

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through September 30, 2024

March 10, 2025

Report Number: 2025-IE-R014

HIGHLIGHTS: Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through September 30, 2024

Final Evaluation Report issued on March 10, 2025

Report Number 2025-IE-R014

Why TIGTA Did This Evaluation

The IRS originally received \$79.4 billion in supplemental funding when the President signed the Inflation Reduction Act of 2022 (IRA) into law in August 2022. Congress subsequently rescinded approximately \$21.6 billion in IRA funding reducing the available IRA funding to approximately \$57.8 billion. In addition to the rescissions, the American Relief Act, 2025, which provides appropriation funding to federal agencies through March 14, 2025, froze another \$20.2 billion in IRA enforcement funds. This supplemental funding is available through Sept. 30, 2031.

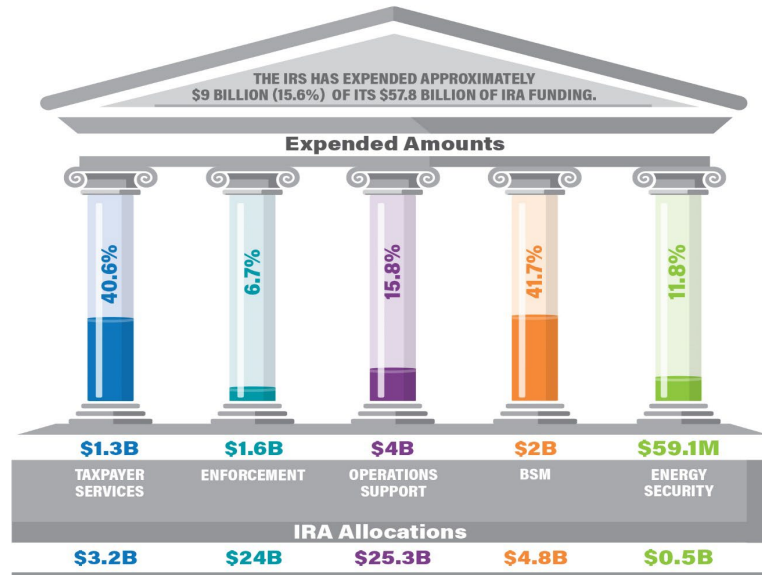
We initiated this review to provide periodic reporting on the IRS's use and accounting for expenditures using IRA funding. This report provides a quarterly and cumulative snapshot of how the funding has been expended through Sept. 30, 2024.

Impact on Tax Administration

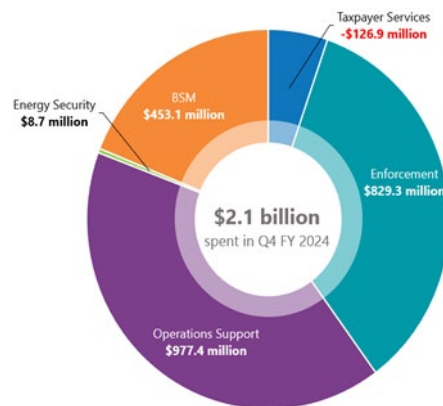
The IRS's IRA supplemental funding is intended to help improve taxpayer services, modernize technology, and increase compliance and enforcement actions against high-income taxpayers and large corporations.

What TIGTA Found

As of Sept. 30, 2024, the IRS has expended approximately \$9 billion (15.6 percent) of its \$57.8 billion in IRA funding. In addition to the expended amounts shown in the graphic, the IRS expended approximately \$11.6 million in Fiscal Year (FY) 2023 for the direct e-file tax return study, which is included in the total amount expended.



Of the \$9 billion of IRA funding expended as of Sept. 30, 2024, approximately \$2.1 billion occurred in the fourth quarter of FY 2024. The negative amount in the Taxpayer Services funding activity reflects a realignment of obligations primarily to discretionary accounts as approved Information Technologies funds were available.



IRS officials indicated that approximately \$2 billion (22.2 percent) of the \$9 billion of expended IRA funding has been used to supplement its annual appropriation because the amount the IRS received was insufficient to cover normal operating expenses.

What TIGTA Recommended

This report was prepared to provide information only. Therefore, no recommendations were made in the report.



TREASURY INSPECTOR GENERAL

for Tax Administration

DATE: March 10, 2025

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM:

Nancy LaManna

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

Deputy Inspector General for Inspections and Evaluations

SUBJECT:

Final Evaluation Report – Quarterly Snapshot: The IRS’s Inflation Reduction Act Spending Through September 30, 2024
(Evaluation No.: IE-25-002-I.1)

This report presents the results of our review to provide reporting on the Internal Revenue Service’s (IRS) use and accounting for expenditures using Inflation Reduction Act of 2022 (IRA) funding through Sept. 30, 2024.¹ This review is part of our Fiscal Year 2025 Annual Program Plan and addresses the major management and performance challenge of *Managing IRA Transformation Efforts*.

The Treasury Inspector General for Tax Administration plans to provide quarterly and cumulative reporting on the IRS’s use of IRA funding to implement its Strategic Operating Plan. This report was prepared to provide information only. Therefore, no recommendations were made in the report.

If you have questions, please contact me or Debra Kisler, Director, Inspections and Evaluations.

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

Table of Contents

<u>Background</u>	Page 1
--------------------------------	--------

<u>Results of Review</u>	Page 3
---------------------------------------	--------

<u>Object Class Funding Categories Used to Track Inflation</u> <u>Reduction Act Spending</u>	Page 9
<u>Spending on IRS Staffing</u>	Page 11
<u>Spending on Contractor Support</u>	Page 12

Appendices

<u>Appendix I – Detailed Objective, Scope, and Methodology</u>	Page 15
<u>Appendix II – Abbreviations</u>	Page 16

Background

The Internal Revenue Service's (IRS) operating budget is a mix of annual appropriations and miscellaneous resources, such as unobligated balances from previous years and reimbursable items. The IRS has considerable leeway in how it uses non-appropriated funds. The Further Consolidated Appropriation Act, 2024, provided annual appropriated funding of approximately \$12.3 billion for 3 out of 4 IRS primary budget activities for Fiscal Year (FY) 2024.¹ However, Congress provided no appropriated funding for Business Systems Modernization (BSM), which normally funds upgrades to IRS information technology systems.

The Further Consolidated Appropriation Act included:

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

The Act also provided special funding transfer authority that allows the IRS to transfer up to 5 percent of funds from one funding activity to another, with House Committee on Appropriations approval. However, the Act specified that funds could not be transferred to the Enforcement funding activity. Additionally, the act gave the IRS direct-hire authority, which allows the agency to recruit and appoint qualified applicants to positions associated with processing the backlog of tax returns and correspondence.²

¹ Pub. L. No. 118-47. 138 Stat. 460.

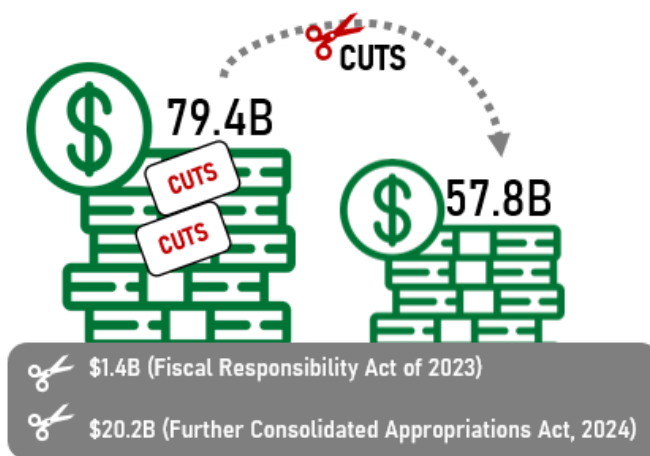
² Backlogs of tax returns and other types of tax account work resulting from the COVID-19 pandemic had a significant impact on the IRS and taxpayers. The Treasury Inspector General for Tax Administration (TIGTA) Office of Audit has performed a series of reviews on the backlog issue. The latest review is TIGTA, Report No. 2024-406-020, [The IRS Continues to Reduce Backlog Inventories in the Tax Processing Centers](#) (March 2024).

In addition to the previously mentioned annual appropriation, the IRS originally received approximately \$79.4 billion in supplemental funding when the President signed the Inflation Reduction Act of 2022 (IRA) into law in August 2022.³ By the end of March 2024, Congress had reduced the IRS's funding from the IRA to \$57.8 billion (see Figure 1).⁴

IRS officials noted that the \$21.6 billion in IRA funding rescissions will reduce revenues by more than \$100 billion through FY 2034.

Figure 1: IRA Rescissions

**\$21.6 Billion of IRS IRA Funds
Have Been Rescinded**



Source: The IRA, Fiscal Responsibility Act of 2023 and Further Consolidated Appropriations Act, 2024.

In addition to the rescissions, the American Relief Act, 2025, which provided appropriation funding to federal agencies through March 14, 2025, froze another \$20.2 billion in IRA enforcement funds.⁵

The IRA supplemental funding is available to the IRS through Sept. 30, 2031, and is intended to help the IRS transform tax administration to improve taxpayer services. Like the funding that the IRS receives as part of its annual appropriation, IRA supplemental funding includes caps for the following primary budget activities:

- Enforcement—\$24 billion.⁶
- Operations Support—\$25.3 billion.
- BSM—\$4.8 billion.
- Taxpayer Services—\$3.2 billion.

³ Pub. L. No. 117-169, 136 Stat. 1818.

⁴ Further Consolidated Appropriations Act, 2024, Pub. L. No. 118-47, 138 Stat. 460 (rescinding \$20.2 billion). Fiscal Responsibility Act of 2023, Pub. L. No. 118-5, 137 Stat. 10 (rescinding \$1.4 billion).

⁵ The American Relief Act, 2025, Pub. L. No. 118-158, 138 Stat. 1722, carries forward the rescission of \$20.2 billion contained in the Further Consolidated Appropriations Act, 2024, of amounts provided to the IRS by the IRA.

⁶ The IRA originally provided \$45.6 billion for Enforcement funding. The subsequent acts reduced the amount to \$24 billion. This amount does not factor in the \$20.2 billion of Enforcement funding frozen through March 14, 2025.

In addition, IRA supplemental funding included \$500 million to implement energy security provisions and \$15 million to conduct a feasibility study for a direct e-file tax return system.⁷

IRA Strategic Operating Plan outlines transformation objectives

On April 6, 2023, the IRS issued its IRA Strategic Operating Plan (SOP) that covers FYs 2023 through 2031. The plan is structured to achieve five transformation objectives, which will be accomplished through a series of initiatives and projects aligned to each objective. Successful delivery of these objectives is interdependent on each other. Figure 2 outlines the five objectives.

Figure 2: IRS Transformation Objectives



Source: IRA Strategic Operation Plan (April 2023).

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

- 2024 IRA Strategic Plan Annual Update.
- 2024 IRA Strategic Operating Plan Annual Update Supplement.

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

We also evaluated the 2024 IRA Strategic Plan Annual Update to determine whether it continues to provide a clear framework of the IRS's plan to transform tax administration.⁸

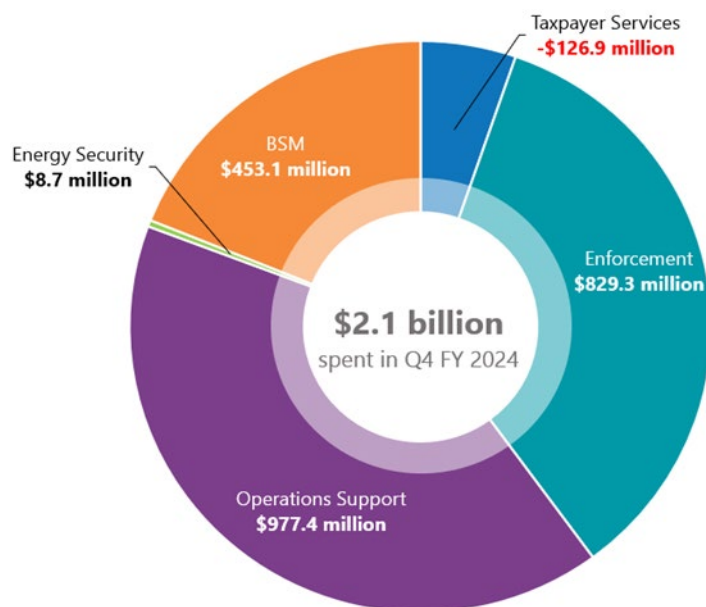
Results of Review

The IRS spent approximately \$2.1 billion in IRA funding in fourth quarter FY 2024. Figure 3 shows the breakdown of IRA expenditures by the four primary budget activities. These funds were expended during the period June 30, 2024, through Sept. 30, 2024.

⁷ The \$15 million funding for the direct e-file tax return study was only available until Sept. 30, 2023.

⁸ TIGTA, Report No. 2025-IE-R011, [Inflation Reduction Act: Assessment of the IRS's 2024 Annual Update to Its Strategic Operating Plan](#) (January 2025).

**Figure 3: IRA Expenditures by Funding Activity
for the Quarter Ending Sept. 30, 2024⁹**

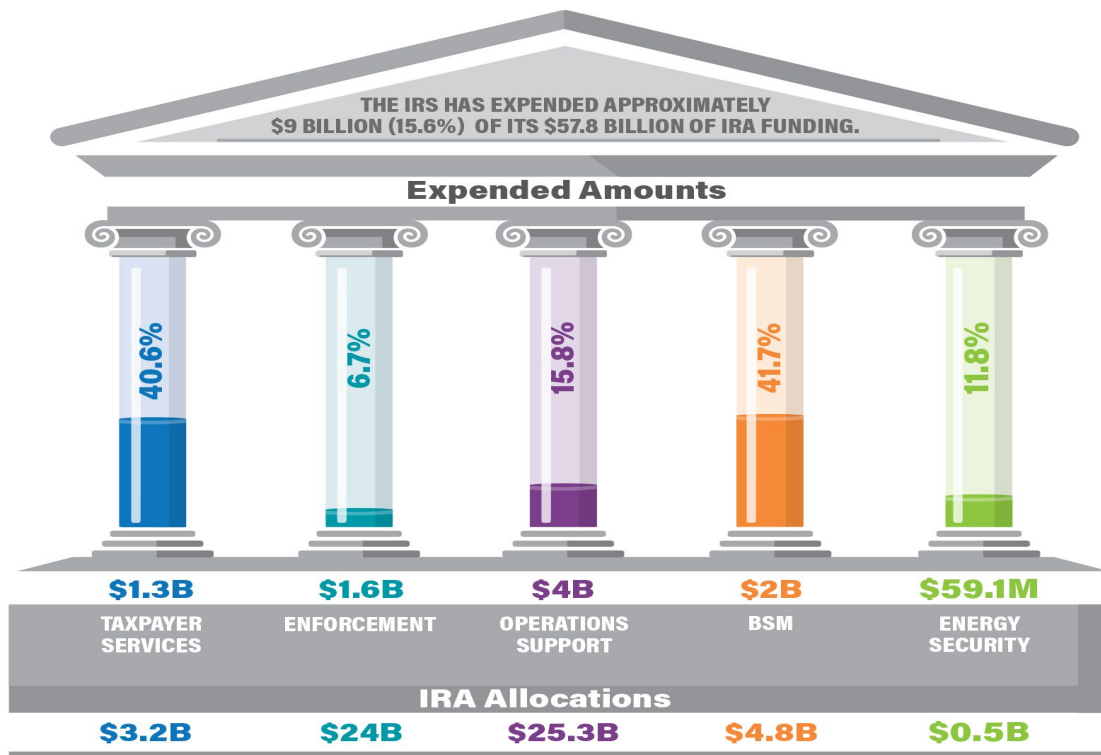


Source: TIGTA-created graphic based on information provided by the Office of the Chief Financial Officer.

Overall, as of Sept. 30, 2024, the IRS has used approximately \$9 billion of its \$57.8 billion in supplemental IRA funding. Figure 4 shows the IRA expenditures by funding activity since the passage of the legislation through Sept. 30, 2024. In addition to the expended amounts shown in Figure 4, the IRS expended approximately \$11.6 million in FY 2023 for the direct e-file tax return study, which is included in the total amount expended.

⁹ The reduction (negative amount) in the Taxpayer Services funding activity reflects a realignment of obligations primarily to discretionary accounts as approved Information Technologies funds were available.

Figure 4: Cumulative IRA Expenditures by Funding Activity Through Sept. 30, 2024¹⁰



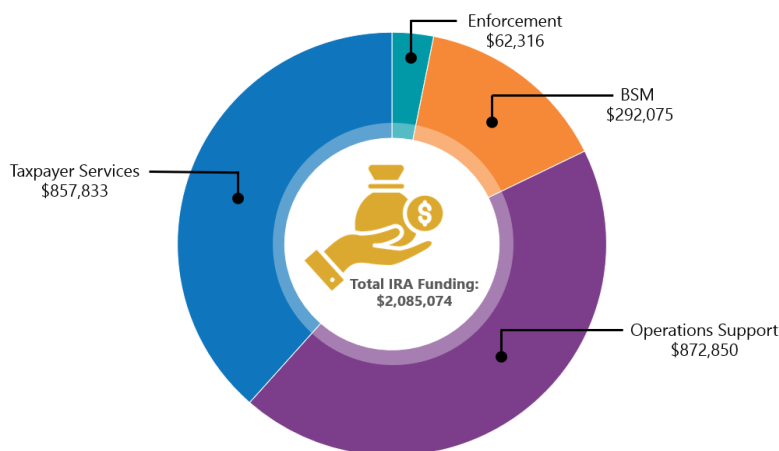
Source: TIGTA-created graphic based on information provided by the Office of the Chief Financial Officer.

Shortfalls in the annual appropriation require the IRS to use IRA funds to cover general operating expenses

IRS officials indicated that approximately \$2 billion of the \$9 billion of expended IRA funding has been used to supplement its annual appropriation. IRS officials noted that the IRA funding was needed as the amount the IRS received in its annual appropriation was insufficient to cover normal operating expenses. Figure 5 shows the amount of funding activity where the IRS used the \$2 billion in IRA funds.

¹⁰ Percentages of IRA funds expended may not calculate correctly due to rounding. Additionally, the Enforcement allocation amount is after the \$21.6 billion rescissions, but was not reduced by the \$20.2 billion funds that are frozen through March 14, 2025.

Figure 5: IRA Funding Used to Supplement Annual Appropriation by Funding Activity



Source: TIGTA-created graphic based on information provided by the Office of the Chief Financial Officer.

The IRS has used supplemental IRA funding to fund operations as its annual appropriations were not enough to cover its general operating expenses. The IRS received the same annual appropriation amount for FY 2024 that it received in FY 2023 with no adjustments for inflation.¹¹ IRS officials noted that the continued use of IRA funds to cover shortfalls in the annual appropriation will impact its ability to successfully deliver transformation objectives. Specifically, the successful delivery of its SOP transformation objectives assumes that IRA funds will be used solely to support transformation efforts, while day-to-day operations will continue to be adequately supported by the annual appropriation.

Additionally, like in FY 2023, the FY 2024 annual appropriation did not provide any funding for BSM. When provided in prior annual appropriations, the IRS used these funds to upgrade its information technology systems. IRS officials indicated that IRA funding is being used to fund its modernization efforts. However, IRS officials noted that they believe IRA funds will cover only two-thirds of the IRS's planned modernization efforts without the restoration of the BSM funding.

The IRS developed a Spend Plan detailing how IRA funds would be allocated in FY 2024

IRS officials developed a Spend Plan that details how the IRA funds would be allocated in FY 2024.¹² The Spend Plan also included milestones the IRS anticipated completing in FY 2024 using IRA funds. Figure 6 summarizes how the IRS planned to use IRA funds in FY 2024 by funding activity and SOP transformation objectives.

¹¹ Adjusting for inflation is a measure of return that considers the inflation rate. Inflation occurs when prices rise across the economy decreasing purchasing power.

¹² In the FY 2024 Spend Plan, the IRS noted that priorities may shift throughout the year based on the operating environment.

**Figure 6: Estimated FY 2024 IRA Funds (in millions)
by SOP Transformation Objective and Funding Activity¹³**

Description	Taxpayer Services	Enforcement	Operational Support	BSM	Energy Security	Total
Transformation Objective 01	\$620	\$23	\$569	\$585	\$0	\$1,797
Transformation Objective 02	\$2	\$161	\$103	\$0	\$0	\$266
Transformation Objective 03	\$34	\$336	\$146	\$80	\$0	\$596
Transformation Objective 04	\$0	\$67	\$637	\$1,056	\$0	\$1,760
Transformation Objective 05	\$104	\$91	\$506	\$0	\$0	\$702
Energy Security	\$1	\$91	\$121	\$0	\$180	\$394
Information Technology Reserve	\$0	\$0	\$25	\$50	\$0	\$75
Transformation and Strategy Office	\$11	\$15	\$15	\$0	\$0	\$42
SOP Total Costs	\$772	\$784	\$2,123	\$1,771	\$180	\$5,631
IRA Funding to Cover FY 2024 Appropriation Shortfall	\$197	\$264	\$1,135	\$18	\$0	\$1,614
Total IRA Funding – FY 2024	\$969	\$1,048	\$3,258	\$1,789	\$180	\$7,245

Source: IRS 2024 Annual Update to the SOP Supplement Report.

IRS management indicated that after the FY 2024 Spend Plan was developed, an additional apportionment of \$300 million was included for the enforcement funding activity for FY 2024. This additional apportionment is not reflected in Figure 6. IRS management indicated that no other updates have been made to the Spend Plan for FY 2024.

The IRS requested transfers between funding activities for the FY 2024 annual appropriation as follows:

- Decrease of \$271,881,000 in Enforcement.
- Decrease of \$205,041,000 in Operations Support.
- Increase of \$476,922,000 in Taxpayer Services.

IRS management indicated that this transfer authority was used in the fourth quarter of FY 2024 to realign some IRA Taxpayer Services obligations to the FY 2024 annual appropriations to preserve IRA Taxpayer Services funding for use in FY 2025.

The IRS estimated how IRA funding will be used by funding activity

In April 2024, the IRS Commissioner testified before Congress and noted that as the IRS implements its plan for transformation using the significant resources provided by the IRA, its annual appropriation needs to provide sufficient recurring resources to cover normal operating

¹³ Totals may not calculate due to rounding.

**Quarterly Snapshot: The IRS's Inflation Reduction Act
Spending Through September 30, 2024**

expenses. The Commissioner indicated that with no anticipated increase in the annual appropriations for FY 2024 for inflationary requirements, the IRS will likely use all of the supplemental IRA funds before the funding expires in FY 2031.

In the 2024 Annual Update to the SOP Supplemental Report, the IRS provided estimates of IRA spending through FY 2031. As shown in Figure 7, the IRS anticipates that the IRA funding for Taxpayer Services will run out in FY 2025, BSM and Energy Security in FY 2026, Enforcement in FY 2029, and Operations Support in FY 2030.

Figure 7: Estimated IRA Spending Through FY 2031 (in millions)¹⁴

Funding Activity	FY 2022 Actual	FY 2023 Actual	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Total
Taxpayer Services	\$1	\$889	\$969	\$1,323							\$3,182
Enforcement		\$299	\$1,048	\$2,317	\$3,339	\$4,582	\$6,045	\$6,418			\$24,048
Operations Support	\$61	\$1,474	\$3,258	\$3,565	\$3,564	\$3,543	\$3,883	\$4,293	\$1,686		\$25,326
BSM	\$44	\$723	\$1,789	\$1,929	\$265						\$4,751
Energy Security			\$180	\$180	\$140						\$500
Direct e-File		\$12									\$12
Total	\$106	\$3,396	\$7,245	\$9,313	\$7,308	\$8,125	\$9,928	\$10,711	\$1,686		\$57,818

Source: IRS 2024 Annual Update to the SOP Supplement Report

The IRS FY 2025 Budget in Brief

In its FY 2025 Budget in Brief, the IRS requested Congress to expand its transfer authority.¹⁵ The IRA legislation does not provide the IRS the flexibility to realign IRA funds across the funding activities (*e.g.*, transfer funds from Enforcement to Taxpayer Services). This flexibility would allow the IRS to allocate its existing funding more optimally, as well as make the IRS quicker in responding as issues arise in the future. The IRS indicated that without additional funding or the additional flexibility to realign funds between the funding activities, the telephone level of service is expected to see a drastic decline in FY 2026 and fall even further in FY 2027. The IRS further indicated that in addition to taxpayers being unable to reach an IRS representative for assistance, there would be delays in return processing and answering correspondence.

Additionally, in the FY 2025 Budget in Brief, the IRS requested a change in the name of the "Operations Support" budget activity to "Technology and Operations Support" indicating that Information Technology is the biggest component of Operations Support. This name change will also reflect that technology work will now be funded in this new budget activity. When the discretionary BSM appropriation was eliminated in FY 2023, the IRA became the primary source of funding for the BSM. The IRS indicates that while the BSM IRA funding was substantial, that

¹⁴ Totals may not calculate due to rounding.

¹⁵ IRS Publication 5530, *Fiscal Year 2025 Budget in Brief*, p. 3 (Rev. February 2024).

funding alone is not sufficient to fulfill the planned requirements for IRS technology transformation through FY 2031.

Lastly, in its FY 2025 budget request, the IRS included a mandatory funding proposal to extend IRA funding through FY 2034. This proposal requested \$104 billion over 10 years and the IRS estimates this level of funding would generate an additional \$341 billion in revenue. The IRS indicated that this funding would ensure that its transformation efforts continue to improve services; modernize technology; and ensure high-income taxpayers, large corporations, and complex partnerships pay the taxes they owe. Figure 8 shows how this additional funding if received would be spent.

**Figure 8: Mandatory Funding Proposal From the
IRS's FY 2025 Congressional Justification (in millions)**¹⁶

Funding Activity	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	Total
Taxpayer Services	\$1,704	\$1,878	\$1,913	\$1,948	\$1,985	\$2,022	\$2,060	\$2,098	\$2,138	\$17,744
Enforcement				\$1,268	\$9,611	\$11,671	\$11,896	\$12,126	\$12,360	\$58,932
Tech & Op Support				\$209	\$2,848	\$4,831	\$5,244	\$5,289	\$5,335	\$23,757
BSM	\$969	\$944	\$264	\$269	\$274	\$279	\$285	\$290	\$295	\$3,869
Total	\$2,672	\$2,822	\$2,177	\$3,694	\$14,718	\$18,803	\$19,484	\$19,803	\$20,128	\$104,302
Additional Revenue Generated (in millions)										
				\$3,046	42,692	\$60,911	\$70,717	\$80,000	\$83,647	\$341,013

Source: Information provided by the IRS's Office of the Chief Financial Officer. Tech = Technology. Op = Operations.

Object Class Funding Categories Used to Track Inflation Reduction Act Spending

To monitor the use of IRA funds, the IRS uses the same established procedures it uses to track its annual appropriation and spending. For example, the IRS uses a series of object class categories to track IRS funding and spending.¹⁷ These categories are how the IRS tracks its spending in the Integrated Financial System.¹⁸ The IRS reports on IRA spending based on these categories and uses the same funding activity structure to report on its annual appropriation spending. The IRS intended that the IRA funding supplement, not replace, the IRS's annual appropriation. Figure 9 highlights the cumulative IRA expenditures by object class category for the various funding activities.

¹⁶ Totals may not calculate due to rounding.

¹⁷ Object classes are categories that present obligations by the items or services purchased by the federal government.

¹⁸ 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.

Quarterly Snapshot: The IRS's Inflation Reduction Act
Spending Through September 30, 2024

Figure 9: IRA Funding Activity Expenditures by Object Class¹⁹

		TAXPAYER SERVICES	ENFORCEMENT	OPERATIONS SUPPORT	BSM	ENERGY SECURITY	DIRECT E-FILE	GRAND TOTAL
Labor Total	IRS Employee Pay & Benefits	\$1,113,755,226	\$1,200,472,772	\$1,069,939,131	\$208,715,195	\$59,135,344	\$814,200	\$3,652,831,867
Non-Labor	Contractor Support - Advisory and Assistance	\$164,634,954	\$186,275,842	\$1,433,336,269	\$1,691,627,929	\$0	\$8,624,814	\$3,484,499,807
	Communications, Utilities, and Miscellaneous Charges	\$0	\$525,000	\$100,234,655	\$3,495,439	\$0	\$0	\$104,255,094
	Equipment	\$0	\$43,348,194	\$1,035,267,922	\$133,993,879	\$0	\$254,897	\$1,212,864,892
	Purchase/Improvement of Land and Facilities	\$0	\$106,334	125,289,896	\$0	\$0	\$0	\$125,396,231
	Operation and Maintenance of Equipment	\$0	\$383,426	\$23,254,378	\$10,334,910	\$0	\$0	\$33,972,713
	Operation and Maintenance of Facilities	\$0	\$0	\$61,414,123	\$136,872	\$0	\$0	\$61,550,995
	Services From Federal Sources	\$13,470,667	\$139,889,233	\$75,472,416	\$0	\$0	\$1,909,578	\$230,741,894
	Other Goods and Services From Non-Federal Sources	\$0	\$26,627,282	\$42,426,872	\$0	\$0	\$0	\$69,054,154
	Printing and Reproduction	\$0	\$230,866	\$12,819,658	\$0	\$0	\$0	\$13,050,524
	Supplies and Materials	\$42,434	\$21,784,057	\$2,767,661	\$7,354	\$0	\$0	\$24,601,506
	Employee Travel	\$228,230	\$12,944,632	\$6,005,758	\$726,197	\$0	\$0	\$19,904,817
	Unvouchered	\$0	\$324,442	\$0	\$0	\$0	\$0	\$324,442
	Rental Payments to GSA	\$0	\$0	\$2,785,693	\$0	\$0	\$0	\$2,785,693
	Transportation of Things	\$0	\$1,400,000	\$0	\$0	\$0	\$0	\$1,400,000
Non-Labor Total		\$178,376,285	\$433,839,309	\$2,921,075,300	\$1,840,322,580	\$0	\$10,789,288	\$5,384,402,762
Grand Total		\$1,292,131,511	\$1,634,312,081	\$3,991,014,431	\$2,049,037,775	\$59,135,344	\$11,603,488	\$9,037,234,630

Source: IRS Integrated Financial System Report, FY 2024 actuals.

¹⁹ Totals may not calculate due to rounding.

As shown in Figure 9, as of Sept. 30, 2024, the IRS reported that the largest portion of IRA expenditures was for employee compensation (*i.e.*, pay/benefits), totaling approximately \$3.7 billion, and contractor advisory and assistance services, totaling approximately \$3.5 billion.²⁰

Spending on IRS Staffing

Of the total \$3.7 billion the IRS expended on labor costs as of Sept. 30, 2024, 24.4 percent (approximately \$889 million) was expended in the fourth quarter of FY 2024. At the time of our review, the IRS expected its labor costs to continue to grow. The 2024 Annual Update to the SOP Supplement Report provides the number of full-time equivalents (FTE) that the IRS planned to fund using IRA funds through FY 2031.²¹ As Figure 10 shows, the IRS anticipates having 89,727 FTEs in FY 2025, with the most FTEs anticipated in FY 2029 with 102,500 FTEs.

Figure 10: Estimated FTEs Funded With IRA Funds Through FY 2031²²

Funding Activity	FY 2022 Actual	FY 2023 Actual	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Taxpayer Services		10,518	7,279	12,562						
Enforcement		495	4,088	7,239	17,300	24,100	31,900	33,000		
Operations Support		2,317	2,944	3,808	5,000	4,900	5,300	5,500	3,600	
BSM		327	193	300						
Energy Security			1,810	1,810	1,400					
Direct e-File		4								
IRA Funded FTE	0	13,661	16,314	25,719	23,700	29,000	37,200	38,500	3,600	
Discretionary/Other FTE	79,070	69,329	72,097	64,008	64,000	64,000	64,000	64,000	64,000	64,000
Total FTE	79,070	82,990	88,411	89,727	87,700	93,000	101,200	102,500	67,600	64,000

Source: IRS 2024 Annual Update to the SOP Supplement Report.

At the time of our review, IRS management indicated that in addition to hiring staff to improve taxpayer services, they are focused on expanding enforcement efforts to address taxpayers with complex tax filings and high-dollar noncompliance to address the Tax Gap.²³ Therefore, the IRS plans to hire additional enforcement personnel, which include:

- Revenue Officers – Employees in the Collection function who collect delinquent taxes and secure delinquent returns.

²⁰ Advisory and assistance services is based on the IRS's classification and not as defined by the Federal Acquisition Regulations.

²¹ An FTE is a measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.

²² IRS management indicated that the hiring targets may change due to new guidelines, including a hiring freeze.

²³ The Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.

- Revenue Agents – Employees in the Examination function who conduct face-to-face audits of more complex returns.
- Special Agents – Law enforcement employees in Criminal Investigation who investigate criminal activities.

Figure 11 shows the number of enforcement personnel the IRS had onboard as of Sept. 30, 2024, and the IRS's hiring goal for FY 2024.

Figure 11: Staffing of Enforcement Personnel

	POSITION TITLE	STAFFING 9/30/2024	FY 2024 HIRING TARGET	FY 2024 ANTICIPATED ATTRITION	STAFFING GOAL END OF FY 2024	NET STAFFING INCREASE FY 2024	
	REVENUE OFFICER	3,499	119	251	3,367	(132)	
	REVENUE AGENT	11,022	2,796	712	13,106	2,084	
	SPECIAL AGENT	2,290	382	103	2,569	279	
	TOTALS	16,811	3,297	1,066	19,042	2,231	

Source: Information provided by the IRS from the Employee Service Record Report.

As Figure 11 shows, the IRS's goal was to increase enforcement personnel by 3,297 in FY 2024 with most of the hiring in the revenue agent position. At the end of FY 2024, the IRS planned to continue to increase staffing. However, on Jan. 20, 2025, an executive order was issued that implemented a hiring freeze on federal civilian hiring. The hiring freeze remains in effect for the IRS until the Secretary of the Treasury, in conjunction with the Director, Office of Management and Budget, and the Administrator of the United States Department of Government Efficiency determines it is in the national interest to lift the freeze.

Spending on Contractor Support

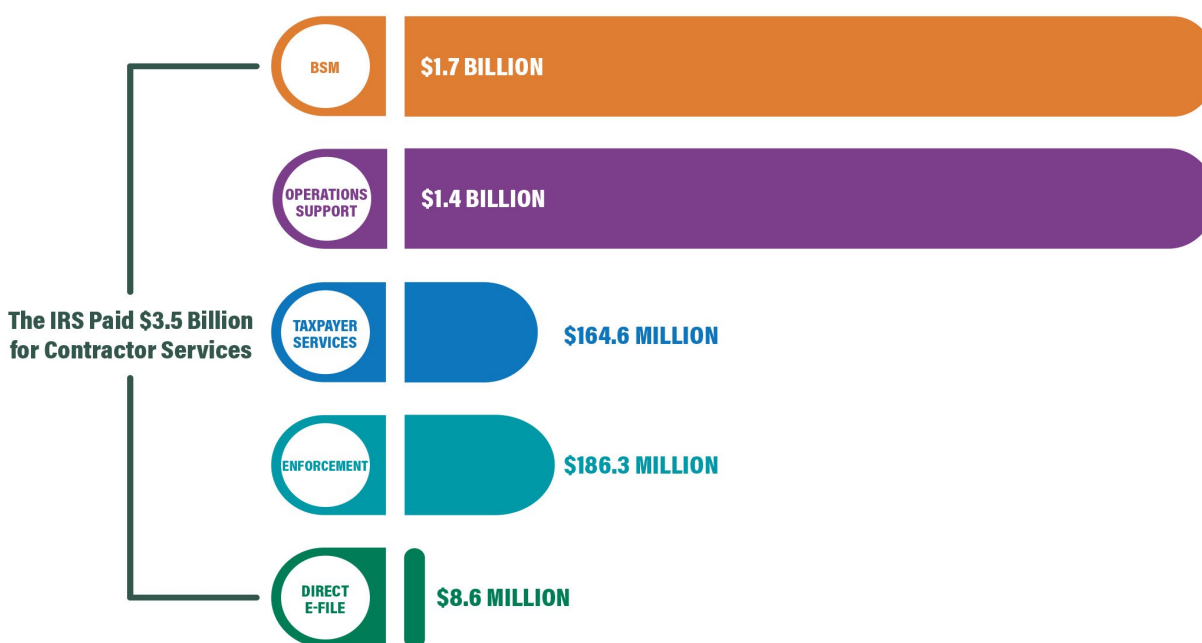
Since the passage of the IRA legislation, the IRS has expended approximately \$3.5 billion of its IRA funding as of Sept. 30, 2024, to pay contractors for what the IRS classifies as advisory and assistance services. These services are for:

- Management and professional support services. This includes services that assist, advise, or train staff to achieve efficient and effective management and operations, activities, or systems; services that normally are closely related to the responsibilities and mission of the agency; and services that support or contribute to improved program management, logistics, project monitoring and reporting, data collection, budgeting, account performance auditing, and administrative technical support for conferences and training programs.
- Studies, analyses, and evaluations. This includes studies in support of information technology and research and development activities, and models, methodologies, and related software support.

- Engineering and technical services. This includes services that support the program office during the acquisition cycle by providing information technology architecture development, systems engineering, and technical direction; information technology consulting services such as information technology architecture design, capital programming, and software services such as implementing a web-based commercial, off-the-shelf product.

Most of the \$3.5 billion expended for contractor support were for the BSM (approximately \$1.7 billion). We are currently evaluating how the IRS has expended IRA funds on information technology modernization and the milestones delivered. The next largest expenditure was associated with the IRS's Operations Support (approximately \$1.4 billion). Figure 12 reflects the expenditures for contractor advisory and assistance support services expended through Sept. 30, 2024, using IRA funding.

Figure 12: Expenditures for Contractor Support by Funding Activity²⁴



Source: IRS Integrated Financial System Reports, as of Sept. 30, 2024.

IRS internal guidance state that the receipt and acceptance of goods and services as it relates to contractor support is the responsibility of the Contracting Officer's Representative in the business unit who contracted for the goods and services. Specifically, the Contracting Officer's Representative is responsible for ensuring that goods and services are in fact received and meet contractual requirements before receipt and acceptance are entered into the IRS's Integrated Financial System. The business unit's recordation of the receipt and acceptance of goods and services in the Integrated Financial System acknowledges that the Government has received delivery in accordance with the contract. While acceptance is confirming the received goods and services, the quality assurance inspection is the most critical internal control of the receipt and acceptance process. This is where the Contracting Officer's Representative with knowledge of

²⁴ No funds were expended on contractor services for the Energy Security funding activity.

the goods and services and the contract terms conducts a review to ensure that the goods and services received are acceptable.

Our review of IRS contracting records indicate that functional areas accepted goods and services (*i.e.*, deliverables) from various contractors hired using IRA funds. These deliverables included status reports, checklists, briefings, presentations, meeting minutes, communication, and knowledge transfer plans. For the purposes of this report, we relied solely on the function areas' verification and confirmation that contractor obligations were met. However, our Office of Audit is performing more comprehensive reviews on selected IRA contract deliverables.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective was to provide reporting on the IRS's use and accounting for expenditures using IRA funding through Sept. 30, 2024. To accomplish our objective, we:

- Obtained IRA expenditures as of Sept. 30, 2024, from the Integrated Financial System to identify overall expenditures by funding activities (*e.g.*, Taxpayer Services, Operations Support) and object class code and determined cumulative expenditures and expenditures which occurred in the fourth quarter of 2024.
- Determined the impact of IRS appropriations and the rescissions of funding.
- Analyzed the expenditures and highlighted any trends and concerns regarding the expenditures.

Performance of This Review

This review was performed with information obtained from the Office of the Chief Financial Officer during the period November 2024 through January 2025. We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General*. Those standards require that the work adheres to the professional standards of independence, due professional care, and quality assurance and followed procedures to ensure accuracy of the information presented. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Data Validation Methodology

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

Appendix II

Abbreviations

Term	Definition
BSM	Business Systems Modernization
FTE	Full-time Equivalent
FY	Fiscal Year
IRA	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
SOP	Strategic Operating Plan
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,
contact our hotline on the web at
<https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

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