TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Snapshot: The IRS's Inflation Reduction Act Spending Through March 31, 2026

September 1, 2026

Report Number: 2026-IE-R014

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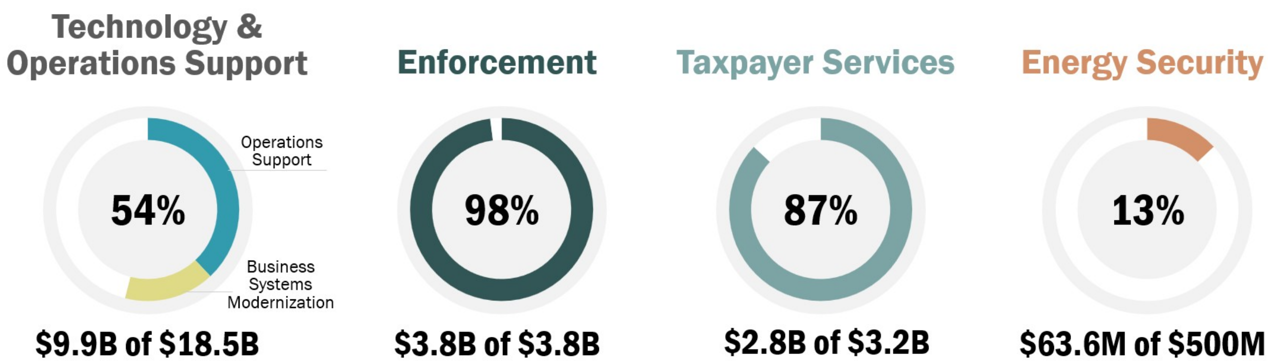
Why TIGTA Did This Evaluation

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 March 2026, Congress had subsequently reduced IRA funding by $53.4 billion. As a result, total 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 March 31, 2026.

What TIGTA Found

As of March 31, 2026, the IRS has spent approximately $16.5 billion in IRA funding (64 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.

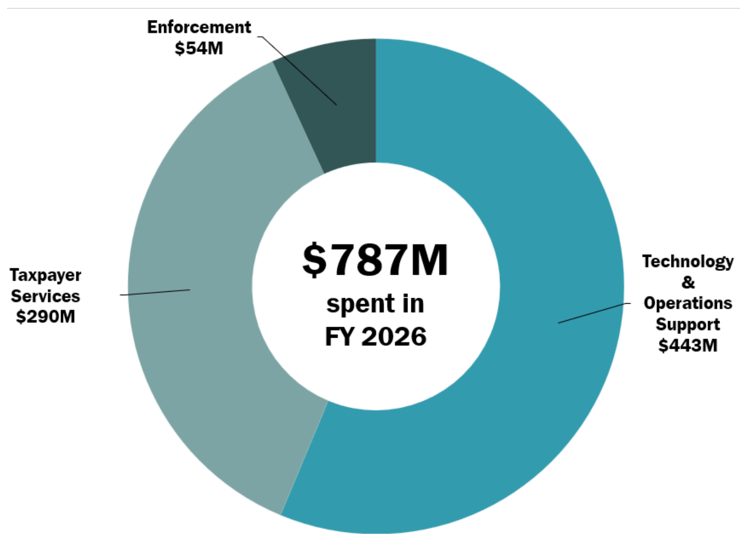


The spending amounts above are rounded for presentation purposes. The percentages are based on actual spending explained in the report. The IRS reported the largest IRA expenditure was for employee compensation (*i.e.*, pay/benefits), totaling approximately $7.7 billion; and contractor advisory and assistance services, totaling approximately $5.4 billion.

For its FY 2026 appropriations, the IRS requested and received Congressional approval to change its funding categories by combining "Operations Support" and "Business Systems Modernization" into one category called "Technology and Operations Support." This change acknowledges that technology is the largest component of operations support.

Thus far in FY 2026 (October 1, 2025, through March 31, 2026), the IRS has spent approximately $787 million in IRA funding (excluding prior year obligation adjustments).

In addition, as of March 31, 2026, the IRS cancelled 167 IRA-related contracts. For these contracts, the IRS had already paid out $784 million before the contracts were terminated and is holding an additional $8 million in unliquidated obligations for costs that have been incurred but not paid. By cancelling these contracts, the IRS reduced the obligations for those contracts by $127 million.



Our report is informational only. We made no recommendations.

TREASURY INSPECTOR GENERAL
for Tax Administration

DATE: September 1, 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 March 31, 2026 (Evaluation No.: IE-26-003-I.1)

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 March 31, 2026.[1] This evaluation 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 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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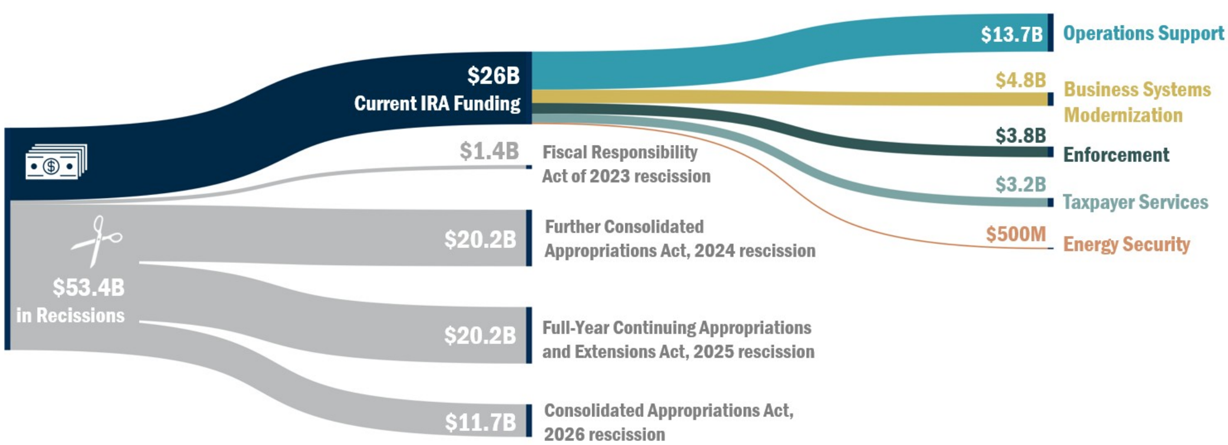
Background

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] However, as of March 2026, Congress subsequently reduced IRA funding to $26 billion.[2] 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 $35 billion rescission in IRA spending could result in an $89 billion drop in federal revenues from FY 2024 through FY 2034.

More recently, the CBO's January 2026 cost estimate review of the FY 2026 appropriations bill indicated that rescinding the additional $11.7 billion would result in fewer enforcement actions and reduce revenue collections over the next decade. The CBO estimated that the proposed FY 2026 rescission would reduce revenues by:

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

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[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; 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.

IRA supplemental funding is available to the IRS through September 30, 2031. The funding is intended to help the IRS transform tax administration and improve taxpayer services. Figure 1 presents the total IRA funds available for each primary budget activity. The IRS has remaining IRA funds for the following activity categories, as of March 31, 2026:

- Technology and Operations Support – $8.6 billion.
- Enforcement – $85 million.
- Taxpayer Services – $415 million.
- Energy Security – $436 million.

In addition to these primary budget activities, the IRA included $15 million to conduct a feasibility study for a direct e-file tax return system.[3]

For its FY 2026 appropriations, the IRS requested and received Congressional approval to change its funding categories and combined the "Operations Support" and "Business Systems Modernization" categories into one category called "Technology and Operations Support." This category change acknowledges that technology is the largest component of operations support.

A new IRS Strategic Plan will supersede the IRA Strategic Operating Plan

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 objectives through a series of initiatives and projects aligned to each objective.[4] The IRS updated this SOP in May 2024 to further refine the IRS's transformation and near-term priorities. A key component of this work involved developing the outcomes aligned with the SOP's five objectives.

In April 2026, the Department of the Treasury released its Strategic Plan 2026–2030, which describes long-term goals the current Administration wants to achieve. Treasury's current plan outlines five primary goals:

- Increase Main Street growth.
- Improve the stewardship of taxpayer dollars.
- Enhance national security.
- Improve the efficiency and effectiveness of Treasury operations.
- Celebrate American achievement and be a model host.

In response to the Treasury plan, the IRS is updating its strategic plan, which will supersede the previous SOP published in 2023 and updated in 2024. The IRS intends to publish its new strategic plan by August 2026. The plan will contain five goals as presented in Figure 2.

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

[4] The five objectives were to: (1) dramatically improve service to help taxpayers meet their obligations; (2) quickly resolve taxpayer issues; (3) focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance; (4) deliver cutting-edge technology; and (5) attract, retain, and empower a highly skilled, diverse workforce.

Figure 2: Proposed IRS Strategic Goals for 2026–2030

Source: Information provided by Office of the Chief Financial Officer on the IRS's yet-to-be-released FY 2026-2030 IRS Strategic Plan.

According to the IRS, the five goals define the transformation required to meet the mission of the IRS with fairness, efficiency, and integrity. The IRS's goals also support broader government priorities established in the Treasury plan.

Fiscal Year 2026 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 available funds. The Consolidated Appropriations Act, 2026, provided the IRS with annual appropriation funding of almost $11.2 billion for three primary funding activities in FY 2026. The Act included:

- **$3 billion for Taxpayer Services.** These funds are to be used to support prefiling assistance and education, filing and account services, and taxpayer advocacy services. In addition, these funds can 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 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).
- **$3.2 billion for Technology and Operations Support.** These funds are to be used to support taxpayer services and enforcement programs, including rent payments, facilities services, printing, postage, physical security, headquarters. In addition, these funds can be used for other IRS-wide administration activities, such as research and statistics of income, telecommunications, 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. Additionally, funds cannot be used to target citizens of the United States for exercising any right guaranteed under the First Amendment to the Constitution of the United States. The funds also cannot be used to target groups for regulatory scrutiny based on their ideological beliefs.

In addition to its annual appropriation, the IRS also has multiyear IRA funding available in FY 2026. IRA funding was to supplement, not replace, the IRS's annual appropriation. However, through March 31, 2026, IRS officials indicated that approximately $5.1 billion in IRA funds have been used to supplement the IRS's annual discretionary appropriations. IRA funds were used to deliver the filing season, provide service to taxpayers, support technology investments, and ensure that critical operations continued during lapses in annual appropriations. Such lapses occurred in October 2025 and February 2026.

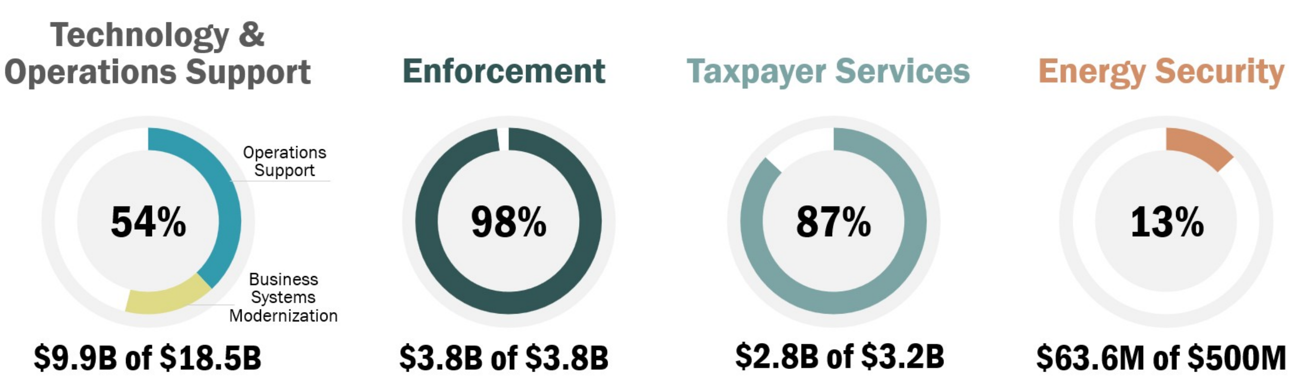
Overall, $3.5 billion in IRA funding was used for labor costs and $1.3 billion was used for information technology operating and maintenance costs. IRS officials noted that IRA funding was needed since the IRS's annual appropriation did not cover normal operating expenses.

Results of Review

Cumulative and Fiscal Year 2026 IRA Expenditures and Spending

As of March 31, 2026, the IRS has spent approximately $16.5 billion of the $26 billion in IRA funding (64 percent). Figure 3 shows IRA expenditures by funding activity since the passage of the legislation through March 31, 2026. In addition to the amounts shown in Figure 3, the IRS spent approximately $11 million in FY 2023 for the direct e-file tax return study.

Figure 3: Cumulative IRA Expenditures Through March 31, 2026



Source: The Integrated Financial System report provided by the Office of the Chief Financial Officer.[5]

To monitor IRA funds, the IRS uses the same established procedures that it 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 how the IRS tracks its spending in the Integrated Financial

[5] The IRA spending amounts are rounded for presentation purposes. The percentages are based on actual spending as compared to available funds for each category. Specifically, spending on Enforcement was $3,763,063,413 (97.7 percent) of $3,847,875,000 and spending on Taxpayer Services was $2,766,386,168 (86.9 percent) of $3,181,500,000.

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

System.[7] Figure 4 highlights cumulative IRA expenditures by object class category and funding activity.

Figure 4: Cumulative IRA Expenditures by Object Class Category and Funding Activity

Expense Category	Taxpayer Services	Enforcement	Operations Support	Business Systems Modernization	Energy Security	Direct E-File	Grand Total
LABOR							
IRS Employee Pay & Benefits	$2,492,337,926	$2,999,186,704	$1,820,290,311	$370,732,227	$63,624,736	$814,200	$7,746,986,104
NON-LABOR							
Advisory and assistance services	$206,968,909	$351,847,333	$2,546,448,275	$2,299,637,944	----------	$8,167,460	$5,413,069,921
Communications, utilities, and miscellaneous charges	$396	$1,068,906	$223,246,815	$4,380,497	----------	----------	$228,696,613
Equipment	$2,882,510	$61,064,994	$2,014,012,890	$263,553,036	----------	$254,897	$2,341,768,327
Land and structures	----------	$98,626	$108,348,166	----------	----------	----------	$108,446,792
Medical care	----------	$2,000	----------	----------	----------	----------	$2,000
Operation and maintenance of equipment	----------	$1,003,294	$51,267,129	$10,334,904	----------	----------	$62,605,326
Operation and maintenance of facilities	----------	$84,897	$66,368,600	$136,872	----------	----------	$66,590,369
Other goods and services from Federal sources	$63,437,093	$244,611,674	$70,621,132	----------	----------	$1,808,668	$380,478,566
Other services from non-Federal sources	$309,949	$34,695,266	$53,971,298	----------	----------	----------	$88,976,512
Printing and reproduction	----------	$267,445	$11,885,292	----------	----------	----------	$12,152,737
Supplies and materials	$93,749	$34,235,159	$3,486,784	$6,801	----------	----------	$37,822,493
Travel and transportation of persons	$345,636	$31,888,743	$6,739,906	$859,274	$109	----------	$39,833,670
Unvouchered	----------	$324,442	----------	----------	----------	----------	$324,442
Rental payments to GSA	----------	----------	$614,061	----------	----------	----------	$614,061
Transportation of things	----------	$2,671,165	$9,995	----------	----------	----------	$2,681,160
Insurance claims and indemnities	$10,000	----------	$794	----------	----------	----------	$10,794
Rental payments to others	----------	$12,766	----------	----------	----------	----------	$12,766
NON-LABOR TOTAL	$274,048,243	$763,876,709	$5,157,021,136	$2,578,909,328	$109	$10,231,024	$8,784,086,550
GRAND TOTAL	**$2,766,386,168**	**$3,763,063,413**	**$6,977,311,448**	**$2,949,641,555**	**$63,624,845**	**$11,045,224**	**$16,531,072,653**

Source: The Integrated Financial System report from the Office of the Chief Financial Officer, as of March 31, 2026.

Figure 5 illustrates that as of March 31, 2026, the IRS reported that its two largest IRA expenditures were for employee compensation (*i.e.,* pay/benefits), totaling approximately $7.7 billion; and contractor advisory and assistance services, totaling approximately $5.4 billion.

As for FY 2026, the IRS spent approximately $787 million of IRA funding from October 1, 2025, through March 31, 2026. This was a significant drop in spending from the previous six months (April 1, 2025, through September 30, 2025) when the IRS spent approximately $2 billion in IRA funds. Figure 5 shows the breakdown of IRA expenditures by the three primary funding activities.[8]

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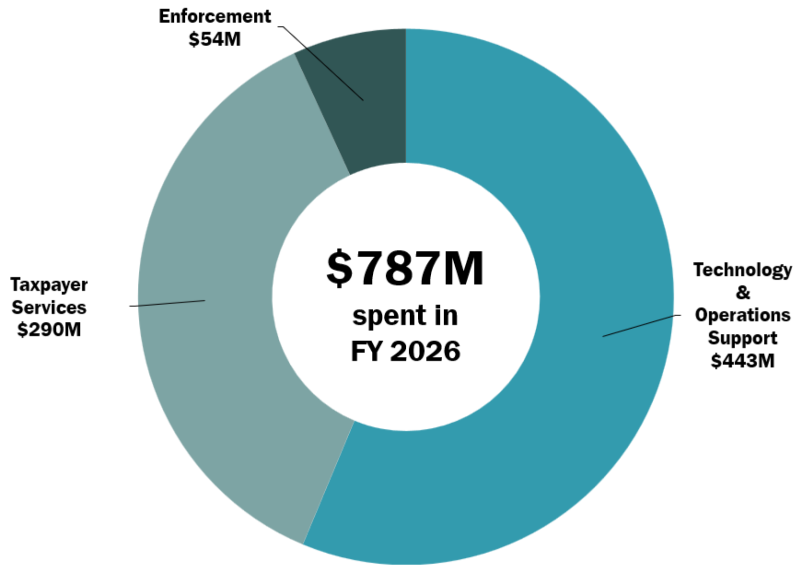
[7] The Integrated Financial System is a packaged system software solution. It enables the IRS to integrate most of its internal financial management processes, share common financial data and practices across the entire organization, and produce and access financial data online in a real-time environment.

[8] The total amount spent in FY 2026 includes $109 allotted to the Energy Security, a fourth funding activity.

Figure 5: FY 2026 IRA Expenditures Through March 31, 2026



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

IRS Staffing

Of the approximately $7.7 billion in IRA funds spent on labor costs, the IRS spent approximately $410 million (5 percent) in FY 2026. This was a significant decrease in labor costs compared to the previous six months (April 1, 2025, through September 30, 2025) when the IRS spent approximately $1.2 billion in IRA funds.

Since January 2025, the President has issued several executive orders to reduce 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.

- **Deferred Resignation Programs (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 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 offered a third DRP to a limited number of employees from September through November 2025. In total, 21,647 employees took one of these three DRP offers and separated from the IRS.[9]
- **Other Separations Including Early Retirement.** The IRS also offered voluntary early retirement and voluntary separation incentive payments (also known as "buyouts") to incentivize employees to leave. Some employees also left on their own accord. In total, 9,626 employees separated under these circumstances.

[9] For more information on the IRS workforce reductions, see TIGTA Report No. 2026-IE-R009, *Snapshot Report: Status of the IRS's Workforce as of January 2026* (June 2026).

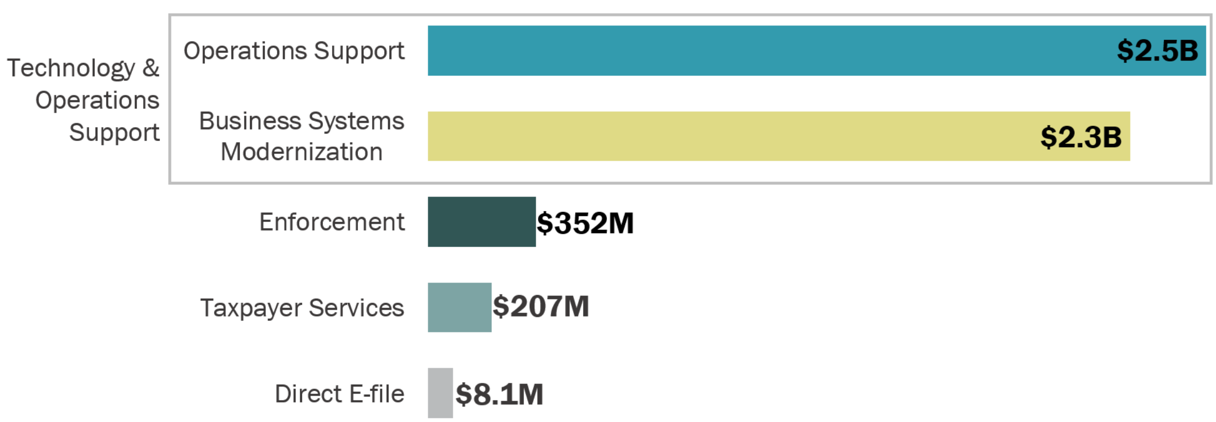
Contractor Support

From the passage of the IRA legislation through March 31, 2026, the IRS spent approximately $5.4 billion of its IRA funding to pay contractor support. Classified as advisory and assistance services, contractor support services include:

- **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 expenditures for contractor advisory and assistance support services spent through March 31, 2026, totaling $5.4 billion in contractor support.

Figure 6: Breakdown of the $5.4 Billion Paid for IRA Contractor Support by Funding Activity[10]



Source: The Integrated Financial System report from the Office of the Chief Financial Officer, as of March 31, 2026.

As of March 31, 2026, the IRS cancelled 167 IRA-related or funded contracts. For these contracts, the IRS had already paid out $784 million before the contracts were terminated and are holding an additional $8 million in unliquidated obligations for costs that have been incurred but not paid. By cancelling these contracts, the IRS reduced the obligations for those contracts by $127 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. The majority of the contracts were for information technology-related services.

[10] No funds were spent on contractor services for the Energy Security funding activity.

This is the fourth snapshot report we have produced on the IRS's use of IRA funding. As the IRS spends its remaining IRA funds, we may modify the frequency in which we produce this report.

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 March 31, 2026. To accomplish our objective, we:

- Obtained Integrated Financial System reports of IRA expenditures, as of March 31, 2026, 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 funding rescissions.
- Analyzed IRA expenditures and highlighted any trends and concerns.
- Determined contractor support used with IRA funding, as well as IRA contracts terminated or revised.

Performance of This Review

This review was performed with information obtained from the Office of the Chief Financial Officer during the period of December 2025 through April 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

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

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.