



Treasury Inspector General For Tax Administration

MAJOR MANAGEMENT CHALLENGES FACING THE IRS IN FISCAL YEAR 2026

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DEPARTMENT OF THE TREASURY
INSPECTOR GENERAL FOR TAX ADMINISTRATION
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MEMORANDUM FOR SECRETARY BESENT

FROM: Heather M. Hill *Heather Hill*
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the
Internal Revenue Service for Fiscal Year 2026

The Reports Consolidation Act of 2000 requires the Treasury Inspector General for Tax Administration (TIGTA) to summarize its perspective on the most serious management and performance challenges confronting the Internal Revenue Service (IRS) for inclusion in the annual *Department of the Treasury Agency Financial Report*.

Each year, we evaluate IRS programs, operations, and management functions to identify the most vulnerable areas in the nation's tax system. For Fiscal Year (FY) 2026, we identified the IRS's top management and performance challenges, in no particular order, as:

- Managing a Reduced Workforce and Budget;
- Improving Operational Efficiencies;
- Protecting Taxpayer Data;
- Implementing Tax Law Changes;
- Improving Taxpayer Service and Protecting Taxpayer Rights;
- Modernizing Information Technology; and
- Ensuring Tax Compliance.

The following describes the challenges in detail and is provided to promote the economy, efficiency, and effectiveness of federal tax administration.

MANAGING A REDUCED WORKFORCE AND BUDGET

What's the challenge?

Between January 2025 and May 2025, the number of IRS employees decreased from approximately 103,000 to 77,000 (25 percent). These employees either separated or accepted a Deferred Resignation Program offer or other incentive to leave. They represented all experience levels, and their departures affected each function within the IRS.

In addition, various proposed FY 2026 budgets, if enacted, would reduce IRS's annual funding by approximately 20 percent. Although the Inflation Reduction Act (IRA) previously provided the IRS nearly \$80 billion in supplemental funding over a 10-year period, Congress subsequently reduced IRA funding to \$37.6 billion. As of March 2025, the IRS has spent \$13.8 billion (37 percent) of its IRA funds.

Completing IT modernization projects, providing quality service to taxpayers, and enforcing tax laws with a reduced workforce and budget will be challenging for the IRS. Despite numerous ongoing automation projects, the IRS still needs skilled and experienced employees to interpret tax law changes, investigate criminal activity, prevent fraudulent refunds, and implement complex coding changes for its information systems. For example:

- The IRS's IT function plays a critical role ensuring that required updates (such as annual inflationary adjustments and expiring or new tax provisions) are made to tax return processing systems before the start of every filing season. However, we reported that the IRS had lost 25 percent of its IT employees as of May 2025.
- The IRS's Return Integrity and Compliance Services function generally detects and prevents fraudulent refunds, such as refundable tax credits, before the refund is issued to the taxpayer. However, this function lost 18 percent of its staff as of May 2025, which we estimate may result in nearly \$360 million in fraudulent refunds that are not stopped during next year's tax filing season.

What progress has the IRS made?

We reviewed IRS's performance during the 2025 filing season and found the agency made progress reducing the inventory of amended tax returns waiting to be processed by the Submission Processing function. According to IRS management, this was because Accounts Management employees helped work this inventory during the latter part of 2024. The IRS was also able to stop refunds for 99 percent of fraudulent returns identified, preventing the issuance—and theft—of more than \$2 billion.

Given recent staffing reductions, taxpayers may have to increasingly rely on IRS self-service tools. We found that the number of online account users continues to grow, and this past

processing year exceeded 51 million (an increase of 12 million users from the prior year). An online account allows taxpayers to view specific details about their federal tax account, such as their balance and payment history. Taxpayers can also check the status of an audit and electronically sign a Power of Attorney form.

Despite an ongoing hiring freeze that began in January 2025, the IRS received an exception to hire customer service employees to assist with the 2026 Filing Season. The IRS will use its Direct Hire Authority, which eliminates certain steps in the hiring process, to fill these positions. We found that in recent years, the IRS had used Direct Hire Authority to reduce the average time to hire and onboard an employee—from 82 days to 69 days. Should the IRS resume hiring more broadly, recent efforts to streamline federal hiring and performance management will have an unknown impact.

The IRS also recently announced that it will use various tools to fill potential gaps in mission critical expertise caused by staffing reductions. These include external hiring, internal reassignments, and allowing certain employees to rescind a previously accepted deferred resignation and return to work at the IRS. Treasury leadership also anticipates that artificial intelligence (AI) will help offset IRS workforce reductions and enhance tax collections.

What key recommendations have been implemented?

- Identified the potential causes for the low productivity examination results within the Large Business and International Division and monitored productivity measures to ensure the most productive returns are selected for examination.
- Ensured that the plan to use Inflation Reduction Act resources includes outcomes and key results and that associated projects are managed in a consolidated portfolio and overseen by appropriate governance boards.

What ongoing work does TIGTA have to address the challenge?

Given the extent of staffing and funding reductions, we will review the IRS's performance during the 2026 filing season and its efforts to use enhanced technology to improve tax compliance in its Examination and Collection functions. We will also evaluate the impact on tax administration of the Criminal Investigation Division's reduced resources to assist other federal agencies.

We planned 12 reviews to address this challenge.

We will also assess whether workforce reductions have increased the use of overtime, compensatory time, and other premium pay.

IMPROVING OPERATIONAL EFFICIENCIES

What's the challenge?

A March 2025 Executive Order, *Modernizing Payments to and From America's Bank Account*, mandates the transition to electronic payments for all federal disbursements and receipts (with limited exceptions). One reason for the transition is that Department of the Treasury checks are much more likely to be reported stolen, altered, or returned as undeliverable than an electronic payment. Similarly, many of our reports and investigations have shown that fraudsters exploited IRS programs or procedures to steal or alter refund checks. For example, we reported that the IRS did not adequately verify the identity of callers to certain telephone lines, which allowed the unauthorized disclosure of tax information. Fraudsters subsequently used this information to file Forms 941 (a quarterly tax return for businesses) to claim and receive tax refund checks.

The Executive Order requires the IRS to issue refunds to taxpayers electronically and to only accept electronic payments from taxpayers. The agency plans to begin this transition on October 1, 2025. While most taxpayers receive refunds via direct deposit, IRS data shows that more than 6 million taxpayers received a paper check refund during the 2025 tax filing season. The IRS will need to educate taxpayers—especially those without bank accounts—about the change and help them understand and navigate alternative electronic payment options.

Separately, the IRS can use automation to improve the efficiency of tax return processing. For example, we previously reported that the IRS could potentially save more than \$322 million a year by automating the processing of amended tax returns. Although the IRS accepts these returns electronically, once received, an employee still must manually review the returns and adjust the taxpayer's tax account. The IRS agreed to prioritize funding and the implementation of automated processing for amended tax returns.

What progress has the IRS made?

The agency continues to make progress adopting technologies—like AI—to administer the tax system more effectively. As of April 2025, the IRS reported 101 projects that involve the use of AI. These projects focus on improving overall IRS operations, customer service, and enforcement. For instance, the IRS launched a collection chatbot in 2021 to provide taxpayers with self-service assistance for common questions. The IRS reported that the chatbot has handled nearly half a million interactions with taxpayers.

The IRS has also used AI to improve the efficiency and effectiveness of audits. For example, the IRS integrated statistical and machine-learning techniques into the process used to select tax returns for audit. This may lower the percentage of returns examined that result in no change to a tax return, an outcome that burdens taxpayers and represents an inefficient use of IRS resources.

The IRS has also made progress increasing the number of notices and forms that are available to taxpayers electronically. For example, instead of receiving a notice through the mail, a taxpayer can create or use their existing IRS online account to view, print, or download a notice in a digital format. As of October 2024, we reported that 234 notices were available to individual taxpayers through their online account.

In cases where the IRS still must mail notices, taxpayers can use the IRS's Document Upload Tool to respond online to eligible notices. The IRS has received almost 1.5 million responses through the tool since its inception in 2021. With continued use of the tool, the IRS estimates that more than 94 percent of individual taxpayers will no longer need to respond to notices via mail. This reduces the burden of processing paperwork for both taxpayers and the IRS. Despite this progress, many IRS programs that use the Document Upload Tool do not have systems to work the correspondence electronically, so documents are still printed and worked on paper.

What key recommendations have been implemented?

- Completed a study to determine the feasibility of developing a tool for Individual Taxpayer Identification Number applicants to check the status of their application. However, the IRS does not currently have plans to implement this application.
- The Wage and Investment Division coordinated with the Information Technology organization to request programming that will allow for certain smaller dollar refunds to be issued systemically instead of manually. We recommended this to reduce the number of instances where it costs the IRS more to prepare a manual refund than the amount of the refund itself. We estimated that the IRS could potentially save \$1.7 million by implementing this recommendation.

What ongoing work does TIGTA have to address the challenge?

We plan to review IRS's efforts to comply with the executive order to phase out paper check disbursements and receipts. We will also review unimplemented recommendations from recent IRS research projects to determine if any of these recommendations would advance current Treasury leadership's priorities.

We planned 12 reviews to address this challenge.

We will assess the costs versus the benefits of the National Distribution Center's fulfillment services and the Center's distribution of products to IRS internal and external customers in a paperless environment. The National Distribution Center supplies post offices, libraries, and other outlets with paper tax materials for public distribution.

PROTECTING TAXPAYER DATA

What's the challenge?

The IRS accumulates vast amounts of data as it annually processes hundreds of millions of tax returns and other forms. Much of this data is sensitive and stored in different computer systems available to IRS employees and contractors. However, preventing unauthorized access to, and disclosure of, sensitive taxpayer information continues to be a challenge for the IRS.

This challenge is likely to be amplified by recent changes involving the IRS's collection and storage of information used to detect unauthorized access and privileged access abuse. Moreover, the IRS plans to decommission IT systems that capture and track unauthorized access and data loss prevention incidents. It is important that our Office of Investigations be involved in these plans to understand how replacement audit trail systems can be used for investigations and ensure the new systems provide accurate data.

Additionally, our previous reviews indicate that it will be a challenge for the IRS to ensure that the more than 25,000 employees who separated from the agency earlier this year do not retain access to sensitive systems and return their equipment. For example, last year we reported that the IRS did not always remove contractor employees' access to IRS facilities, systems, and equipment when the contractor employees were no longer assigned to an ongoing contract. We also reported that IRS's procedures to systemically remove users (employees and contractors) who no longer require access to sensitive systems were not always working as intended. In some cases, this issue was specific to separated employees. For example, we identified 279 individuals who separated from the agency but continued to have access to at least one sensitive IRS system. Although IRS network access was removed for each of these individuals, it does not eliminate the risk that they can access a sensitive system.

Another March 2025 Executive Order, *Stopping Waste, Fraud, and Abuse by Eliminating Information Silos*, aims to remove barriers and promote interagency data sharing. This may increase the frequency and volume of data sharing between the IRS and other agencies. However, the IRS's data repositories are complex, voluminous, and fragmented. This environment poses unique challenges to establishing accurate and secure data sharing agreements. For example, we recently reported that the IRS sent incorrect federal tax information to the Department of Education that potentially affected 7.2 million student aid applications. We believe it is important that lessons learned from existing data sharing agreements inform similar future arrangements to help prevent the transfer of inaccurate taxpayer data.

What progress has the IRS made?

The Internal Revenue Code allows the IRS to share Federal Tax Information (FTI) to over 250 state, territory, and local agencies. We reported that IRS's efforts to oversee state agencies'

access to FTI were generally successful. The IRS's Office of Safeguards, which is designed to ensure the confidentiality of taxpayer information sent to federal, state, and local agencies, has developed extensive training and guidance outlining the process state agencies must follow to safeguard FTI. In addition, the Office of Safeguards has developed and maintained a safeguard review schedule that led to completing reviews for 98 percent of active state agencies in the past three years.

In addition to sensitive data stored on IT systems, the IRS also receives and creates a significant volume of sensitive documents and is responsible for protecting them from receipt to disposal. After we performed on-site inspections at several IRS facilities that identified employees were using open containers to dispose of sensitive documents, the IRS replaced the open containers with secure lockable bins. They also replaced damaged lockable bins.

What key recommendations have been implemented?

- Ensured that the agency's audit trail repository accurately displays and reports all login information for the Compliance Data Warehouse (a major IRS database containing taxpayer data accessible to research analysts at the IRS and Treasury Department). Failure to accurately and reliably report system login information limits the capability to determine unauthorized access to Personally Identifiable Information and FTI data.
- Developed processes and procedures to ensure that microfilm cartridges, which the IRS uses to store photographic records of business and individual tax information, are destroyed in compliance with record destruction time frames.

What ongoing work does TIGTA have to address the challenge?

We plan to assess the IRS's efforts to provide effective governance, management, and oversight of the implementation of AI. We also plan to assess the security of taxpayer data at select contractor sites. We will also evaluate the process and procedures for implementing the data sharing agreement between the Department of the Treasury and the IRS and the Department of Homeland Security and Immigration and Customs Enforcement.

We planned 15 reviews to address this challenge.

IMPLEMENTING TAX LAW CHANGES

What's the challenge?

The One Big Beautiful Bill Act (OBBB) contains major tax provisions for individual and business taxpayers that go into effect in 2025. New tax law changes complicate the IRS's processing of tax returns, as they require the agency to:

- Update computer programming;
- Create or revise tax forms, instructions, or guidance for taxpayers and tax professionals; and
- Increase or revise enforcement strategies.

For example, we previously reported that processing delays prevented businesses from receiving certain pandemic relief benefits. Due to a lack of updated programming and guidance, the IRS did not begin processing claims for qualified Sick and Family Leave Credits and the Employee Retention Credit for 12 months and claims for Social Security tax deferrals for 16 months after the pandemic relief legislation was enacted.

Taxpayer uncertainty around new tax law changes can affect voluntary compliance, and errors (caused by computers and employees) in the IRS's tax return processing systems may delay refunds, affect the accuracy of taxpayer accounts, and result in incorrect taxpayer notices.

What progress has the IRS made?

The IRS has a lot of experience implementing major tax law changes. For example, within the last decade, the IRS has implemented tax changes from the Tax Cuts and Jobs Act, multiple pandemic relief laws, and the IRA. Generally, the IRS successfully implemented the tax provisions within these laws.

For example, the IRA—the most recent major legislation affecting the tax code—included provisions that created and revised clean vehicle tax credits. We found that the IRS developed a process for qualified manufacturers and sellers to submit information on qualifying vehicles and to report transfer elections through a newly developed online portal. This process allows the IRS to validate qualifying clean vehicles from manufacturing through reporting on the taxpayer's annual tax return. The IRS also updated existing and developed new tax forms, instructions, and publications; issued guidance to manufacturers, buyers, and sellers; and informed internal and external audiences about the clean vehicle tax credits and reporting requirements.

In addition, the Coronavirus Aid, Relief, and Economic Security Act allowed employers and self-employed individuals to defer payment of their Social Security tax. Employers who did not timely pay their deferred Social Security taxes are subject to the IRS's standard collection

processes. We found that the IRS assessed an estimated \$591 million in penalties and interest on 403,711 tax accounts for employers who failed to timely pay their deferred Social Security taxes.

What key recommendations have been implemented?

- Corrected computer programming to ensure the IRS did not incorrectly reject tax returns for taxpayers claiming clean vehicle tax credits.
- Reviewed nearly 1,000 tax returns with signs of potential identity theft to recover potentially erroneously paid Employee Retention Credits.

What ongoing work does TIGTA have to address the challenge?

We plan to determine the IRS's strategy and implementation of recently enacted tax provisions to remove certain tax benefits for non-citizens and will evaluate the guidance and compliance plans for select provisions of the OBBB.

We planned five reviews to address this challenge.

We are also evaluating whether the IRS met all legislative requirements to terminate Direct File (an IRS-developed free tax return preparation tool) and report to Congress on a potential replacement system.

IMPROVING TAXPAYER SERVICE AND PROTECTING TAXPAYERS' RIGHTS

What's the challenge?

Every year, millions of taxpayers seek assistance from the IRS via its website, telephone helplines, Taxpayer Assistance Centers (TACs), social media platforms, and volunteer tax return preparation sites. These various service channels should help taxpayers quickly, accurately, and without the need for additional contact.

However, for some service channels such as telephone helplines, a taxpayer's experience can vary depending on the time of year and/or the reason for their call. The IRS tracks and widely reports on two customer service performance measures related to its telephone lines: 1) Level of Service (LOS), which measures the ability for a taxpayer to reach a telephone assistor when requested, and 2) average wait times.

The IRS reported that its LOS (88 percent) and average wait times (three minutes) showed improvement during the 2024 filing season. However, these measures do not capture expected average wait times and LOS for all IRS telephone lines throughout the entire year. Instead, the reported LOS and average wait times only include calls to 33 of the IRS's approximately 100 telephone lines during the 2024 filing season. Although these lines handled most of the calls answered by IRS assistors, using only these lines to publicize performance can mislead taxpayers. For example, taxpayers who called one of the IRS's telephone lines for tax compliance issues—which are not included in the LOS—waited on average 19 minutes to speak with an assistor during the 2024 filing season. In a separate evaluation, we called all public-facing IRS phone lines (103 at the time) and were placed on hold for 30 minutes or more on 18 lines. Most of these 18 lines are not included in the LOS metric.

We also reviewed IRS telephone data for FY 2024 and found that approximately 33 percent of taxpayer calls were transferred from at least one telephone assistor to another. Transfers are sometimes necessary, but one-stop service saves time for both the IRS and the taxpayer.

It will be increasingly important for the IRS to maintain existing self-service options and consider the practicality of building new ones given recent staffing reductions. For example, we found that nearly half of the 100 self-service kiosks available to taxpayers at TACs were inoperable. Instead of fixing them, IRS management decided to discontinue the kiosk program and consider an alternative self-service option.



Picture of a self-service kiosk in a Taxpayer Assistance Center.
Source: TIGTA staff.

When the IRS serves taxpayers, it must remember that each and every taxpayer has a set of fundamental rights that need to be recognized. For example, taxpayers have a right to challenge the IRS's position and be heard. However, in FY 2024, we reported that the IRS did not notify some taxpayers and their authorized representatives of the right to a Collection Due Process hearing prior to issuing levies. With fewer employees to intervene at key points in the tax collection process, the IRS may not be able to fully ensure that taxpayers' rights are protected.

What progress has the IRS made?

The IRS added voicebots to provide automated responses to certain taxpayer inquiries to reduce the number of taxpayers trying to reach live assistance and decrease the amount of time

taxpayers spend waiting for a telephone assistor. The IRS is also developing a new telephone measure designed to view customer service performance across all automated and live assistance service channels.

We recently reported that revenue officers issued more than 99 percent of levies in accordance with legal requirements. When taxpayers do not pay delinquent taxes, the IRS has authority to work directly with financial institutions and other third parties to levy a taxpayers' assets. We found that IRS properly notified taxpayers and allowed them the opportunity to request a Collection Due Process levy hearing.

What key recommendations have been implemented

- Conducted an analysis to determine if it would be beneficial to increase space sharing with the other federal or state agencies in locations where face-to-face taxpayer services are not being offered.
- Submitted programming requests to ensure that levies issued systemically by certain IRS systems only include appropriate tax records and are sent after the required 30-day notification period.

What ongoing work does TIGTA have to address the challenge?

We will evaluate the experience taxpayers receive when calling a select number of IRS telephone lines during and after the filing season. Additionally, we plan to assess whether the IRS can benefit from adopting tools, including AI, used by private collection agencies to improve the efficiency and effectiveness of telephone service. We will also assess the IRS's efforts to enable taxpayers to make tax payments easily through all service channels.

We planned 28 reviews to address this challenge.

Each year, we complete statutorily mandated reviews involving computer security, taxpayer rights, and privacy issues. This includes evaluating whether the following actions were done in compliance with the Internal Revenue Code, Treasury Regulations, or IRS procedures: liens, seizures, and direct contact of taxpayers and their representatives.

MODERNIZING INFORMATION TECHNOLOGY

What's the challenge?

The modernization of IRS IT and business systems is essential to fulfilling its mission of providing America's taxpayers with top quality service, helping them understand and meet their tax responsibilities, and enforcing the law with integrity and fairness. However, the IRS has a history of cost overruns and delays in its IT modernization efforts. As a result, the IRS continues to maintain some of the oldest IT systems in the federal government.

The IRS has more than 700 business systems, and half of them historically have been considered legacy systems that require replacement and decommissioning to reduce risks and improve functionality.¹ The IRS has upgraded several systems but has made little progress decommissioning what were previously considered legacy systems. For example, we recently identified 34 legacy case management systems that the IRS plans to incorporate and decommission as part of its larger effort to consolidate business unit case management systems. At this time, none of these legacy systems have been decommissioned. Instead, the IRS spent over \$39 million in FY 2024 to maintain and operate 20 of these legacy case management systems. Currently, IRS business units are identifying which IT systems meet the new definition of a legacy system while Treasury leadership works to ensure the integrity of data across all IRS systems.

Technical experts can help manage the complexity of IT modernization efforts. However, the IRS has lost approximately 25 percent of its IT staff to deferred resignation programs, attrition, and voluntary separation. In March 2025, the IRS reported that it placed 48 senior IT employees on administrative leave, 27 of which were either in key management positions or were individuals recruited for their expertise related to the IRS's restructuring efforts.

What progress has the IRS made?

We reported that the IRS made progress advancing transformation efforts in 2024. These advancements include modernizing tax account processing, promoting agility across operations, implementing new technology solutions, empowering business growth, strengthening network communications, reinforcing enterprise security, and enhancing operations.

The IRS has also made progress modernizing tax processing. The 2024 Filing Season was the second year the IRS successfully performed parallel processing with its modern solution for

¹ The IRS historically defined a legacy system as one that is 25 years or older, used obsolete programming language, or lacked vendor support. In April 2025, the Chief Information Officer issued a memorandum outlining a new definition, which focuses on business outcomes and mission alignment, shifting away from age- and technology-based criteria.

individual tax processing. The IRS plans to decommission the old system that has been in place for over 60 years.

Earlier this year, IRS modernization priorities were changed, and work stopped on several ongoing programs. The IRS is now prioritizing modernization efforts focused on business outcomes and mission alignment. IRS leadership also highlighted the launch of the Technical Roadmapping Initiative that is organized around four key priorities that include establishing an interface to enable consistent and secure access to core systems and data across platforms. The initiative also aims to eliminate paper-based processes and focuses on making it easier to build, test, and deploy software with fewer barriers. The Chief Information Officer also issued a memorandum outlining a new definition of a legacy system. The new definition focuses on business outcomes and mission alignment, shifting away from age- and technology-based criteria.

In August 2025, the Treasury Department announced that IT functions within all Treasury bureaus (which includes the IRS and TIGTA) are required to immediately integrate AI capabilities into daily operations. We plan on monitoring IRS's efforts to comply with this requirement.

What key recommendations have been implemented?

Federal agencies are required to expand the use of shared services to enable broader use and adoption of cloud computing. Cloud computing is the delivery of computing services over the Internet to offer faster innovation, flexible resources, and economies of scale. The IRS must monitor its cloud systems or applications to mitigate the disclosure of sensitive data.

- After we identified a cloud system operating in a production environment without authorization, the IRS sought appropriate approvals for the system.
- We also identified that some cloud system documents were missing approvals or were not properly approved. IRS management subsequently ensured that management approvals were consistent and documented, as required.

What ongoing work does TIGTA have to address the challenge?

We plan to evaluate the progress of implementing the Customer Account Data Engine 2 Individual Tax Processing Engine project. This is a system that will perform the core functions of posting, settlement, and analysis of individual taxpayer accounts.

We planned seven reviews to address this challenge.

We will also review whether data within Compliance Data Warehouse is sufficiently reliable to support the use of AI.

ENSURING TAX COMPLIANCE

What's the challenge?

One of the IRS's key responsibilities is to ensure taxpayer compliance with the Internal Revenue Code. This is important because small declines in compliance cost the country billions of dollars in lost revenue and shift the tax burden from those who do not pay their taxes to those who pay on time every year.

As the economy evolves, the IRS must ensure that it collects taxes from emerging sources of income. For example, the gambling industry has reached unprecedented levels of popularity across the United States, with total gaming revenue reaching an all-time high of \$72 billion in 2024, according to industry estimates. However, we reported that nearly 150,000 individuals with approximately \$13.2 billion in total gambling winnings over a three-year period did not file a tax return. The IRS calculated it could collect more than \$1 billion from these nonfilers but had not started any enforcement actions.

Certain refundable tax credits remain challenging for the IRS to administer. The IRS has not reduced the improper payment rate estimates to less than 10 percent (the goal required by the Payment Integrity Information Act) for any of its reported high-risk programs. In FY 2024, the IRS estimated an overall improper payment rate of 21.9 percent and estimated improper payments totaling \$21.4 billion for the Additional Child Tax Credit, American Opportunity Tax Credit, Earned Income Tax Credit, and Net Premium Tax Credit. The IRS would need to reduce erroneous payments for each of these credits by \$11.7 billion to meet the 10 percent threshold. However, this will be difficult because eligibility rules differ for each credit and the IRS must address complicated family relationships and residency arrangements to determine eligibility.

Improper Payment Rates for High-Risk IRS Programs (Fiscal Year 2024)



IRS has not satisfied the goal to reduce improper payment rates to less than 10%.

What's an improper payment?

Any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient.



Source: TIGTA Report No. 2025-400-025, *Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements* (May 2025).

What progress has the IRS made?

The IRS had made progress addressing the tax implications of virtual currencies, another emerging industry. In the last 15 years, virtual currencies have grown into a trillion-dollar industry and have proven challenging for the IRS from both a guidance and an enforcement perspective. The IRS considers virtual currency as property, that when sold, can create taxable consequences each time the virtual currency is used. For some taxpayers, the anonymity of virtual currency is appealing, and it complicates the IRS's enforcement efforts.

We reported that IRS Criminal Investigation used analytics to address virtual currency noncompliance. Between FYs 2018 to 2023, IRS investigated 390 cases involving virtual currencies. In that period, 224 cases were completed with a recommendation for prosecution.

The IRS has also made progress using different enforcement strategies to improve taxpayer compliance. For example, sweeps (done by revenue officers) are used to address an increase in unassigned high priority inventory in an understaffed location or to support a compliance initiative, like pursuing high-income nonfilers. We reported that in recent years, sweeps of high-income non-filer cases were effective at securing tax returns and referring delinquent returns for examination.

What key recommendations have been implemented?

- Updated processes to ensure the proper identification and review of all tax-exempt hospitals subject to a Community Benefit Activity Review. These reviews are done to ensure that hospitals demonstrate that they operate to benefit a community. For example, a hospital operating an emergency room that is open to all, regardless of ability to pay, is a factor that IRS can consider when determining if a hospital meets the community benefit standard.
- Developed guidance for the applicability and computation of the failure to file penalty for delinquent Forms 5329, which is used to report additional taxes on individual retirement accounts or other qualified retirement plans.

What ongoing work does TIGTA have to address the challenge?

We will review whether the IRS's processes and controls for identifying and placing a ban on individuals previously determined to have filed reckless or fraudulent Earned Income Tax Credit claims are effective and applied consistently.

We planned 17 reviews to address this challenge.

Additionally, we plan to assess whether the IRS has sufficiently increased its enforcement efforts of unscrupulous tax return preparers who fraudulently or negligently claim the Earned Income Tax Credit on behalf of ineligible taxpayers.

We also plan to determine whether the IRS is effectively addressing federal employees who fail to file their tax returns and pay their balances due.

Conclusion

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2026. Our Annual Program Plan contains our proposed reviews for FY 2026 and will be published on our website.

cc: Deputy Secretary of the Treasury
Assistant Secretary for Management
Deputy Chief Financial Officer
Chief Executive Officer of the Internal Revenue Service

Appendix: Significant TIGTA Reports Referenced

TIGTA, Report No. 2024-308-306, *Former Contractor Employees Retained Access to IRS Facilities, Systems, and Equipment* (Sept. 2024).

TIGTA, Report No. 2025-300-021, *Revenue Officer Compliance Sweeps of High-Income Nonfilers Were Impactful, but Tracking Data and Training Could Be Improved* (Apr. 2025).

TIGTA, Report No. 2024-300-030, *Virtual Currency Tax Compliance Enforcement Can Be Improved* (July 2024).

TIGTA, Report No. 2025-408-014, *Inflation Reduction Act: Implementation of the Clean Vehicle Tax Credits* (Mar. 2025).

TIGTA, Report No. 2025-100-040, *Telephone Level of Service and Average Wait Times Do Not Fully Reflect the Taxpayer Experience* (Aug. 2025).

TIGTA, Report No. 2025-400-026, *Interim Results of the 2025 Filing Season* (June 2025).

TIGTA Report No. 2024-300-064, *The IRS Could Collect Over a Billion Dollars in Taxes From Unreported Wagering Income* (Sept. 2024).

TIGTA Report No. 2025-2S8-041, *Progress of Information Technology Modernization Efforts for Calendar Year 2024* (Aug. 2025).

TIGTA Report No. 2025-400-025, *Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements* (May 2025).

TIGTA, Report No. 2025-208-050, *Although Enterprise Case Management Modernization Has Begun, No Legacy Systems Have Been Decommissioned* (Sept. 2025).

TIGTA, Report No. 2024-IE-R008, *Assessment of Processes to Grant Access to Sensitive Systems and to Safeguard Federal Tax Information* (Feb. 2024).

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

TIGTA, Report No. 2025-IE-R003, *Governance Efforts Should Be Accelerated To Ensure the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence* (Nov. 2024).

TIGTA, Report No. 2025-IE-R007, *Limited Testing Showed Taxpayers May Not Receive the Service They Expect When Calling the IRS Toll-Free Telephone Lines* (Feb. 2025).