

THE STATE OF FEDERAL TAX ADMINISTRATION IN 2026

Statement of

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before the

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Committee on Oversight,

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**THE IRS UNDER AUDIT: A REVIEW OF OPERATIONS AT THE
NATION'S TAX COLLECTOR**

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* The views expressed today are my own and should not be attributed to the Urban-Brookings Tax Policy Center, the Urban Institute, the Brookings Institution, their boards, or their funders.

Chairman Burchett, Ranking Member Stansbury, and members of the subcommittee, thank you for having me here today to talk about the Internal Revenue Service's operations.

My name is Janet Holtzblatt. I am a senior fellow at the Urban-Brookings Tax Policy Center. We provide independent, timely, and accessible analysis to inform policy debates and improve people's lives. The views I express today are my own and should not be attributed to the Urban-Brookings Tax Policy Center, the Urban Institute, the Brookings Institution, their boards, or their funders.

I specialize in issues affecting individual taxpayers and tax administration. In recent years, I have conducted research on the returns on investments in the IRS's enforcement budget, evaluated the IRS's performance metrics, and participated in an IRS technical expert panel on estimating the tax gap. I was also an advisory board member of Taxpayers FIRST, a group of former government officials and other tax policy experts that was organized by National Taxpayers Union President Pete Sepp to discuss ways to improve taxpayer services, technology upgrades, and enforcement.

Before coming to the Tax Policy Center, I was a career economist in the Office of Tax Policy at the US Department of the Treasury and in the Tax Analysis Division at the Congressional Budget Office. I learned a very important lesson from my experiences in government: A tax policy's goals cannot be fully achieved unless the IRS can successfully administer the law. My comments today reflect that perspective.

In today's testimony, I would like to make five points:

1. For the past 15 years, IRS funding and staffing have fluctuated widely. Persistent funding cuts and uncertainty about the stability of funding increases undermine the provision of taxpayer services and enforcement. As a result, efforts to transform the IRS into a twenty-first century tax administration agency have faltered.
2. Due to net reductions of about 20 percent of the IRS staff in 2025, taxpayers likely received less help in preparing their returns this year and experienced delays in refunds, particularly among those filing paper returns, those flagged during processing, and those without bank accounts for direct deposit of payments from the IRS.
3. The rollback of the Inflation Reduction Act's substantial funding for enforcement activities may reduce audits and also weaken the agency's ability to provide guidance on a complex tax code before returns are filed.
4. Advancements in technology are necessary to modernize the IRS, but experienced staff will still be needed to provide developers with insights into the complex tax code.
5. Effective oversight of the IRS's performance is imperative, and it requires comprehensive and reliable evidence.

Fluctuations in the IRS's Resources

Between 2010 and 2021, Congress cut the IRS budget by 23 percent after adjusting for inflation. Those reductions were accompanied by other developments that affected the IRS's efficiency, including the steady departure of its most skilled staff, a seven-year hiring freeze that prevented it from replacing staff who had left, and continuous depreciation of its computer systems.

Yet, as the IRS's appropriations and resources declined, Congress enacted new legislation that expanded the agency's responsibilities, including administering premium assistance credits, processing reports of financial assets held abroad by US citizens, and rapidly deploying three rounds of refundable tax credits to assist families during the pandemic.

The combination of reduced funding and greater responsibilities contributed to cutbacks in services and enforcement. To remedy the impacts of these cutbacks and invest in the future, the 2022 Inflation Reduction Act (IRA) provided the IRS with nearly \$80 billion in new funding over 10 years to improve enforcement, operations, technology, and taxpayer services. However, since 2023, Congress has rescinded \$53 billion of that funding, with 78 percent of the cuts coming from the enforcement allocation and the remaining amount from operation support.¹ After accounting for spending, the IRS had only \$9.8 billion of IRA funds remaining as of the end of fiscal year 2025.

The IRA funding was intended to supplement the annual appropriations, which were to be used to maintain the IRS's routine spending each year. But since its passage, Congress has cut the IRS appropriations—first freezing spending at 2022 levels and then reducing funding from \$12.3 billion to \$11.2 billion in fiscal year 2026. Because appropriations have not kept up with inflation, the IRS has sometimes had to rely on the IRA funds to pay for the mandated cost-of-living increases for its employees' salaries.

The IRS's workforce was shrinking even before the recent cutbacks in funding. The number of employees fell from about 114,000 at the close of fiscal year 1995 to about 94,000 at the end of fiscal year 2010. Over the next decade, its labor force dropped to about 80,000—in large part due to a seven-year hiring freeze and a workforce reaching retirement age. But following the infusion of the IRA funding, the number of personnel grew to about 100,000, still 14,000 fewer people than in 1995.²

As part of President Trump's downsizing of government, federal government employees were offered the option to resign in 2025 while retaining salary and benefits through the end of the fiscal year. The combination of the deferred resignation program, buyouts, and attrition led to the departure of 19 percent of the IRS staff as of October 2025, bringing the size of the workforce down to pre-IRA levels.³

Even as the IRS's funding and staffing have been reduced substantially, its responsibilities have grown immensely. The 2025 budget reconciliation act was a major piece of legislation, reducing revenues, on net, by about \$4.5 trillion over the 10-year budget period.⁴ Several of the provisions took effect retrospectively, covering the entire year even though the legislation was not enacted until July 4, requiring the Treasury Department and the IRS to rapidly turn out guidance and new forms, as well as to program systems to implement the new laws.

¹ *Snapshot: The IRS's Inflation Reduction Act Spending Through September 30, 2025*, Report No. 2026-IE-R003 (US Treasury Inspector General for Tax Administration, 2026), <https://www.tigta.gov/sites/default/files/reports/2026-03/2026ier003fr.pdf>.

² "SOI Tax Stats—IRS Data Book," IRS, updated May 29, 2025, <https://www.irs.gov/statistics/soi-tax-stats-irs-data-book>.

³ *The Internal Revenue Service's Readiness for the 2026 Filing Season*, Audit No.: 2026400002 (US Treasury Inspector General for Tax Administration, 2026), <https://www.tigta.gov/sites/default/files/reports/2026-01/2026400002-Readiness-Memo.pdf>.

⁴ An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, H.R. 1, 119th Cong. (2025), <https://www.congress.gov/bill/119th-congress/house-bill/1/text>.

Among the provisions were the partial deductibility of tips and overtime. The IRS and Treasury staff should be applauded for their rapid and comprehensive work on producing guidance on these two provisions. For example, over 71 pages of preliminary regulations just covering the tips deduction were released in September. (Final regulations were just issued on April 10, 2026.)

But there are limits to what can be done rapidly with vague and perhaps conflicting laws. The tips deduction guidance listed 68 occupations that regularly receive tips (including some surprises to me such as comedians and plumbers), but some restaurant workers might have been surprised to discover that the service fees they receive in lieu of tips are not deductible. Or perhaps they missed that exclusion in the instruction and mistakenly claimed those fees.

The overtime deduction may have been even more challenging for taxpayers to understand and for the IRS to administer. While eligibility and the amount of the deduction are linked to provisions in the Fair Labor Standards Act (FLSA), workers may not be aware of the FLSA provisions. Some occupations are not covered by the FLSA, and thus people in those fields are not eligible for the deduction. Further, FLSA-covered overtime is capped at the difference between the worker's base wage and 150 percent of base wage; that is, a worker who receives double their base wage when working overtime would be able to deduct only half of the amount received above their base wage. The 1040 instructions for the deduction span three pages with small font.

For most other forms of employee compensation, taxpayers do not have to decide if they meet these requirements because employers must report that information on their W-2s. However, the reconciliation act waives an employer reporting requirement for overtime and tips received in 2025. This waiver gave employers the time to create payroll systems that would facilitate tracking those amounts, especially important because the guidance evolved throughout the fall and winter, but it left taxpayers on their own to do the computations.

Third-party reporting of income and other tax-related items is, however, one of the pillars of tax compliance, as evidenced by the IRS's longtime findings that 99 percent of wages and salaries are reported accurately on tax returns because of W-2s and tax withholding. The number of overtime deductions raises concerns about taxpayer errors, both intentional and unintentional. As of April 14, 25 million filers claimed the overtime deduction.⁵ In contrast, the Tax Policy Center estimates that 9 percent of tax units would benefit from the provision for all of 2025. (There are definitional differences between the two estimates, but they likely do not explain a gap of this magnitude.) Given the lags between filing deadlines and the release of the IRS tax gap studies, Congress will not have reliable data on compliance with the new deductions before their scheduled expiration at the end of 2028.

⁵ US Department of the Treasury, "Over 53 Million Filers Claimed At Least One of President Trump's Signature New Tax Cuts" news release, April 15, 2026, <https://home.treasury.gov/news/press-releases/sb0441>.

Impact on Taxpayer Services

The Treasury Inspector General for Tax Administration (TIGTA) deemed the 2025 filing season a success, despite disruptions in the agency.⁶ The IRS, for example, exceeded its goal of answering 85 percent of taxpayers' calls about tax laws and their accounts through April; it achieved this feat in part by delaying mission-critical employees' buyouts.

Although the reduction in funding and resources does not bode well, we will need answers to at least three key questions before assessing whether the 2026 filing season has been a success or failure.

First, did taxpayers obtain reliable information about tax laws before filing their returns? An immediate, visible consequence of the workforce reduction in 2025 was the IRS's projection last summer that it needed to hire 3,500 additional customer service representatives to achieve the goal of answering 85 percent of taxpayers' calls about tax laws and their accounts during the filing season. The IRS received permission to fill those slots but fell short of the target by the end of December. To fill the staffing gap, the IRS detailed employees from other divisions, including those who did not have experience with customer service. However, training of the new hires and detailed workers was hindered by the government shutdown and the loss of experienced customer service representatives who typically conduct the training. Accordingly, the IRS reduced its target for telephone responses from 85 percent to 70 percent. Yet the passage of the 2025 reconciliation act—both the provisions that were effective in 2025 and those that took effect this year—likely increased the demand for assistance from the IRS.⁷

Many taxpayers also faced obstacles in seeking help in person due to the closure of nine taxpayer assistance centers (out of 360), including several in California, Pennsylvania, and New York.⁸

In lieu of calls and office visits, taxpayers might have turned to the IRS website for answers. The number of visits to the IRS website through early April grew by 58 percent from last year: 435,926,000 hits in 2026 compared with 275,948,000 over the same period in 2025.⁹ This year's number of website visits is consistent with levels prior to 2025—leaving 2025 as the outlier, not 2026. Moreover, the public data do not provide information on which sites were visited.

Second, did taxpayers receive their refunds in timely fashion? As of April 3, the number of refunds was 3 percent higher than around the same time last year.¹⁰ However, we do not have sufficient information to determine whether this increase is due to faster refund processing or the impact of the tax cuts in the 2025

⁶ *Final Results of the 2025 Filing Season*, Report No. 2025-400-048 (US Treasury Inspector General for Tax Administration, 2025), <https://www.tigta.gov/sites/default/files/reports/2025-09/2025400048fr.pdf>.

⁷ *The Internal Revenue Service's Readiness for the 2026 Filing Season*, Audit No.: 2026400002 (US Treasury Inspector General for Tax Administration, 2026), <https://www.tigta.gov/sites/default/files/reports/2026-01/2026400002-Readiness-Memo.pdf>.

⁸ National Treasury Employees Union, "NTEU Opposes IRS Plan to Close Taxpayer Assistance Centers," press release, September 4, 2025, <https://www.nteu.org/media-center/News%20Releases/2025/09/04/NTEU%20Opposes%20IRS%20Plan%20to%20Close%20Taxpayer%20Assistance%20Centers>.

⁹ "Filing Season Statistics for Week Ending April 3, 2026," IRS, updated April 10, 2026, <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-april-3-2026>.

¹⁰ "Filing Season Statistics for Week Ending April 3, 2026," IRS.

reconciliation act. But three groups faced hurdles this year that might have affected the timing of their refunds.

The first group is the 6 percent of people who typically file paper returns, which must be manually entered into the IRS master file, leading to longer refund wait times than electronic filers. In 2023, the IRS launched a Paperless Processing Initiative to speed refunds by expanding the scanning and digitization of paper returns by the 2025 filing season but failed to achieve that goal.¹¹ A year ago, the IRS undertook a scaled-back Zero Paper Initiative, but in September TIGTA reported that work on the project was running behind schedule.¹²

The second group is people who must send additional information to the IRS before receiving a refund because their returns are flagged during processing. But with fewer IRS employees responding to taxpayer correspondence, their refunds are likely to be frozen for weeks.

Finally, lower-income tax filers had a higher probability of experiencing delays in refund payments this year than other filers. In September, the IRS announced the phaseout of paper tax refunds due to a government-wide initiative to transition to direct deposits.¹³ Filers can still receive refund checks, but it may take more than 10 weeks before they receive the payment.

As of late March, the IRS issued 1.4 million notices to tax filers requesting bank information. While the number is small relative to the roughly 100 million who filed tax returns, people without a bank account (the unbanked) are most likely to have received those notices.¹⁴ According to an analysis by my Tax Policy Center colleagues, Nikhita Airi and Elaine Maag, nearly one in four lower-income households—those most in need of refunds—lacked access to banking services, and most did not use alternative means to receive electronic payments.¹⁵

Third, were taxpayers able to file their returns for free in 2026? On average, taxpayers were expected to spend nearly \$300 to prepare their 2025 tax returns, according to the IRS.¹⁶ Those estimates ranged from \$160 for filers without any business income to \$600 for the self-employed and others with business income.

In the past, to lessen the burden of filing tax returns, the IRS provided several free options, including volunteer assistance programs, Free File offered through private companies, and most recently, an online

¹¹ Benjamin Valdez, “Shutdown May Hinder Filing Season Timeline, Former IRS Chiefs Say,” *Tax Notes*, November 19, 2025, <https://www.taxnotes.com/tax-notes-today-federal/tax-system-administration/shutdown-may-hinder-filing-season-timeline-former-irs-chiefs-say/2025/11/19/7t93z?highlight=shutdown>.

¹² *Semiannual Report to Congress: April 1, 2025–September 30, 2025* (US Treasury Inspector General for Tax Administration, 2025), <https://www.tigta.gov/sites/default/files/reports/2025-11/TIGTA-SA-FALL-2025.pdf>.

¹³ IRS, “IRS to Phase Out Paper Tax Refund Checks Starting with Individual Taxpayers,” news release, September 23, 2025, <https://www.irs.gov/newsroom/irs-to-phase-out-paper-tax-refund-checks-starting-with-individual-taxpayers>.

¹⁴ Danny K. Davis and Terri A. Sewell, members of the Committee on Ways and Means, letter to Scott Bessent, Secretary of the Treasury, March 24, 2026, <https://democrats-waysandmeans.house.gov/sites/evo-subsites/democrats-waysandmeans.house.gov/files/evo-media-document/2026.03.24-irs-letter-bessent-re-cp53e.pdf>.

¹⁵ Nikhita Airi and Elaine Maag, “Phasing Out Paper Refund Checks This Tax Season Could Delay Refunds for Some,” *TaxVox*, January 28, 2026, <https://taxpolicycenter.org/taxvox/phasing-out-paper-refund-checks-tax-season-could-delay-refunds-some>.

¹⁶ “Instructions for Form 1040 (and 1040-SR)” (IRS, 2025), <https://www.irs.gov/pub/irs-pdf/i1040gi.pdf>.

IRS tool called Direct File that enabled taxpayers to file returns electronically from computers, tablets, and smartphones. Direct File, however, was dropped in October 2025 after operating for two years.

Direct File had its origins in Free File, which was established in 2002 as a partnership between the IRS and commercial tax preparation companies.¹⁷ Under the Free File Alliance, the preparation companies would offer free online tax filing services to people based on their income, age, and residence, with some oversight by the IRS.¹⁸ To entice companies to participate, the IRS agreed not to develop comparable free filing software.

But many taxpayers found it difficult to access Free File. Critics said that some companies' websites often led taxpayers to paid services. By 2019, Free File Alliance's practices and the IRS's oversight came under increased scrutiny by the press, TIGTA, and state attorneys general.¹⁹ While 70 percent of taxpayers were eligible to use Free File, only 3 percent (about 2.5 million) participated in 2020.²⁰

Along the way, the noncompete clause in the agreements between the IRS and the Free File Alliance was dropped, and the IRA provided the IRS with up to \$15 million to study whether it could develop a free filing program.²¹ Favorable findings from the evaluation of a pilot program in 2024 led the IRS to expand both the scope and number of people eligible for Direct File in 2025. Those findings were supported by a survey conducted by my Tax Policy Center colleagues, Aravind Boddupalli and Margot Crandall-Hollick, and other Urban Institute researchers, which found that most Americans were interested in using Direct File to prepare their returns.²²

But last October, the Treasury Department released a report announcing the suspension of Direct File, citing low take-up and high costs per return.²³ Take-up was lower than in the two-decade Free File program, but that might have been because the 2024 pilot was not fully rolled out until mid-March and there was a lack of outreach as well as confusion in news accounts about whether Direct File was still available in

¹⁷ "What is Free File?" *The Tax Policy Briefing Book*, Tax Policy Center, accessed April 15, 2026, <https://taxpolicycenter.org/briefing-book/what-free-file>

¹⁸ "What is Direct File?" *The Tax Policy Briefing Book*, Tax Policy Center, accessed April 15, 2026, <https://taxpolicycenter.org/briefing-book/what-direct-file>

¹⁹ Justin Elliott and Lucas Waldron "Here's How TurboTax Just Tricked You into Paying to File Your Taxes," ProPublica, April 22, 2019, <https://www.propublica.org/article/turbotax-just-tricked-you-into-paying-to-file-your-taxes>; and "Complexity and Insufficient Oversight of the Free File Program Result in Low Taxpayer Participation," US Treasury Inspector General for Tax Administration, 2020, <https://taxpolicycenter.org/briefing-book/what-free-file>.

²⁰ Donald Moynihan, *Digital Government, Public-Private Partnerships, and Administrative Burdens: The Free File Program* (McCourt School of Public Policy Georgetown University, 2022), <https://mccourt.georgetown.edu/wp-content/uploads/2022/06/Free-File-Case-Study.pdf>.

²¹ Congress.gov, "The IRS's Free Direct Filing Pilot Program," March 25, 2024, <https://www.congress.gov/crs-product/IN12270>.

²² Aravind Boddupalli, Margot Crandall-Hollick, Michael Karpman, and Noah Kennedy, "Most Americans Are Interested in Using IRS Direct File to Prepare and File Their Taxes," Tax Policy Center, March 26, 2025, <https://taxpolicycenter.org/fact-sheets/most-americans-are-interested-using-irs-direct-file-prepare-and-file-their-taxes>.

²³ *Report on the Replacement of Direct File: Report to Congress* (US Department of the Treasury, 2025), <https://home.treasury.gov/system/files/131/Report-Replacement-of-Direct-File-2025.pdf>.

2025.²⁴ The IRS's costs for Direct File averaged \$138 per accepted return—less than half the average out-of-pocket preparation costs incurred by all filers.

In the report, Treasury appears committed to enabling taxpayers to file for free, but it seems to prefer strengthening the Free File program despite its past problems. If the goal is to reduce taxpayers' filing burden, further testing of both Direct File and Free File improvements would provide more conclusive evidence on which approach is most effective.

Impact on Enforcement

Over the past 15 years, funding for tax enforcement has swung back and forth between deep cuts and substantial increases. Between 2010 and 2021, funding for enforcement was reduced by 26 percent, after accounting for inflation.²⁵ Consequently, audit rates also fell—from 1 percent of 2010 individual tax returns to 0.3 percent of 2020 returns.²⁶

Conversely, the enforcement budget increased the most under the IRA, with 58 percent of IRA funding dedicated to this activity. The Biden administration stated its intention to use a portion of those funds to increase enforcement actions targeting high-income individuals and large corporations and partnerships. At the time of enactment, the Congressional Budget Office estimated that the IRA boost would raise about \$180 billion in revenues over the 10-year period.²⁷ However, 92 percent of the IRA enforcement funding was subsequently rescinded.

The whittling away of IRA funding began within months of its passage and was partly spurred by warnings from some opponents that IRS agents armed with guns would target middle-income taxpayers.²⁸ Treasury officials denied this assertion, noting that audit rates for taxpayers with income below \$400,000 would not increase relative to historic levels.²⁹ Further, less than 3 percent of IRS employees—Criminal Investigation agents—were authorized to carry guns.³⁰

Other resources for the IRS enforcement have also diminished. The IRS appropriations for enforcement—frozen at fiscal year 2022 levels for several years—was cut by \$439 million in fiscal year

²⁴ *Direct File Activity for the 2025 Filing Season*, Report No. 2026-408-006 (US Treasury Inspector General for Tax Administration, 2026), <https://www.tigta.gov/sites/default/files/reports/2026-03/2026408006fr.pdf>.

²⁵ Janet Holtzblatt, "The Effect of Tax Enforcement on Revenues," statement before the US House of Representatives, Ways and Means Committee (Tax Policy Center, 2021), https://taxpolicycenter.org/sites/default/files/publication/162322/the-effect-of-tax-enforcement-on-revenues_v2.pdf.

²⁶ "SOI Tax Stats—IRS Data Book," IRS, updated May 29, 2025, <https://www.irs.gov/statistics/soi-tax-stats-irs-data-book>.

²⁷ Phillip L. Swagel, director of the Congressional Budget Office, letter to Kevin Brady, ranking member of the Committee on Ways and Means, and Jason Smith, ranking member of the Committee on the Budget, August 25, 2022, <https://www.cbo.gov/system/files/2022-08/58390-IRS.pdf>.

²⁸ Janet Holtzblatt, "If the IRS Gets \$80 Billion, Will Its Agents Come Gunning for You?" *TaxVox*, Tax Policy Center, August 11, 2022, <https://taxpolicycenter.org/taxvox/if-irs-gets-80-billion-will-its-agents-come-gunning-you>.

²⁹ Janet Holtzblatt, "Details Emerge on How the IRS Will Navigate the \$400K Pledge," *TaxVox*, Tax Policy Center, April 25, 2023, <https://taxpolicycenter.org/taxvox/details-emerge-how-irs-will-navigate-400k-pledge>.

³⁰ Howard Gleckman and Janet Holtzblatt, "Cutting Through the Misinformation About the IRS's Plan to Spend \$80 Billion," *TaxVox*, Tax Policy Center, September 1, 2022, <https://taxpolicycenter.org/taxvox/cutting-through-misinformation-about-irss-plan-spend-80-billion>.

2026, and the president's fiscal year 2027 budget would further reduce enforcement funding by another \$900 million (an 18 percent decrease, in nominal dollars).³¹ The enforcement workforce was also hit hard by resignations in 2025. For example, from January to May 2025, one in four revenue agents left the IRS.³²

Estimates of ROIs often do not include every activity covered by the IRS enforcement budget. The enforcement budget also covers the costs of providing certain pre-filing services: the chance to gain clarity and, in some cases, certainty about what the tax code means for taxpayers *before* filing a return that may otherwise be riddled with unintentional errors. The IRS advises taxpayers through opportunities to comment on proposed regulations, receive letter rulings, and, for corporations, to participate in the compliance assurance process. While the IRS charges fees for the latter two services, budget reductions limit the agency's ability to potentially expand those pre-filing services at much lower cost to taxpayers who are not wealthy or large businesses.

Impact on Modernization

The rescissions have not reduced the IRA funds for IRS modernization, but the initial allocation for this activity was much smaller than the increases in enforcement funding: \$4.8 billion for technological modernization versus \$45.6 billion for enforcement. Just two years after the passage of IRA, the IRS forecasted that the IRA funding for modernization would run out in 2026.³³ Between January and May, 2025, 25 percent of Information Technology staff left the agency.³⁴ The appropriations for business modernization were also eliminated. Moreover, appropriators asserted that the technology upgrades—such as using artificial intelligence to increase the efficiency of audit selection—would be financed out of IRA funds.³⁵

With the IRA modernization funding anticipated to be depleted, the Trump administration plans to fund modernization from the Operations account (renamed the Technology and Operations Support account). The administration has emphasized the need and value for improving the IRS technical infrastructure. Frank J. Bisignano, chief executive officer of the IRS, has outlined a general plan for modernization initiatives, many of which had begun during previous administrations.³⁶ Among the initiatives are updating operations

³¹ *Congressional Budget Justification and Annual Performance Plan and Report: FY 2027* (US Department of the Treasury, 2026), <https://home.treasury.gov/system/files/266/02.-IRS-FY-2027-CJ.pdf>.

³² *Snapshot Report: IRS Workforce Reductions as of May 2025*, Report No. 2025-IE-R027 (US Treasury Inspector General for Tax Administration, 2025), <https://www.tigta.gov/sites/default/files/reports/2025-08/2025ier027fr.pdf>.

³³ Eric Katz, "IRS Says Layoffs Possibly by 2026 Without Sustained Funding Boost," *Government Executive*, May 2, 2024, <https://www.govexec.com/workforce/2024/05/irs-says-layoffs-possibly-2026-without-sustained-funding-boost/396275>.

³⁴ *Snapshot Report: IRS Workforce Reductions as of May 2025* (US Treasury Inspector General for Tax Administration, 2025).

³⁵ "How Have Cuts to the IRS's Appropriations Affected Its Ability to Administer the Federal Tax System?" *The Tax Policy Briefing Book*, Tax Policy Center, accessed April 15, 2026, [https://taxpolicycenter.org/briefing-book/how-have-cuts-irss-appropriations-affected-its-ability-administer-federal-tax-system#:~:text=IRS%20Appropriations,taxpayer%20services%20\(figure%201\)](https://taxpolicycenter.org/briefing-book/how-have-cuts-irss-appropriations-affected-its-ability-administer-federal-tax-system#:~:text=IRS%20Appropriations,taxpayer%20services%20(figure%201)).

³⁶ "Written Testimony of the Honorable Frank J. Bisignano Chief Executive Officer, Internal Revenue Service, before the House Ways and Means Committee to Discuss the 2026 Tax Filing Season and IRS Operations," IRS, March 4, 2026, <https://www.irs.gov/newsroom/written-testimony-of-the-honorable-frank-j-bisignano-chief-executive-officer-internal-revenue-service-before-the-house-ways-and-means-committee-to-discuss-the-2026-tax-filing-season-and-irs-operations>.

by, in part, reducing reliance on paper-based processes, strengthening enterprise data integration, improving system interoperability to enhance both services and compliance activities, and expanding use of artificial intelligence to more precisely identify noncompliance.

Stepping back from the specifics, any modernization plan should answer some fundamental questions:

- Can the IRS provide a schedule for the completion of their modernization initiatives, including milestones and targets?
- How will the IRS detect and prevent false results (hallucinations) when relying on AI or machine learning?
- To what extent will the IRS rely on private contractors to work on modernization initiatives?
- What measures will be put in place to protect taxpayer privacy?

More generally, the IRS has suggested that technological advancements can offset the reductions in staff. But tools like machine learning should be viewed as supplements, not replacements, to employees. Experienced and skilled staff—both technical and subject-matter experts—are needed to teach machines and evaluate their output.

Measuring the IRS's Performance

The fate of a government agency's funding is always precarious—especially so for the IRS, one of the most unpopular federal agencies in the United States.³⁷ For this reason, it is critical that the IRS monitor, evaluate, and regularly report its performance so that lawmakers can make informed decisions about its funding and authorities.³⁸ That imperative is embodied in the Government Performance and Results Act of 1993, which requires government agencies to measure their programs' recent effectiveness and set annual targets. Those measures and targets are published each year in an agency's congressional budget justification.

Earlier this year, Bisignano announced that the IRS will stop using its Level of Service (LOS) metric, which measures the percentage of accounts management calls answered by a live customer service representative throughout the entire year.³⁹ The LOS will not be missed by many observers of the IRS. In the *Objectives Report to Congress*, the National Taxpayer Advocate Erin Collins noted that by focusing solely on accounts management customer service calls during the filing season, the IRS overlooked 11 million calls, or about 30 percent of the 2025 filing season total, including those related to overdue balances, collection

³⁷ Andy Cerda, "Americans See Many Federal Agencies Favorably, but Republicans Grow More Critical of Justice Department," Pew Research Center, August 12, 2024, <https://www.pewresearch.org/short-reads/2024/08/12/americans-see-many-federal-agencies-favorably-but-republicans-grow-more-critical-of-justice-department/#:~:text=The%20least%20popular%20federal%20agency,38%25%20have%20a%20favorable%20view.>

³⁸ Janet Holtzblatt, *Measuring Success: New Performance Metrics for a New Internal Revenue Service* (Tax Policy Center, 2024), <https://taxpolicycenter.org/publications/measuring-success-new-performance-metrics-new-internal-revenue-service>.

³⁹ Jory Heckman, "Ahead of Filing Season, IRS Scraps Customer Service Metric It's Used for 20 Years," Federal News Network, January 21, 2026, <https://federalnewsnetwork.com/management/2026/01/ahead-of-filing-season-irs-scraps-customer-service-metric-its-used-for-20-years>.

activities, and identity theft.⁴⁰ In the subsequent *Annual Report to Congress*, Collins stated that about 75 million of the nearly 104 million calls to the IRS made throughout fiscal year 2025 were not answered by an employee.⁴¹

Bisignano stated that LOS would be replaced with enterprise metrics that reflect new technologies and service channels. Those measures were unveiled in the newly released FY 2027 budget: the Assistor Service Rate and the Enterprise Service Completion Rate.⁴² The former measures the percentage of services completed by assistors during live interactions, either by phone or in live chat.⁴³ The latter is a broader measure including automated and digitally enabled services such as voicebots and chatbots.⁴⁴

Those are promising developments, but will the new measures address some of the shortcomings of the LOS? In particular, will they cover *all* calls received by the IRS, including taxpayers' queries about overdue balances, collections, and identity fraud? New metrics could be strengthened to include information about the number of IRS employees the taxpayer spoke to, the thoroughness and accuracy of the information provided, and whether the taxpayer's question was resolved. Moreover, the IRS has not released historical data on the new metrics, making it impossible to gauge whether and how the IRS's performance has changed over time.

With less fanfare, the IRS dropped a third performance metric—whether taxpayers are satisfied with the IRS—with the only explanation being that the interagency agreement was terminated in 2025 without even describing that agreement. In the past, the IRS relied on information collected by the American Customer Satisfaction Index, a private company founded by researchers at the University of Michigan, to measure people's satisfaction with the IRS's operations. In fiscal year 2022, the IRS's customer satisfaction score was 69 out of 100.⁴⁵ That aggregate score, however, illustrates one of the challenges of a broad performance metric: the taxpayer satisfaction metric informed policymakers of Americans' views on the IRS's overall performance, but it did not provide any insight into the agency's weaknesses and areas for improvement.

The IRS has not revealed any new metrics that directly track taxpayers' satisfaction with the agency. It might consider developing user experience surveys that could yield more detailed information about the level and sources of taxpayers' attitudes regarding their interactions with the IRS. That type of information could better guide the agency in its operations than the former measure.

⁴⁰ *Objectives Report to Congress: Fiscal Year 2026* (Taxpayer Advocate Service, 2025), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2025/06/JRC26_FullReport.pdf.

⁴¹ *Annual Report to Congress: 2025* (Taxpayer Advocate Service, 2026), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2026/01/ARC_Publication-2104_2025_Web.pdf.

⁴² *Congressional Budget Justification and Annual Performance Plan and Report: FY 2027* (US Department of the Treasury, 2026).

⁴³ This measure provides information on assistor calls answered, informational messages, assistor live chat, telephone busies, telephone emergency closed, telephone secondary abandons, telephone disconnects, and live chat abandons.

⁴⁴ This measure provides information on assistor calls answered, informational messages, voice bot automation completions, assistor live chat, chatbot automation completions, telephone busies, telephone emergency closed, telephone secondary abandons, telephone disconnects, voice bot disconnects, and live chat abandons.

⁴⁵ *Congressional Budget Justification and Annual Performance Report and Plan: FY 2025* (US Department of the Treasury, 2024), <https://home.treasury.gov/system/files/266/02.-IRS-FY2025-CJ.pdf>.

Conclusion

Last year, the IRS collected more than \$5.3 trillion in revenue and processed 271 million returns.⁴⁶ Most people will interact with the agency during their lifetimes, yet it is typically ranked as one of the least popular government agencies. Ensuring high standards for customer service and enforcement should be a priority, so that the IRS can administer a complicated tax system effectively and meet the intent of lawmakers.

⁴⁶ *Congressional Budget Justification and Annual Performance Plan and Report: FY 2027* (US Department of the Treasury, 2026).