not replace, the agency's annual appropriation. However, the IRS received the same annual appropriation each year since it received IRA funding in FY 2022, with no adjustments for inflation. IRS officials indicated that through FY 2024, approximately \$2 billion in IRA funds have been used to supplement its annual appropriation. IRS officials noted that IRA funding was needed since the IRS's annual appropriation did not cover normal operating expenses.

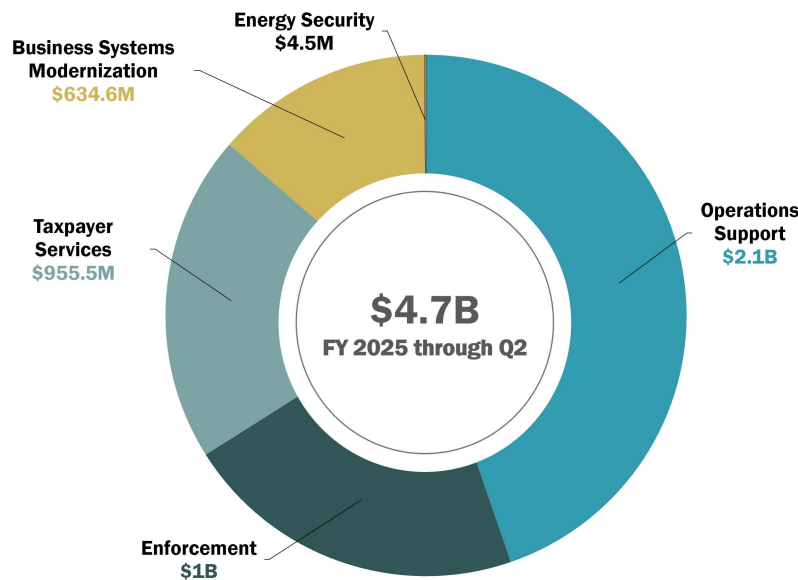
⁵ Pub. L. No. 119-4.

Results of Review

IRA Expenditures in Fiscal Year 2025 and Cumulative Amounts

The IRS has spent approximately \$4.7 billion in IRA funding as of the second quarter of FY 2025, which covers the period of October 1, 2024, through March 31, 2025. Figure 3 shows the breakdown of IRA expenditures by the four primary funding activities and energy security.

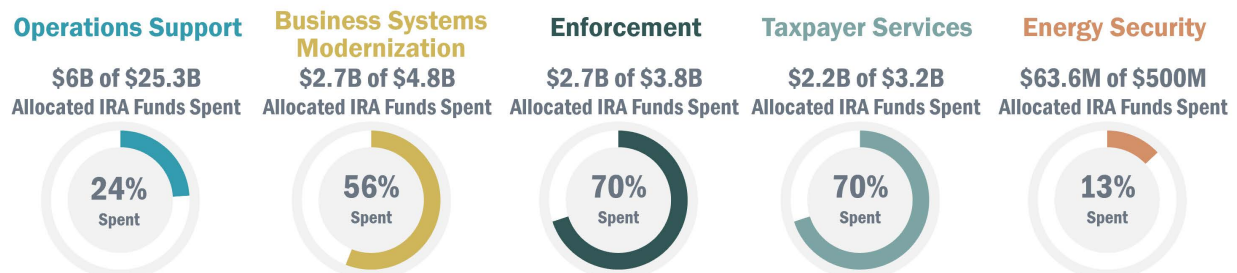
Figure 3: FY 2025 IRA Expenditures Through March 31, 2025



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

Overall, as of March 31, 2025, the IRS has spent approximately \$13.8 billion of its \$37.6 billion in supplemental IRA funding. Figure 4 shows IRA expenditures by funding activity since the passage of the legislation through March 31, 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 March 31, 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.⁶ The categories are also how the IRS tracks its spending in the Integrated Financial System.⁷ 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
Labor							
Contractor Support – Advisory and Assistance	\$1,997,235,294	\$2,096,561,996	\$1,669,136,880	\$287,472,953	\$63,624,736	\$814,200	\$6,114,846,058
Non-Labor							
Contractor Support – Advisory and Assistance	\$219,767,447	\$290,368,675	\$2,137,888,001	\$2,220,865,325	—	\$8,624,814	\$4,877,514,262
Communications, Utilities, and Misc. Charges	—	\$834,855	\$175,861,810	\$3,495,439	—	—	\$180,192,104
Equipment	—	\$47,528,365	\$1,631,222,177	\$160,252,469	—	\$254,897	\$1,839,257,908
Land and Structures	—	\$106,334	\$126,733,041	—	—	—	\$126,839,376
Operation & Maintenance of Equipment	—	\$938,363	\$29,684,147	\$10,334,910	—	—	\$40,957,420
Operation & Maintenance of Facilities	—	—	\$150,461,381	\$136,872	—	—	\$150,598,253
Services from Federal Sources	\$27,873,185	\$157,210,344	\$80,418,368	—	—	\$1,909,578	\$267,411,475
Other Goods and Services from Non-Federal Sources	\$15,300	\$26,773,250	\$53,850,902	—	—	—	\$80,639,452
Printing and Reproduction	—	\$285,491	\$12,843,339	—	—	—	\$13,128,830
Supplies and Materials	\$42,434	\$22,767,323	\$3,384,481	\$4,663	—	—	\$26,198,900
Employee Travel	\$338,349	\$29,999,371	\$6,768,948	\$896,811	—	—	\$38,003,479
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
Non-Labor Total	\$248,036,715	\$579,807,779	\$4,411,912,283	\$2,395,986,487	—	\$10,789,288	\$7,646,532,553
Grand Total	\$2,245,272,009	\$2,676,369,775	\$6,081,049,163	\$2,683,459,440	\$63,624,736	\$11,603,488	\$13,761,378,611

Source: The Integrated Financial System report, as of March 31, 2025, provided by the Office of the Chief Financial Officer.

Figure 5 also notes that as of March 31, 2025, the IRS reported the largest IRA expenditures were for employee compensation (*i.e.*, pay/benefits), totaling approximately \$6.1 billion; and contractor advisory and assistance services, totaling approximately \$4.9 billion.

IRS Staffing

Of the approximately \$6.1 billion spent on labor costs, as of March 31, 2025, 40.3 percent (approximately \$2.5 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.

⁶ Object classes are categories that present obligations by the items or services purchased by the federal government.

⁷ 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.

The Office of Personnel Management (OPM) issued guidance to help agencies comply with the executive orders. The following had significant impacts on IRS staffing:

- **Deferred Resignation Program (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.
- **Treasury Deferred Resignation Program.** In April 2025, the IRS partnered with the Department of the Treasury and offered a second and final DRP to its employees. This iteration mirrors the first offer including paid leave and benefits until separation, to occur no later than September 30, 2025.
- **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.

In July 2025, we reported that according to IRS records, 25,386 employees separated, took a DRP offer, or used some other incentive to leave.⁸ Another 294 employees were sent termination notices due to reduction in force (RIF) actions. These departures represent 25 percent of the IRS's workforce.

While the DRPs and the termination of probationary employees affected IRS staffing levels, these decreases in staffing will most likely not significantly impact IRS staffing expenditures in FY 2025. The IRS still needs to pay and provide benefits to the 21,646 employees who were approved for the DRP through the end of FY 2025.

Additionally, while notices were sent to probationary employees terminating their employment in February 2025, there have been subsequent court challenges regarding the termination of probationary employees. In March 2025, a federal court in Maryland ruled that probationary employees needed to be reinstated. In April 2025, the U.S. Supreme Court placed a tentative stop on the rehiring of probationary employees. According to the IRS, prior to the Supreme Court's decision, probationary employees who received termination notices were reinstated and placed on administrative leave. In July 2025 the U.S. Supreme Court lifted the prohibition on covered agencies implementing Agency Reduction in Force and Reorganization Plans and issuing or executing RIF notices. At the time we published this report, it is unclear whether any probationary employees will remain reinstated or be terminated in a large-scale RIF.

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

Contractor Support

Since the passage of the IRA legislation through March 31, 2025, the IRS has spent approximately \$4.9 billion of its IRA funding to pay contractor support, which is classified as advisory and assistance services. Types of services include:

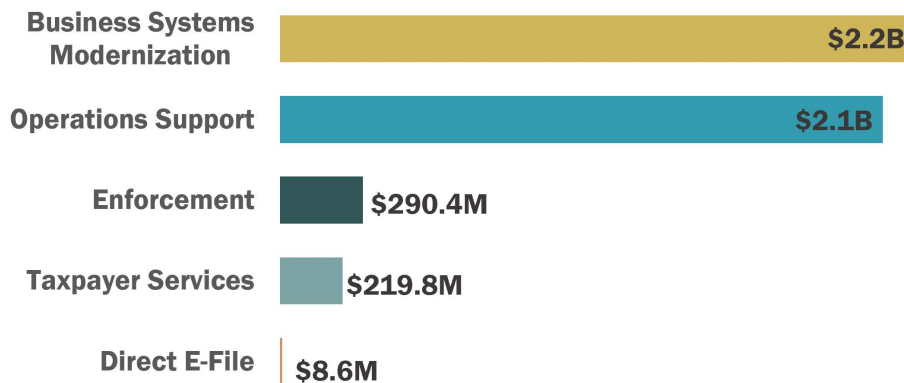
⁸ TIGTA Report No. 2025-IE-R027, [Snapshot Report: IRS Workforce Reductions as of May 2025](#) (July 2025).

- **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 \$4.9 billion in contractor support was spent in Business Systems Modernization (approximately \$2.2 billion) and Operations Support (approximately \$2.1 billion) funding activities. Figure 6 reflects the breakdown of cumulative IRA expenditures for contractor services by funding activity.

Figure 6: Cumulative IRA Expenditures for Contractor Services by Funding Activity⁹

The IRS Paid \$4.9 Billion for Contractor Services



Source: The Integrated Financial System report, as of March 31, 2025, provided by the Office of the Chief Financial Officer.

IRS management indicated that as of April 21, 2025, the IRS has cancelled 93 contracts involving IRA projects. These 93 contracts had a total obligation amount of approximately \$408 million. 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.

⁹ No funds were spent on contractor services for the Energy Security funding activity.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this evaluation was to provide periodic reporting on the IRS's use and accounting for expenditures using IRA funding through March 31, 2025. To accomplish our objective, we:

- Obtained Integrated Financial System reports regarding IRA expenditures, as of March 31, 2025, from the Office of the Chief Financial Officer. We also identified overall 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 from April through June 2025. 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 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

DRP	Deferred Resignation Program
FY	Fiscal Year
IRA	Inflation Reduction Act
IRS	Internal Revenue Service
OPM	Office of Personnel Management
RIF	Reduction In Force
SOP	Strategic Operating Plan
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 www.tigta.gov/form/suggestions.**

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