



January 20, 2026

The Honorable Scott Bessent
Secretary of the Treasury

Financial Audit: IRS's FY 2025 Financial Statements

Dear Mr. Secretary:

This report transmits the GAO auditor's report on the results of our audits of the fiscal year 2025 financial statements of the Internal Revenue Service (IRS), which is incorporated in the enclosed *IRS Fiscal Year 2025 Agency Financial Report*.

As discussed more fully in the auditor's report that begins on page [32](#) of the enclosed financial report, we found

- IRS's financial statements as of and for the fiscal year ended September 30, 2025, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2025; and
- no reportable noncompliance for fiscal year 2025 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

During our audit, we continued to identify a significant deficiency in internal control over financial reporting concerning IRS's unpaid assessments. This significant deficiency merits attention by those charged with governance of IRS.¹

Under current law, executive agencies, including the Department of the Treasury of which IRS is a component, must annually prepare audited organization-wide financial statements.² The law also requires audited financial statements of components of executive agencies as designated by the Director of the Office of Management and Budget (OMB). IRS is one of these designated

¹A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

²See 31 U.S.C. § 3515.

components. In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, and consistent with our authority to audit statements and schedules prepared by executive agency components, we have audited IRS's financial statements because of the significance of IRS's tax collections to the consolidated financial statements of the U.S. government.³

We are sending copies of this report to the appropriate congressional committees, the Chief Executive Officer of the Internal Revenue Service, the Director of the Office of Management and Budget, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at simpsondb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed on the third to last page of this report.

Sincerely yours,

//SIGNED//

Dawn B. Simpson
Director, Financial Management and Assurance

Enclosure

³See 31 U.S.C. §§ 331(e)(2), 3515, 3521(g), (i).



A large, white, three-dimensional-style number "2025" is positioned in the center of the page. The background behind the number is a large, abstract graphic composed of numerous overlapping blue and white curved shapes, resembling waves or a stylized map.

**AGENCY
FINANCIAL
REPORT**

IRS MISSION

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

IRS VALUES

- ▶ **Honesty and Integrity:** We uphold the public trust in all that we do; we are honest and forthright in all of our internal and external dealings.
- ▶ **Respect:** We treat each colleague, employee, and taxpayer with dignity and respect.
- ▶ **Continuous Improvement:** We seek to perform the best that we can today, while embracing change, so that we can perform even better in the future.
- ▶ **Openness and Collaboration:** We share information and collaborate, recognizing that we are a team.
- ▶ **Personal Accountability:** We take responsibility for our actions and decisions and learn and grow from our achievements and mistakes.

THE ICONIC IRS EAGLE LOGOMARK

The original Internal Revenue Service (IRS) Eagle logomark was designed in 1965. The IRS Eagle logomark, commonly referred to as the eagle, is the cornerstone of the identity of the IRS. While the logotype and name have been used in different ways over the history of the organization, the IRS Eagle logomark has remained unchanged.

The eagle is a national symbol of the United States (U.S.). In the IRS Logo, the **eagle** is combined with imagery illustrating the **scales of justice**, to convey that the Service's operations will be conducted in fair and honest ways, and the **olive branch**, a symbol of peace and conciliation.



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ABOUT THIS REPORT

This Agency Financial Report presents the IRS financial information in relation to its mission and entrusted resources for the Fiscal Year (FY) 2025 reporting period (October 1, 2024 to September 30, 2025). It highlights select accomplishments and opportunities in implementing programs that promote the IRS's mission. This financial report is available on www.irs.gov/about-irs/irs-financial-reports.

The IRS, as a bureau within the Department of the Treasury (Treasury), presents this report in accordance with Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements. This report includes OMB Circular A-136 core principles and requirements applicable to a component entity. This report is titled Agency Financial Report to be consistent with similar reports in the U.S. government.

How This Report is Organized

The Agency Financial Report consists of the following major sections:

Section 1: Management's Discussion and Analysis (Unaudited)

Provides a high-level overview of the IRS's history, mission, and organizational structure; strategic framework and programmatic performance; enterprise risks; analysis of financial statements; analysis of systems, controls, and legal compliance; and management assurances related to the IRS's internal controls. U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board require the Management's Discussion and Analysis be presented as required supplementary information to the financial statements.

Section 2: Financial Information

Includes a message from the Chief Financial Officer (CFO); Independent Auditor's Report and IRS response; audited financial statements and accompanying notes; and unaudited required supplementary information.

Section 3: Other Information (Unaudited)

Contains the following sections: Summary of the Financial Statement Audit and Management Assurances; Tax Burden, Tax Gap, and Tax Expenditures; Management and Performance Challenges; Grants Programs; Refundable Tax Credits and Other Outlays; and Social Security and Medicare Taxes. Treasury reports on Payment Integrity in its [Agency Financial Report](http://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report) (home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report). For information on Payment Integrity, see [PaymentAccuracy.gov](http://www.paymentaccuracy.gov) (www.paymentaccuracy.gov).

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



On behalf of my dedicated colleagues at the IRS, I am honored to present the Agency Financial Report for FY 2025. This report provides an assessment of the IRS's financial position and condition and demonstrates how we are using the resources entrusted to us to serve the American people.

The tax relief provided by the One Big Beautiful Bill Act forms the cornerstone of the administration's economic agenda. Our employees are working to ensure that the historic benefits of this landmark legislation, including No Tax on Tips, No Tax on Overtime, and new deductions for seniors and families, are delivered to the American people timely and as intended.

To continue our strategic investment in America's financial future, our focus in FY 2025 centered on three priorities:

Data-Driven Enforcement

The IRS is using artificial intelligence and advanced analytics to identify high-risk areas of non-compliance and fraud with greater accuracy. By modernizing information systems and sharing data across platforms, we are better equipped to prevent identity theft, detect fraudulent filings, and enforce the law. Thanks to this data-driven approach, our skilled enforcement and revenue personnel can focus their efforts on higher-value work.

Simplified, Digital-First Taxpayer Experience

Our goal is to create a seamless customer experience where taxpayers can interact with the IRS with the same ease they expect from the private sector. This includes a significant expansion of the IRS Online Account for taxpayers to manage their affairs securely, as well as the improvement of taxpayer guidance and resources. While digital tools are the priority, our exceptional service levels in the 2025 filing season prove our enduring commitment to providing personal support by phone and in person to any taxpayer who needs or prefers it.

Unyielding Commitment to Taxpayer Privacy

Protecting sensitive taxpayer data is paramount. We are continuously strengthening our cybersecurity defenses and enforcing the strictest protocols to ensure that taxpayer information is secure from all threats and that the IRS operates with the integrity the American people demand and deserve.

The IRS supports the U.S. economy by collecting individual, corporate, payroll, and other taxes that fund critical government programs, including national defense, infrastructure, healthcare, social security, and other fundamental services. This past year, the IRS has operated under an additional mandate: to serve as a key partner in the administration's vision for a modern, efficient, and responsive government. Our mission has been to bolster the administration's pro-growth economic agenda by administering the nation's tax laws with unparalleled efficiency, integrity, and a steadfast commitment to taxpayer service.

The results of this new approach are clear and compelling: In FY 2025, the IRS collected more than \$5.3 trillion in revenue, processed over 271 million tax returns and forms, and issued approximately 113 million refunds totaling nearly \$358 billion. These figures reflect not only the strength of the American economy but also the skill and dedication of our workforce in fulfilling our important statutory responsibilities. This culminated in what has been widely recognized as the most successful filing season in years. We achieved an 87% level of service on our main telephone lines with the average taxpayer waiting just three minutes to speak with an IRS representative. These are more than just statistics – they represent millions of Americans who received fast, effective assistance without the frustration of long delays.

This new standard of service was achieved not by spending more, but by spending smarter. In FY 2025, we conducted a comprehensive review of our technology portfolio and eliminated approximately \$2 billion in wasteful information technology spending by renegotiating contracts and addressing long-standing inefficiencies like unused, auto-renewed software licenses. Crucially, these savings were realized with minimal disruption to our core mission. Outdated paper processes impose significant costs on the IRS, and we are taking steps to reduce that burden. Through targeted policy changes, automation, and process redesign, we are focused on reducing these costs over time and delivering a more efficient, modern IRS. We are demonstrating that a government agency can deliver world-class service while being a responsible steward of taxpayer dollars. However, current progress represents a foundational step. Our efforts will now focus on implementing advanced technological solutions, enhancing operational efficiency, and delivering superior service to the taxpayer.

I am proud to report that for the 26th consecutive year, the IRS has received an unmodified audit opinion on its financial statements. The IRS also received an unmodified opinion on internal control over financial reporting. We continue to strengthen management controls and make progress toward remediating the unpaid assessments significant deficiency in internal control over financial reporting to meet all U.S. financial systems compliance and conformance objectives as outlined in the [**Management's Discussion and Analysis – Analysis of Systems, Controls, and Legal Compliance**](#). Based on the results of our internal control evaluations, I can provide reasonable assurance that the performance and financial information in this report is complete and accurate.

The IRS is at a pivotal moment. We are transforming our operations, embracing new technology, and fostering a culture of efficiency and accountability. We continue to invest in our workforce to better equip them to serve the American people in an ever-changing digital environment. Our success depends on disciplined, data-driven decision-making, and a strong commitment to results. I am honored to lead this vital work, and I am confident that we are building an IRS every American can trust to fulfill its mission.

Sincerely,



Frank J. Bisignano
Chief Executive Officer of Internal Revenue
January 12, 2026



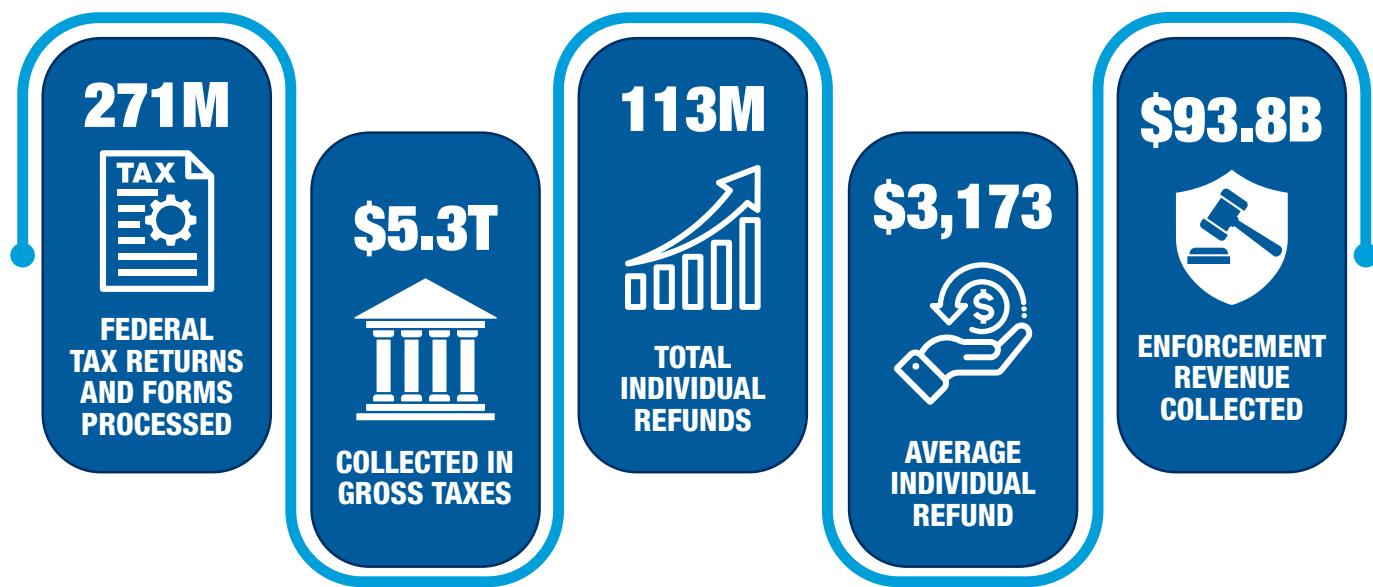
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ABOUT THE IRS

The IRS is one of the oldest bureaus in the U.S. government and is entrusted with a vital responsibility—to serve the nation by administering tax laws with integrity, fairness, and efficiency. As the steward of the tax system, the IRS plays a critical role in upholding public trust, ensuring compliance, and modernizing operations to meet the evolving needs of taxpayers. Visit the IRS History Timeline at www.irs.gov/irs-history-timeline. In FY 2025, the IRS collected over \$5.3 trillion in taxes, which represents a vast majority of the revenue that supports the U.S. government's operations.

Some Key Tax Statistics in FY 2025 Include:



Note: These statistics are from October 1, 2024, through September 30, 2025. The average individual refund amount includes refunds issued in FY 2025 for all tax years and excludes refundable tax credits and other outlays.

Mission and Organization

The IRS's mission is to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities while enforcing the law with integrity and fairness to all.

The IRS's core operations include collecting taxes, processing tax returns, assisting taxpayers, enforcing tax laws, and investigating tax crimes. The extensive IRS portfolio also includes tax-exempt organizations, tax-exempt bonds, refundable tax credits, and other specialized programs.

The IRS's organizational structure features a Commissioner, Chief Executive Officer, Deputy Commissioner, and four IRS chief positions. This closely resembles the private sector model of organizing around customers with similar needs. View the most current [**IRS organization and leadership structure**](http://www.irs.gov/about-irs/irs-organization) at (www.irs.gov/about-irs/irs-organization).



Constitution Lobby, Internal Revenue Service Building, 1111 Constitution Ave. N.W., Washington D. C.

TAXPAYER

Taxpayers have the right to...



Be Informed: Taxpayers have the right to know what they need to do to comply with the tax laws. They are entitled to clear explanations of the laws and IRS procedures in all tax forms, instructions, publications, notices, and correspondence. They have the right to be informed of IRS decisions about their tax accounts and to receive clear explanations of the outcomes.



Quality Service: Taxpayers have the right to receive prompt, courteous, and professional assistance in their dealings with the IRS, to be spoken to in a way they can easily understand, to receive clear and easily understandable communications from the IRS, and to speak to a supervisor about inadequate service.



Pay No More than the Correct Amount of Tax: Taxpayers have the right to pay only the amount of tax legally due, including interest and penalties, and to have the IRS apply all tax payments properly.



Challenge the IRS's Position and Be Heard: Taxpayers have the right to raise objections and provide additional documentation in response to formal IRS actions or proposed actions, to expect that the IRS will consider their timely objections and documentation promptly and fairly, and to receive a response if the IRS does not agree with their position.



Appeal an IRS Decision in an Independent Forum: Taxpayers are entitled to a fair and impartial administrative appeal of most IRS decisions, including many penalties, and have the right to receive a written response regarding the Office of Appeals' decision. Taxpayers generally have the right to take their cases to court.

BILL OF RIGHTS



Finality: Taxpayers have the right to know the maximum amount of time they have to challenge the IRS's position as well as the maximum amount of time the IRS has to audit a particular tax year or collect a tax debt. Taxpayers have the right to know when the IRS has finished an audit.



Privacy: Taxpayers have the right to expect that any IRS inquiry, examination, or enforcement action will comply with the law and be no more intrusive than necessary, and will respect all due process rights, including search and seizure protections and will provide, where applicable, a collection due process hearing.



Confidentiality: Taxpayers have the right to expect that any information they provide to the IRS will not be disclosed unless authorized by the taxpayer or by law. Taxpayers have the right to expect appropriate action will be taken against employees, return preparers, and others who wrongfully use or disclose taxpayer return information.



Retain Representation: Taxpayers have the right to retain an authorized representative of their choice to represent them in their dealings with the IRS. Taxpayers have the right to seek assistance from a Low Income Taxpayer Clinic if they cannot afford representation.



A Fair and Just Tax System: Taxpayers have the right to expect the tax system to consider facts and circumstances that might affect their underlying liabilities, ability to pay, or ability to provide information timely. Taxpayers have the right to receive assistance from the Taxpayer Advocate Service if they are experiencing financial difficulty or if the IRS has not resolved their tax issues properly and timely through its normal channels.

PERFORMANCE OVERVIEW

IRS Performance Framework

The Government Performance and Results Act of 1993 and the Government Performance and Results Act Modernization Act of 2010 require the IRS to have a performance framework that focuses on the IRS's priorities with measurable outcomes supported by evidence and data-driven decision making. This framework enables internal and external stakeholders the ability to review an organization's health while understanding decision-making and resource allocation. In keeping with this legislation, Treasury and the IRS are developing new strategic plans for FY 2026-2030, which will be published in FY 2026. The IRS's plan will focus on improving stewardship of taxpayer dollars through modernization of service, privacy, and collections, in alignment with the efforts and priorities of the administration and Treasury. For FY 2025, the IRS's performance is captured within three major programs aligned to the Statement of Net Cost. The non-production costs associated with the voluntary separation programs, including deferred resignation programs and voluntary separation incentives, are presented in the Statement of Net Cost.

Major Programs

- Service to the Taxpayer
- Enforcement of Tax Legislation
- Transformation of Business Systems

Service to the Taxpayer

Gross Cost: \$7,243 million

Service to the Taxpayer includes activities and programs such as pre-filing assistance; account management and assistance; processing tax returns and related documents; offering filing and account services; producing media and publications; and providing education and resources to taxpayers. This area also encompasses oversight and delivery of customer service including telephone and face-to-face assistance; tax return processing for all taxpayers; and compliance activities. It also provides an independent channel, through taxpayer advocacy, to assist taxpayers with resolving issues that cannot be addressed through normal IRS channels, while working to protect taxpayer rights, identify systemic challenges, and recommend improvements that enhance fairness and efficiency in tax administration.

The IRS delivered a successful 2025 filing season, which began on January 27, 2025, and ended April 19, 2025. Highlights included the following:

Phone Services

- Responded to 8.9 million Accounts Management phone calls.
- Accomplished an average wait time of three minutes.
- Achieved a Customer Service Representative Level of Service of 87%.
- Offered the customer callback feature to about 2.6 million taxpayers, saving taxpayers over 742,000 hours of phone hold time.

Online Services/Self-Assistance

- Achieved a 6% increase in customer satisfaction among visitors to IRS.gov.

In-Person Services

- Extended in-person hours at Taxpayer Assistance Center locations across the nation (including evening and Saturday hours), providing more than 15,000 extra service hours, ensuring more flexibility and convenience to hard-working taxpayers.

Tax-Return Processing

- For select returns, delivered automated 1040X amended return processing, which reduced processing time from 16 weeks to 3 days, with faster refunds and improved service reliability for taxpayers.

Taxpayer Publications/Education

- Successfully delivered 97.3% of Critical Individual Filing Season Tax Products on time, along with 97.1% of tax products for Tax Exempt and Government Entities and Business Tax Products.

Fraud Prevention

- Used new filters as screening criteria to detect potential identity theft and prevent the issuance of fraudulent refunds. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. As of May 2025, the IRS confirmed more than 91,000 identity theft tax returns and prevented the issuance of approximately \$1 billion in fraudulent refunds.

In FY 2025, the IRS continued to expand secure, self-service options for taxpayers, tax professionals, and businesses. Online Accounts, Tax Pro Online Accounts, and Business Tax Accounts gave users more ways to access tax records, make payments, and manage authorizations. The IRS also introduced new online tools, such as electronic form signing and multilingual support, to reduce phone wait times and streamline service.

The Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs continued to provide vital free tax preparation services nationwide. The IRS awarded grants to 312 organizations through the Volunteer Income Tax Assistance program and 40 through the Tax Counseling for the Elderly program. The Volunteer Income Tax Assistance program and the Tax Counseling for the Elderly program supported more than 2,000 local tax preparation sites, serving underserved communities across the country. With the contribution of over 76,000 certified volunteers, local tax preparation sites prepared more than 2.8 million returns, delivered an estimated 2 million refunds, and achieved a national accuracy rate of 95.8%.

The IRS also made progress in modernizing Taxpayer Assistance Centers. A new scheduling tool enabled customer service representatives to book appointments around the clock, including evenings and weekends. Real-time tracking improved visibility into taxpayer interactions, while a new 'Walk Up Experience' feature helped manage in-office traffic. The IRS also began using text messaging to send appointment reminders, along with self-service options to cancel or reschedule visits. In June 2025, every Taxpayer Assistance Center was upgraded with mobile hotspots to reduce disruptions from network outages.

Beyond these improvements, the IRS continued to make services faster and more reliable. Automation reduced the time needed to process amended returns from 16 weeks to just 3 days, giving customer service representatives better access to return status and resulting in taxpayers to receive refunds more quickly. The IRS also launched new initiatives to present internal data more effectively, improving the speed and accuracy of phone and live chat assistance. Together, these changes are bringing IRS services closer to the level of convenience and efficiency that taxpayers expect from private industry.

Building on these efforts, the IRS is positioning itself for future success by redirecting resources from lower-priority programs, restructuring operations, and aligning investments with the FY 2026 President's Budget. The IRS is currently implementing key tax provisions from the One Big Beautiful Bill Act in time for the 2026 filing season, modernizing tax systems and processes to deliver a modern taxpayer experience, enhancing both self-service and live assistance, and continuing to assist taxpayers by preventing and addressing fraud, scams, and identity theft.

Service to the Taxpayer Performance Measures

The IRS exceeded 5 out of 7 of its key performance measures for Service to the Taxpayer.

Table 1: Summary of key performance measure results for FY 2025.

Key Performance Measures	2025 Target	2025 Actual
Customer Service Representative Level of Service ¹	60.0%	60.5%
Level of Service(A) ²	65.0%	69.1%
Customer Accuracy – Tax Law (Phones) ³	89.0%	86.3%
Customer Accuracy – Accounts (Phones) ⁴	87.0%	85.2%
Timeliness of Critical Individual Filing Season Tax Products to the Public ⁵	91.0%	97.3%
Timeliness of Critical TE/GE & Business Tax Products to the Public ⁶	89.0%	97.1%
Enterprise Self-Assistance Participation Rate ⁷	94.0%	96.6%

■ Target met, or trending in the desired direction.

■ Target not met, or not trending in the desired direction.

¹ The relative success rate of taxpayers that call for Customer Account Services seeking assistance from a Customer Service Representative. Customer Service Representative Level of Service includes telephone lines answered by Accounts Management Customer Service Representatives only. Customer service representatives answered around 18.6 million calls in FY 2025. Customer service representative phone demand, which includes services offered and disconnects, was around 33.7 million. In FY 2025, around 13.8 million taxpayers were offered a callback and 62.1% accepted. This resulted in around 4.1 million hours saved for the taxpayer, providing a better experience. The level of service for the 2025 filing season was 87.0%.

² The relative success rate of taxpayers that call for Accounts Management Customer Account Services seeking assistance from a Customer Service Representative or through an Automated application during open hours. Customer Service Representative Level of Service (Automation) includes telephone lines answered by Accounts Management Customer Service Representatives only. Automated Accounts Management calls answered in the Integrated Customer Communication Environment, and Accounts Management informational messages completed in Interactive Applications that permit taxpayers using a touch-tone telephone to select an application to resolve tax account issues, obtain tax information, or otherwise direct themselves to the appropriate source of assistance.

³ The number of correct answers given by a live assistor on Toll-free tax law inquiries divided by the total number of inquiries, shown as a percentage. In FY 2025, the new hires received accounts and tax law training. Customer Accuracy – Tax Law (Phones) finished below the target because FY 2025 new hires were charged in accuracies on account-related call received on tax law applications, affecting the overall accuracy rate.

⁴ The number of correct answers given by a live assist on Toll-free account inquiries divided by the total number of inquiries, shown as a percentage. Customer Accuracy – Accounts (Phones) finished below the target given the complexity of incoming calls increased, while less complex phone inquiries declined in part due to increased taxpayer self-help services and online efficiencies.

⁵ The number of Critical Individual Filing Season tax products available to the public seven calendar days before the official IRS start of the individual filing season divided by the total number of products, shown as a percentage. No major tax legislation was passed that affected filing season preparation.

⁶ The number of Critical Tax Exempt/Government Entities and Business tax products available to the public seven calendar days before the official IRS start of the individual filing season divided by the total number of products, shown as a percentage. No major tax legislation was passed that affected filing season preparation.

⁷ The number of taxpayer self-assisted services completed divided by the total number of services, shown as a percentage.



DID YOU KNOW?

One Big Beautiful Bill Act

The One Big Beautiful Bill Act has a significant effect on federal taxes, credits and deductions. It was signed into law on July 4, 2025, as Public Law 119-21.

Some provisions that went into effect in 2025 cover:

- Income tax, credits, and deductions
- Family and dependent credits
- Business credits and deductions
- Investment and community development
- Clean energy
- Tax exempt entities and charitable giving

Find more details at: www.irs.gov/newsroom/one-big-beautiful-bill-provisions

Enforcement of Tax Legislation

Gross Cost: \$12,214 million

Enforcement of Tax Legislation includes the examination of domestic and international tax returns; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications for organizations seeking tax-exempt status; enforcement of statutes relating to the detection and investigation of criminal violations of tax laws; identification of under-reporting of tax obligations; securing unfiled tax returns; and collection of unpaid accounts.

The IRS continues to advance its enforcement priorities through a balanced approach that strengthens compliance, enhances taxpayer service, and protects the integrity of the tax system. These priorities are operationalized through enterprise-level planning and workforce readiness.

The IRS is focused on carrying out key parts of recent tax legislation and modernizing operations through integrating advanced data analytics and digital tools to improve service delivery and streamline compliance processes.

Promoting voluntary compliance remains a core part of the IRS mission. The IRS supports taxpayers and tax professionals through education, early detection, prevention efforts, and options to resolve issues. At the same time, the IRS enforces tax laws fairly and consistently to help ensure a level playing field and maintain public trust in the tax system.

To guide future enforcement efforts, the IRS is developing the FY 2026 Enterprise Compliance Plan. This plan will outline key strategies that support the IRS's broader information technology modernization efforts, including the use of advanced analytics to detect anomalies and select cases, streamlined case management across program areas to boost efficiency and collaboration, and targeted investments in workforce training and technology to help employees meet evolving demands and challenges.

The IRS is aligning its organizational structure to support strategic goals, optimize staffing levels, and use team-based models to improve flexibility and responsiveness. At the same time, the IRS is investing in programs to help employees adapt to new tools, processes, and expectations. These efforts are part of a broader strategy to improve compliance outcomes while building a modern, data-driven, and taxpayer-focused environment.

Enforcement of Tax Legislation Performance Measures

The IRS exceeded 3 out of 7 of its key performance measures for Enforcement of Tax Legislation.

Table 2: Summary of key performance measures results for FY 2025.

Key Performance Measures	2025 Target	2025 Actual
Collection Coverage ¹	37.2%	38.8%
Examination Efficiency – Individual ²	91	71
Exam Starts – High-Income Individuals ³	6,786	3,692
Exam Starts – Partnerships ⁴	3,174	1,589
Exam Starts – Large Corporations (Assets >= \$250M) ⁵	1,375	1,483
Criminal Investigations Completed ⁶	2,500	2,850
Conviction Rate ⁷	92.0%	89.0%

■ Target met, or trending in the desired direction.

■ Target not met, or not trending in the desired direction.

¹ The volume of collection work disposed divided by the total volume of collection work available, shown as a percentage. Restart of Delinquent Return Notices resulted in a substantial increase of notices being issued throughout FY 2025. New Balance Due and Delinquent Return Notices were issued on a consistent schedule throughout FY 2025, resulting in a constant flow of inventory and dispositions from notices.

² The sum of all individual 1040 returns closed by Small Business/Self-Employed, Taxpayer Services, and Large Business and International (Field Exam and Correspondence Exam programs) divided by the total full-time equivalent expended in relation to those individual returns. Examination Efficiency – Individual finished below the target due to the significant staffing changes caused by the deferred resignation programs and the separation of probationary employees requiring the reassignment of inventory and canceled training.

³ The number of examinations of individual returns started during the fiscal year with a total positive income of \$10 million and above. Exam Starts – High-Income Individuals finished below the target was primarily due to significant staffing changes as a result of the deferred resignation programs and the separation of probationary employees.

⁴ The number of partnership examinations started during the fiscal year. Exam Starts – Partnerships finished below the target largely due to significant staffing changes as a result of the deferred resignation programs and the separation of probationary employees.

⁵ The number of examinations of large corporate returns started during the fiscal year reporting assets of \$250 million and above. Exam Starts – Large Corporation finished above the target due to On-the-job instructors returning to their regular large corporate cases after a significant number of probationary employees did not return after June 2025. This upward trend is expected to continue during FY 2026 as the remaining probationary employees complete training and continue to be assigned large corporate work.

⁶ The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential. Criminal Investigations completed finished above the target due to a shift towards more illegal non-tax investigations, which tend to have a lower cycle time, as well as an influx of new agents initiating case inventory. Hiring authority in recent years has allowed IRS Criminal Investigations to remain consistent in its recruiting, hiring, and training efforts, and as a result has contributed to better-than-expected performance results in FY 2025.

⁷ The total number of convictions divided by the total number of adjudicated criminal cases, shown as a percentage. Conviction Rate finished below the target because IRS Criminal Investigations does not prosecute its own cases and depends on the ability of the Department of Justice and U.S. Attorney's office to accept its cases for prosecution and move such cases through the courts.



DID YOU KNOW?

Tax Relief in Disaster Situations

Find information on the most recent tax relief provisions for taxpayers affected by disaster situations.

The current list of eligible localities and other details for each disaster are available on our Around the nation page at www.irs.gov/newsroom/tax-relief-in-disaster-situations.

Transformation of Business Systems

Gross Cost: \$1,038 million

The IRS is modernizing its business systems while maintaining the core operations that keep the organization running smoothly. This includes delivery of technology services that support tax administration for both employees and the public, and planning for and investing in new systems. At the same time, essential support functions such as workplace safety, facilities, human capital, policy, communications, finance, strategic planning, research, and procurement form the backbone of the IRS. Together, these efforts ensure that resources are used effectively, employees are aligned with organizational goals, and technology upgrades are integrated into daily operations. This combination of modern information technology systems and strong support functions positions the IRS for long-term success. Primary activities include:

- Expanding secure, self-service online account capabilities to give taxpayers, businesses, and tax professionals 24/7 access to their tax information.
- Improving individual tax processing technologies to ensure faster, more accurate returns, and resolutions.
- Modernizing case and workload management tools to increase efficiency and reduce administrative burden.
- Advancing protections to safeguard sensitive financial data for both taxpayers and IRS systems.

The IRS also made great progress by expanding digital scanning and e-filing capabilities to reduce backlog and speed up processing. The IRS achieved online and mobile accessibility for 21 additional non-tax forms, bringing the total to 71 available for online submission.

In FY 2025, the IRS transformation efforts continued with the planning and phased development of several strategic initiatives that will modernize the IRS's technology infrastructure and core operations. The IRS is working to substantially complete most key modernization initiatives within the next two years. Efforts are focused on expanding automation, strengthening data integration, and improving system interoperability to better support both taxpayer services and internal compliance operations. Modernized platforms will enable authorized employees to access secure real-time taxpayer data, which improves service quality while safeguarding privacy. They include:

- The Unified Application Program Interface initiative is being developed to create a standardized foundation for enterprise data integration. This framework will allow for consistent, secure access to datasets across IRS applications. The Unified Application Program Interface is intended to enhance data discoverability, accelerate system development, and improve information sharing across IRS programs.
- Through the Zero Paper initiative, the IRS is preparing to reduce the physical handling of incoming tax documents. The IRS plans to shift paper submissions to third-party processing sites, where documents will be scanned and converted to metadata using artificial intelligence and robotic automation. These structured data packages will be securely transmitted into IRS systems, reducing paper inventory, cutting processing times, and enabling more accurate data ingestion.
- The IRS is also building the Developer Experience Platform, which will standardize and automate software development, testing, and deployment across the enterprise. The Developer Experience Platform is intended to support faster delivery of applications, reduce troubleshooting time, and ensure consistent architecture patterns across information technology projects. This approach is expected to boost development agility while reinforcing system security and scalability.

These initiatives, combined with ongoing efforts to enhance cybersecurity, modernize infrastructure, and expand digital intake, underscore the IRS's commitment to becoming more agile, resilient, and data-driven. Looking ahead, the IRS will continue to transform its business systems to deliver a more modern, secure, and responsive tax system. Over the next several years, the IRS will advance digitalization, expand the use of automation, and integrate data platforms to improve both taxpayer service and internal operations. Priority efforts include building better interoperability across core systems, investing in scalable cloud solutions, and reinforcing cybersecurity to protect sensitive information. The IRS will also expand real-time data access and continue replacing legacy systems with modern platforms that support innovation and resilience. These efforts will ensure the IRS can adapt quickly to new challenges, reduce costs through technology, and provide taxpayers with a seamless, reliable, and secure experience.

Transformation of Business Systems Performance Measures

The IRS exceeded 1 out of 4 of its key performance measures for Transformation of Business Systems.

Table 3: Summary of key performance measure results for FY 2025.

Key Performance Measures	2025 Target	2025 Actual
Rentable Square Feet per Person ¹	229	230
Percent of Aged Hardware ²	20.0%	13.1%
Percent of Reportable Information Technology Investments Within +/- 10% Cost Variance at the Investment Level ³	90.0%	60.0%
Percent of Reportable Information Technology Investments Within +/- 10% Schedule Variance at the Investment Level ⁴	90.0%	30.0%

■ Target met, or trending in the desired direction.

■ Target not met, or not trending in the desired direction.

¹ The amount of rentable square feet the IRS maintains per person requiring space. Rentable Square Feet per Person is driven in the positive direction by either a decrease in square footage, increase in staffing or a combination of both. Rentable Square Feet per person missed the target due to changing priorities of the last fiscal year, which led the IRS to reevaluate its current space usage and needs. The IRS is committed to reviewing its space reduction efforts for the upcoming fiscal year.

² The quantity of information technology hardware in operation past its useful life divided by the total hardware in use, shown as a percentage. Percent of Aged Hardware finished ahead of the target of 20%. The IRS made steady progress every quarter to reduce the amount of old hardware. The IRS started the year with a higher percentage of outdated equipment and replaced or retired older technology efficiently.

³ The number of reportable IT investments within +/-10% variance between planned total cost and projected/actual cost within a fiscal year divided by the total number of reportable information technology investments in that fiscal year, shown as a percentage. Percent of Reportable Information Technology Investments Within +/- 10% Cost Variance at the Investment Level fell below the target because less than six of ten reportable investments were within the cost variance threshold at the close of the FY 2025.

⁴ The number of reportable IT investments within +/- 10% variance between planned days and projected/actual days within a fiscal year divided by the total number of reportable information technology investments in that fiscal year, shown as a percentage. Three of ten reportable investments were within the schedule variance threshold at the close of FY 2025. Percent of Reportable Information Technology Investments Within +/- 10% Schedule Variance at the Investment Level fell below the target because several IRS IT investments fell outside the normal ±10% schedule variance largely due to shifting procurement and funding timelines, and the early or adjusted completion of work across programs. The IRS is using these insights to further enhance monitoring and strengthen performance going forward.



DID YOU KNOW?

70th Anniversary of the April 15 Filing Deadline

The annual deadline for filing federal income tax returns was moved from March 15 to April 15 in 1955 to give both taxpayers and the IRS more time to prepare and process returns. This date has remained a consistent fixture in the U.S. financial calendar since then.

Verification and Validation of Performance Data

The IRS requires complete, accurate, and reliable performance data to assess progress toward its strategic objectives and program outcomes to make good management decisions. All performance results in the FY 2025 Agency Financial Report are considered preliminary. The IRS will publish the actual results in the FY 2027 IRS Congressional Budget Justification & Annual Performance Report and Plan, which is generally published after the State of the Union Address to IRS.gov at www.irs.gov/about-irs/budget-documents.

The IRS's approach to verification and validation of performance data to improve accuracy and reliability is based upon the following:

1. The IRS reviews performance measures through its annual performance assessment process with Treasury. This assessment includes reviewing the extent to which currently reported performance measures support the strategic plan and priorities and identifying or developing new performance measures to fill any gaps.
2. IRS business units use a standard template to document detailed information for each performance measure. The IRS includes these measure templates in its comprehensive data dictionary, which it maintains corporately and updates annually. For each measure, the data dictionary includes information like:
 - Definition
 - Business unit
 - Responsible Official
 - Formula/methodology for computation
 - Source of the data
 - Data limitations
 - Management controls
3. The responsible official for the measure assesses the completeness, consistency, timeliness, and quality of the data, whether the documented procedures for gathering the data were followed, and ensures management controls are in place. The heads of office are accountable for their performance results. These positions vary by business unit.
4. The CFO's Strategic Planning office reviews quarterly and year-end performance measure results before sharing the results with the senior executive team and/or publishing them in Treasury and IRS documents. The Strategic Planning office also independently reviews the performance measure targets and accompanying documentation. If anomalies occur, the Strategic Planning office informs the business unit, which makes any necessary adjustments. Leadership reviews all target adjustments as part of the budget development and review process.
5. As part of managing the portfolio of enterprise performance measures, the Strategic Planning office conducts ad-hoc meetings with business units to discuss topics such as oversight, responsibilities of ownership, guidance on measurement and reporting, and organizational change.
6. At the end of each fiscal year, the business units who are involved in the collection and reporting of these measures receive a notification from the Strategic Planning office, reminding them of their responsibility for:
 - Ensuring quality and accuracy of the performance data.
 - Reviewing and following Internal Revenue Manual guidelines when proposing new or modifying existing measures.

- Ensuring sufficient controls are in place for proper and accurate reporting of performance results.

These procedures help to provide assurances that the performance data and internal controls reported by the IRS are sufficiently complete, accurate, and reliable.

Detailed guidance on the appropriate use and application of performance information appears in **Internal Revenue Manual 1.5.1: The IRS Balanced Performance Measurement System** (www.irs.gov/irm/part1/irm_01-005-001).



DID YOU KNOW?

Online Account Expansion

An IRS Online Account makes it easy for people to quickly get the tax planning information they need.

In 2025, the IRS added the ability for taxpayers to use their IRS Online Account to view and download the following key tax documents:

- Form W-2, Wage and Tax Statement
- Form 1095-A, Health Insurance Marketplace Statement
- Form 1099-NEC, Nonemployee Compensation

The IRS added more information return documents to the IRS Online Account. Taxpayers can now also view and keep track of the following critical tax records:

- Form 1099-DIV, Dividends and Distributions
- Form 1099-SA, Distributions From an HSA, Archer MSA or Medicare Advantage MSA
- Form W-2G, Certain Gambling Winnings
- Form 1099-INT, Interest Income
- Form 1099-MISC, Miscellaneous Income
- Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

For more information, visit: www.irs.gov/newsroom/irs-reminds-taxpayers-to-access-or-create-an-irs-online-account-today

ENTERPRISE RISK MANAGEMENT

In compliance with the OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, the IRS conducts an annual Enterprise Risk Assessment and develops an Enterprise Risk Profile. The Enterprise Risk Profile articulates the IRS's top risks and opportunities to achieve its goals and objectives. The assessment considered internal and external factors that may affect the achievement of IRS's goals.

Over the next 12 months the IRS will operate in an environment shaped by both risks and opportunities. The Enterprise Risk Profile highlights risk areas such as implementation of legislation, modernization, taxpayer service, and enforcement. These risks are affected by critical risk drivers including the budget, aging technology infrastructure, ongoing restructuring, workload, and workforce.

The IRS continues to monitor and manage these risks as part of its ongoing efforts to ensure a successful 2026 filing season. The IRS is using innovation and technology to improve taxpayer service, maintain taxpayer privacy, enhance operations and enforcement, modernize its workforce, protect data, and safeguard revenue. The IRS is committed to mitigating the associated risks while achieving its core mission of tax administration.

The top IRS Enterprise Risks over the next 12 months are:

Enforcement Capabilities: The risk that ineffective enforcement activities (technology, processes, and people) may impact compliance, erode trust and confidence in the tax administration system, and hinder the IRS's ability to meet its mission.

Taxpayer Service: The risk that the inability to provide taxpayer services efficiently and effectively may result in taxpayers' inability to meet their tax obligations, a greater need for enforcement activities post-filing, loss of revenue, and erosion of trust and confidence in the IRS.

Workforce Readiness: The risk that IRS may not have a workforce equipped with the expertise, experience, and resources to meet evolving needs, which may negatively impact service to taxpayers, business operations, revenue collection, and efficient delivery of the IRS mission.

Implementation of Legislation and Other Requirements: The risk that failure to timely and effectively implement complex legislation and non-statutory requirements may adversely impact the IRS's ability to fulfill core mission, enhance service delivery, and more effectively enforce the tax law.

Fraudulent Scams and Schemes: The risk that bad actors perpetrate fraudulent scams and schemes to exploit tax laws, IRS procedures, technology, and other critical items, which may result in loss of revenue, erosion of confidence and trust in the IRS, and undue burden on taxpayers.

Information Technology Modernization: The risk that failure to timely modernize information technology systems, including adopting artificial intelligence, could inhibit efficiency and effectiveness of IRS operations, delay modernization of taxpayer service, and affect the IRS's efforts to strengthen cybersecurity protections.

Data Security: The risk that the inability to protect sensitive data may result in unauthorized access, disclosure, misuse, improper modification, or destruction creating additional burden on the taxpayer and eroding public trust.

Cybersecurity: The risk that increased complexity and sophistication of cyber threats may result in unauthorized access, data loss, fraud, or denial of service.

FY 2026 IRS Enterprise Risk Profile

- **Enforcement Capabilities:** The ineffective enforcement activities (technology, processes, people).
- **Taxpayer Service:** The inability to provide taxpayer services efficiently and effectively.
- **Workforce Readiness:** The failure of not having workforce equipped with the expertise, experience, and resources to meet evolving needs.
- **Implementation of Legislation and Other Requirements:** The failure to timely and effectively implement complex legislation and non-statutory requirements.
- **Fraudulent Scams and Schemes:** The inability to address bad actors perpetrating fraudulent scams and schemes to exploit tax laws, IRS procedures, technology, etc.
- **Information Technology Modernization:** The failure to timely modernize information technology systems, including adopting Artificial Intelligence.
- **Data Security:** The inability to protect sensitive data.
- **Cyber Security:** The inability to address increased complexity and sophistication of cyber threats.

ANALYSIS OF FINANCIAL STATEMENTS

Financial Management Highlights

The IRS's financial statements are prepared to report the financial position, financial condition, and results of operations, consistent with the requirements of 31 U.S. Code Section 3515(b). The financial statements are prepared from records of the IRS in accordance with federal generally accepted accounting principles and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. The IRS is a component entity of the Treasury.

The IRS is responsible for the administration of tax laws and the custodial collections of taxes for the U.S. government. The IRS responsibilities are divided into two distinct financial management categories: administrative and custodial. Administrative accounts are included as appropriations and offsetting collections in the Statement of Budgetary Resources. These resources are also reflected as assets, liabilities, revenues, expenses, and the net position of the IRS. Custodial accounts include activity in support of tax collections. The IRS collects the majority of receipts supporting the U.S. government's operations. Tax receipts are accounted for in designated custodial accounts as presented on the Statement of Custodial Activity. Custodial assets are included on the Balance Sheet for Fund Balance with Treasury; Due from the General Fund of the U.S. Government; Federal Taxes Receivable, Net; and Other Receivables, Net. Custodial Liabilities are included on the Balance Sheet as Due to the General Fund of the U.S. Government; Federal Tax Refunds Payable; Other Liabilities; and Other Payables.

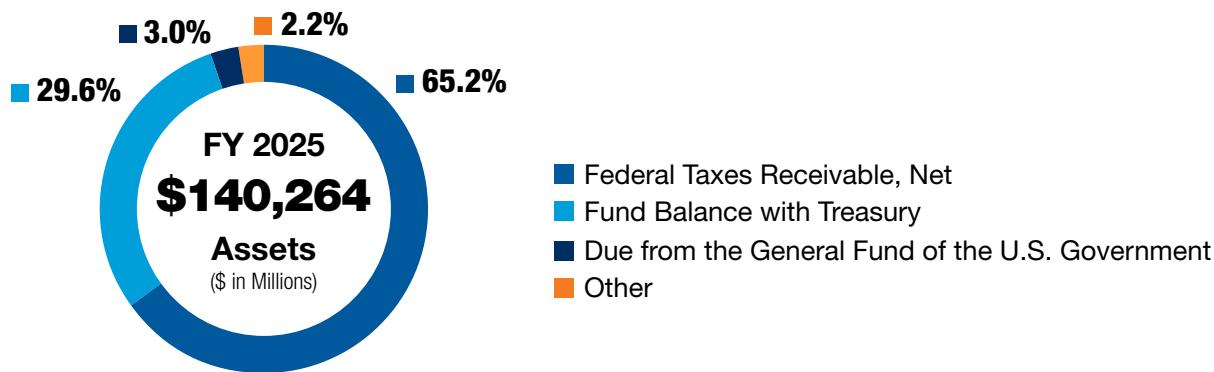
The financial highlights provide an overview of the IRS's financial position, net cost of operations, budgetary resources, and custodial activities. Audited financial statements with accompanying notes, including the independent auditor's report, are presented in the [Financial Information](#) section of this report. The chart below highlights IRS's FY 2025 financial data.

(In Millions)	2025
Total Assets	\$ 140,264
Total Liabilities	\$ 111,800
Net Cost of Operations	\$ 21,191
Total Budgetary Resources	\$ 43,378
Total Custodial Revenues	\$ 5,313,762

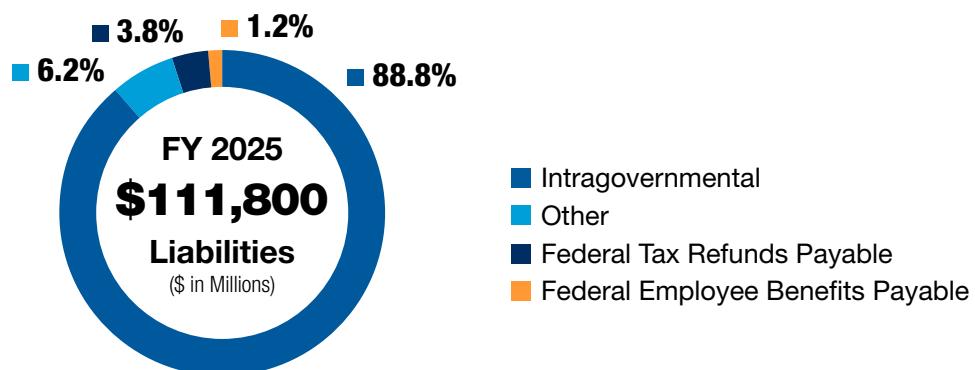
Analysis of the Balance Sheet

The Balance Sheet displays amounts of future economic benefits owned or available for use (assets), amounts owed (liabilities), and the residual amount (net position) at the end of the fiscal year.

As of September 30, 2025, assets totaled \$140,264 million, a reduction of \$71,927. Assets are comprised of Federal Taxes Receivable, Net of \$91,415 million; Fund Balance with Treasury of \$41,484 million; Due from the General Fund of the U.S. Government of \$4,238 million; and Other of \$3,127 million. Other assets consist primarily of Property and Equipment, Net. Fund Balance with Treasury was primarily reduced this fiscal year by a \$20,200 million rescission of previously received surplus enforcement funds. Federal Taxes Receivable, Net decreased by \$47,805 million in FY 2025. Additional information on Federal Taxes Receivable, Net can be found in [Note 4. Federal Taxes Receivable, Net](#) in the Financial Information section of this report.

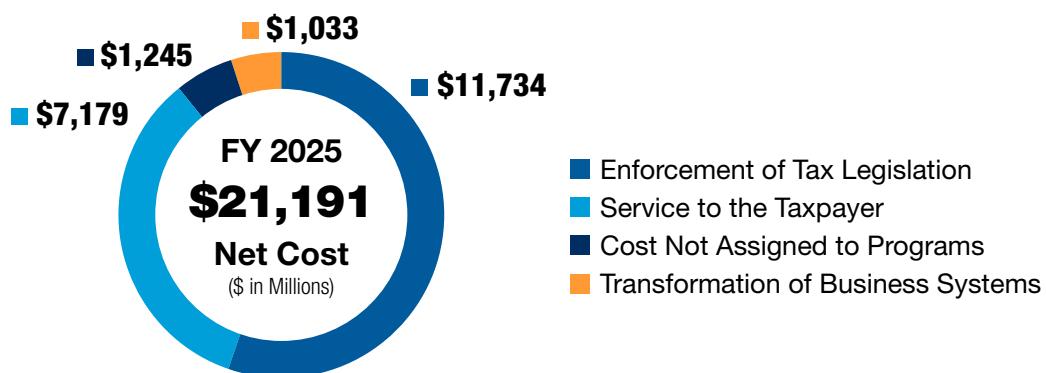


As of September 30, 2025, liabilities totaled \$111,800 million, a reduction of \$45,873 million. Liabilities include Intragovernmental (Due to the General Fund of the U.S. Government, and Other Liabilities), and Other than Intragovernmental (Federal Tax Refunds Payable, Federal Employee Benefits Payable, Other Liabilities, and Other Payables). Intragovernmental liability representing funds to be distributed to the General Fund decreased by \$49,159 million in FY 2025, primarily as a result of the Federal Taxes Receivable, Net that will be transferred to the General Fund when collected. The increase of \$3,154 million in Other than Intragovernmental – Other Liabilities is attributed to an increase in unidentified cash collections for federal tax deposits due to the executive order requiring federal tax payments be made electronically. Additional information for Federal Employee Benefits Payable and Other Liabilities can be found in [Note 8. Federal Employee Benefits Payable](#) and [Note 9. Other Liabilities](#).



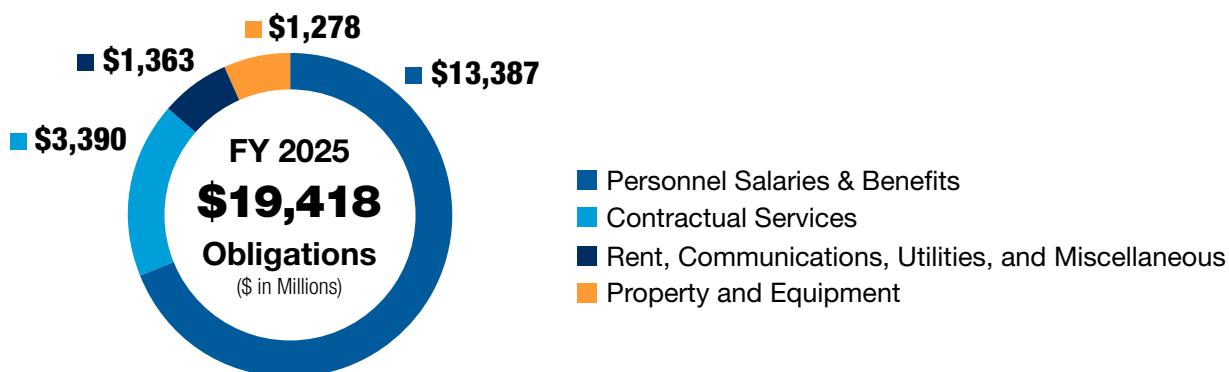
Analysis of the Statement of Net Cost

The Statement of Net Cost presents the annual cost of operating the IRS's three major programs: Service to the Taxpayer, Enforcement of Tax Legislation, and Transformation of Business Systems. As a result of the deferred resignation programs and voluntary separation incentives, costs that cannot be traced, assigned, or allocated to segments and their outputs are presented as Cost Not Assigned to Programs on the statement. Net Cost of Operations includes gross cost less earned revenue from user fees and reimbursable agreements. In FY 2025 the net cost of operations totaled \$21,191 million. The cost not assigned to programs caused a reduction of gross cost by major programs as follows: Enforcement of Tax Legislation of \$894 million, Service to the Taxpayer of \$314 million, and Transformation of Business Systems of \$37 million.



Analysis of Total Budgetary Resources

IRS operations are financed through appropriations, spending authority from offsetting collections, and unobligated balances carried forward. Custodial appropriations for taxpayer refunds, refundable tax credits, and other outlays are not available to the IRS for operational expenditures and are not included in the Combined Statement of Budgetary Resources. Total Budgetary Resources of \$43,378 million are reported for FY 2025, a reduction of \$25,590 million. The rescission of \$20,200 million of enforcement funding in FY 2025 is the primary contributor of the decrease in budgetary resources. This also created a negative appropriation balance on the **Combining Statement of Budgetary Resources by Major Budget Account** in the Required Supplementary Information section.



The IRS incurred obligations of \$19,418 million in FY 2025, a net increase of \$838 million compared to the previous year. Personnel Salaries and Benefits increased by \$1,330 million, Property and Equipment increased by \$221 million, and Contractual Services decreased by \$672 million.

Analysis of Custodial Revenues

The Statement of Custodial Activity presents custodial revenues (federal tax collections), and dispositions of custodial revenues. Total Custodial Revenues for FY 2025 are \$5,313,762 million, and consist of six major tax categories.

(\$ in Millions)	2025	
CUSTODIAL REVENUES	PERCENTAGE	AMOUNT
Individual	88.3%	\$ 4,689,620
Corporate	9.1%	\$ 486,384
Excise	1.7%	\$ 90,612
Estate and Gift	0.6%	\$ 31,111
Railroad Retirement	0.1%	\$ 7,258
Federal Unemployment	0.2%	\$ 8,777

The Statement of Custodial Activity also presents refunds and outlays disbursed by the IRS on behalf of the U.S. government. Total Refunds of Federal Taxes and Outlays include refunds of tax overpayments, interest payments, and disbursements for refundable tax credits. For additional information on refundable tax credits and outlays, refer to [Other Information – Section E: Refundable Tax Credits and Other Outlays](#).

Unpaid Assessments

Under federal accounting standards, federal taxes receivable are unpaid tax assessments where the taxpayer or court has agreed to the amount. Unpaid assessments not agreed to by taxpayers or the courts are categorized as compliance assessments; those that have no future collection potential are categorized as write-offs. Compliance assessments and write-offs are not included on the Balance Sheet as Federal Taxes Receivable, Net.

(In Millions)	As of September 30, 2025	
UNPAID ASSESSMENTS		
Federal Taxes Receivable	\$	361,340
Compliance Assessments	\$	86,142
Write-Offs	\$	92,836
Total Unpaid Assessments	\$	540,318

During FY 2025, total unpaid assessments decreased 4.54% or \$25,701 million primarily due to a decrease in Gross Federal Taxes Receivable. The 7.31% decrease in Gross Federal Taxes Receivable was associated with Internal Revenue Code Section 965(h) payments received from taxpayers, which decreased unpaid transition taxes on foreign earnings pursuant to Internal Revenue Code Section 965(h) by \$48,751 million. For additional information, refer to the [**Required Supplementary Information section, Federal Taxes Receivable, Net.**](#)

The total unpaid assessment balance consists of delinquent and nondelinquent balances. These balances are owed by taxpayers who file returns without sufficient payment and/or assessed amounts through the IRS's enforcement programs (refer to [**Note 1.G. Federal Taxes Receivable, Net**](#) and [**Note 4. Federal Taxes Receivable, Net**](#)). Delinquent balances are past due while nondelinquent balances are Internal Revenue Code Section 965(h) amounts, for repatriated foreign earnings, due at a future point in time. Unpaid Assessments Other consists of uncollected branded prescription drugs fees and delinquent miscellaneous accounts.

(In Millions)	As of September 30, 2025	
FEDERAL TAXES RECEIVABLE, GROSS		
Nondelinquent Internal Revenue Code Section 965(h) Unpaid Assessments	\$	28,117
Delinquent Unpaid Assessments	\$	329,865
Delinquent Restitution Based Unpaid Assessments	\$	3,132
Unpaid Assessments Other	\$	226
Federal Taxes Receivable, Gross	\$	361,340

Collectability Modeling and Economic Conditions

Delinquent unpaid assessments collectability reflects existing economic conditions of the taxpayers' ability to pay. Indicators of financial health were reviewed by CFO analysts for publicly traded businesses with large dollar Internal Revenue Code Section 965(h) amounts due. The analysis determined that large dollar Internal Revenue Code Section 965(h) taxpayers are primarily in a favorable long-term economic position to make their future payments.

Federal Taxes Receivable, Net, excludes the estimated uncollectible amounts of \$269,925 million as of September 30, 2025. Examples of uncollectible taxes include taxpayers who agree to owing taxes but are unlikely to pay and businesses with extreme financial hardships. Overall collectability combines separate collectability calculations for Internal Revenue Code Section 965(h) amounts and components of delinquent taxes receivable.

Estimated Collectability: Federal Taxes Receivable Gross and Net

(In Millions)	As of September 30, 2025			
	Collectability	Gross	Net	
Nondelinquent Unpaid Assessments	94.1%	\$ 28,117	\$ 26,470	
Delinquent Unpaid Assessments	19.5%	\$ 333,223	\$ 64,945	
Federal Taxes Receivable, Gross and Net		\$ 361,340	\$ 91,415	

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act of 1982

Background

The Federal Managers' Financial Integrity Act of 1982 requires executive branch agencies to establish and maintain internal control and financial systems to provide reasonable assurance that:

- Obligations and costs comply with applicable laws.
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.

OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, provides implementing guidance for the Federal Managers' Financial Integrity Act of 1982 and defines management's responsibility for establishing and assessing internal controls. OMB Circular A-123 also requires federal agencies to adhere to the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government, and to evaluate and report on the effectiveness of the organization's internal controls based on 17 principles. The purpose of this guidance is to improve accountability and effectiveness of programs and operations through implementation of enterprise risk management practices and by establishing, maintaining, and assessing internal control effectiveness. In May 2025, GAO updated the Standards for Internal Control in the Federal Government to focus on risks related to fraud, improper payments, information security, and the implementation of new or substantially changed programs. The IRS will implement these changes in FY 2026.

The Management Controls Executive Steering Committee is the IRS's internal control oversight body and exercises its governance authority over significant annual internal control processes. The committee briefs senior leaders regarding any significant deficiencies. Executives from different divisions provide periodic updates on the status of any deficiencies and any related current or pending audits.

Analysis of Controls

The Chief Executive Officer's Assurance Statement is supported by a comprehensive risk-based internal control evaluation plan that adheres to Treasury guidance. This plan includes a methodology that identifies and documents key controls and provides for the assessment and testing of those controls to provide reasonable assurance that they are designed, implemented, and operating effectively. As part of the evaluation process, the IRS conducts the following activities:

- Internal Control Managerial Assessments certified by the business unit's head of office.
- The GAO Evaluation Tool consisting of an evaluation of the Standards for Internal Control in the Federal Government 17 Principles.
- OMB Circular A-123, Appendix A, Internal Control Testing of Key Financial and Non-financial Transactions.
- Quality Assurance Reviews (managerial, operational, quality, security, and program evaluation).
- Internal Control Reviews consisting of program assessments of IRS programs.

Internal Control Over Financial and Non-Financial Reporting

In accordance with OMB Circular A-123, Appendix A, Management of Reporting, and Data Integrity Risk, the IRS assessed internal controls over financial reporting. The IRS applied the annual Treasury guide for assessing internal controls in accordance with OMB Circular A-123, Appendix A, to evaluate the design, implementation, and operating effectiveness of key internal controls for material transactions to support reliable financial reporting. Based on the results of this assessment, the IRS can provide reasonable assurance regarding the effectiveness of its internal control over financial reporting as of September 30, 2025. Furthermore, the IRS tested internal controls over non-financial reporting to ensure the overall data quality and reliability of the information used to make decisions. Non-financial reporting subject to internal control testing includes reports that meet the following criteria:

- Supports critical decision-making and evaluation of performance by IRS executives.
- Considered high-level in that it might garner significant attention from media and/or oversight groups.
- Driven by statutory requirements or the need for integrity, accountability, or transparent government data.
- Responsive to IRS plans at strategic, operational, or other various levels.
- Used and relied upon by other government agencies that might reduce the public's trust and confidence in the IRS if they were to include inaccuracies.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 requires federal agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

Section 803(c)(1) of the act requires an annual determination of substantial compliance with Section 803(a) based on review of relevant factors. To support this determination, the IRS uses the implementation guidance established by OMB Circular A-123, Appendix D, Management of Financial Management Systems – Risk and Compliance, to determine whether the IRS's financial management systems comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. The assessment process includes the use of the Federal Financial Management Improvement Act Compliance Determination Framework in OMB Circular A-123, Appendix D, which is a risk- and evidence-based assessment model that leverages existing audits, evaluations, and reviews that auditors and IRS management already perform.

In applying the Federal Financial Management Improvement Act Compliance Determination Framework, the IRS assesses available information from audit reports and other relevant and appropriate sources, such as the IRS Federal Information Security Modernization Act of 2014 compliance activities, to determine whether the financial management systems comply substantially with the Federal Financial Management Improvement Act of 1996. The IRS also assesses improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance. Based on the

results of the overall assessment, the IRS concluded that its financial management systems did not substantially comply with federal financial management system requirements as of September 30, 2025, due to the significant deficiency in internal control over financial reporting related to unpaid assessments. This deficiency relates to limitations in the ability of IRS's financial management systems to classify unpaid assessments and report taxes receivable in accordance with federal accounting standards. The IRS continues to implement a strategy to downgrade the unpaid assessments significant deficiency.

Financial Management Systems

The IRS developed its financial management systems to provide timely and accurate data and to comply with applicable laws and regulations, while protecting the data and systems through the design, implementation, and monitoring of strong internal controls. The IRS's objectives are to continuously improve its financial management systems by implementing enhancements that expand and streamline financial transaction processing, analysis, and reporting, while operating in a robust security environment.

The IRS's financial management systems generate the IRS's financial statements and provide IRS business units data to execute their missions. The IRS's financial management systems comprise two major components, the Redesigned Revenue Accounting Control System and the Integrated Financial System.

The Redesigned Revenue Accounting Control System is a custom-built software database used to account for and summarize all IRS revenue tax transactions and activities. The IRS uses it to record, control, account for, reconcile, and balance all revenue accounting activity, including tax payment collections, refund disbursements, tax receivables, appropriation warrants, refundable tax credits, and other transactional revenue activities on behalf of the U.S. government. The system supports the IRS revenue responsibilities over the accuracy and completeness of tax collections, disbursements, and related activities in its financial reports and records.

The Integrated Financial System comprises three SAP® software components: the Enterprise Resource Planning Central Component, Procurement for Public Sector, and Business Warehouse. Integrated Financial System interfaces with multiple internal and external systems, such as the Invoice Processing Platform, ConcurGov (travel), MoveLINQ® (relocation), and National Finance Center (payroll) systems.

An integrated financial system provides the IRS with comprehensive automated functionality that supports both financial and administrative program management processes, including core financials, procurement, intragovernmental transactions, purchase card activities, and budget formulation and execution. The IRS's Integrated Financial System also provides cumulative reporting capabilities by merging data from all sub-systems in Business Warehouse.

During FY 2025, IRS continued implementing system improvements including:

- Expanded Government Invoicing functionalities in the Integrated Financial System.
- SAP® and Business Warehouse software upgrades.
- System-wide legislative, technical, and cybersecurity upgrades.

The IRS will build on the progress made in FY 2025, guided by a clear vision that includes examination of service provider products in the Financial Management Quality Service Management Office marketplace that improves networks to enhance information sharing, deliver better service, and utilize data-driven planning for workforce needs.

Within the next several years, the IRS plans to continue the enhancement of its financial management systems including:

- The Integrated Financial System's functional capability for its core financials, tax receivables, procurement, and budgetary systems by continuing to plan and implement a multi-year initiative.
- Building core systemic functionality to support financial accounting program changes related to the Employee Retention Credit and Excise Tax Transfers Act of 2025 within the One Big Beautiful Bill Act.
- Implementing the remaining segments of Government Invoicing functionality.
- Implementing the Government Services Administration's Go.Gov travel system.
- Implementing OneStream Budget formulation, plan development, and forecasting tool.

Other Laws

The Management Controls Executive Steering Committee provides oversight and governance for the design, implementation, and monitoring of controls to comply with legal and regulatory requirements. The IRS is required to comply with several legal and regulatory requirements, including the Antideficiency Act. The IRS is not aware of any violations of the Antideficiency Act.

The Digital Accountability and Transparency Act of 2014 expands upon the Federal Financial Accountability and Transparency Act of 2006 by adding account-level reporting and requiring the U.S. government to collectively standardize the reportable financial data elements. In FY 2025, the IRS provided consistent reviews of the Digital Accountability and Transparency Act of 2014 compliance for the following processes:

- Completeness of financial and award data (daily)
- Management accountability on reliability and validity of financial and award data (quarterly)
- Quality Assurance Review (monthly)
- Verification and Validation (monthly)
- System Interface and Certification (monthly)

The Federal Information Security Modernization Act of 2014 requires federal agencies to develop, document, and implement an entity-wide program to protect government information and information systems that support the operations and assets of the IRS. The IRS continues to work diligently to adopt the best cybersecurity practices and strategies to improve information technology security.

Management Assurances

Chief Executive Officer's Statement of Assurance

The IRS's management is responsible for managing risks and maintaining effective internal control and financial management systems to meet the objectives of the Federal Managers' Financial Integrity Act of 1982. We conducted our assessment of risk and internal controls in accordance with Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

Based on our assessment, we can provide reasonable assurance that, in accordance with Section 2 of the Federal Managers' Financial Integrity Act of 1982, the IRS's internal control over operations, reporting, and compliance with laws and regulations were operating effectively as of September 30, 2025. This includes the effective operation of internal control over financial reporting, which was considered as part of our assessment. We can also provide reasonable assurance that, as of September 30, 2025, the IRS's financial management systems conform with the requirements of Section 4 of the Federal Managers' Financial Integrity Act of 1982, with the exception of the federal financial management systems requirement discussed below.

The Federal Financial Management Improvement Act of 1996 Section 803(a) requires agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. We conducted our evaluation of financial management systems for compliance with the Federal Financial Management Improvement Act of 1996 in accordance with Office of Management and Budget Circular A-123, Appendix D.

Based on our assessment, we can provide reasonable assurance that, as of September 30, 2025, the IRS complied substantially with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level. However, the IRS did not comply substantially with federal financial management systems requirements because of a significant deficiency related to unpaid assessments. As a result of this significant deficiency, we determined that the IRS's financial management systems did not comply substantially with the Federal Financial Management Improvement Act of 1996.

We continue to make progress in remediating this deficiency and remain committed to focusing management's attention and resources on appropriate corrective actions. Overall, we continue our efforts to ensure high standards, minimize internal control weaknesses and meet federal financial management systems requirements. Additional information on the deficiency can be found in

Other Information – Section A: Summary of Financial Statement Audit and Management Assurances

of this report.



Frank J. Bisignano
Chief Executive Officer of Internal Revenue
January 12, 2026

IRS Management's Report on Internal Control Over Financial Reporting

The IRS's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of this process are to provide reasonable assurance that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

IRS management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. IRS management evaluated the effectiveness of the IRS's internal control over financial reporting as of September 30, 2025, based on the criteria established under Title 31 U.S. Code Section 3512(c) and (d) (commonly known as the Federal Managers' Financial Integrity Act of 1982).

Based on that evaluation, we conclude that as of September 30, 2025, the IRS's internal control over financial reporting was effective. The IRS has a significant deficiency in its internal control over financial reporting for unpaid assessments, which we are actively addressing.



Frank J. Bisignano
Chief Executive Officer
of Internal Revenue
January 12, 2026



Dottie A. Romo
Chief Operating Officer
January 12, 2026



Anthony S. Chavez
Chief Financial Officer
January 12, 2026



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MESSAGE FROM THE CHIEF FINANCIAL OFFICER



On behalf of the dedicated financial management professionals at the IRS, I am honored to present the FY 2025 Agency Financial Report. This report serves as a comprehensive overview of the IRS's commitment to financial stewardship and the responsible management of taxpayer resources to support the IRS mission of providing America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

As the principal financial management advisor to the IRS Commissioner and Chief Executive Officer, the CFO's mission is leading IRS financial management and compliance oversight operations with integrity and accountability through expert planning and execution. The CFO organization is guided by Treasury's strategic priorities to create affordable abundance, improve stewardship of taxpayer dollars, and improve the efficiency and effectiveness of Treasury operations. Below are accomplishments for FY 2025 that exemplify these priorities.

Financial Reporting Excellence

As the primary revenue collector for the U.S. government, the IRS's financial management operations reported approximately \$5.3 trillion in tax collections, \$639 billion in tax refunds and outlays, and \$91 billion in Federal Taxes Receivable, Net. For the third consecutive year, the IRS's Agency Financial Report was awarded AGA's Certificate of Excellence in Accountability Reporting. IRS also received the best-in-class award for "outstanding messages" from the IRS Commissioner and Chief Financial Officer that "exemplify a commitment to customer service." These achievements demonstrate the CFO organization's ethos for continuous improvement and underscore the dedication to upholding the highest standards of accountability.

Effective Compliance Oversight

In addition to responsible financial management, strong internal controls are essential to preserving the public trust. The IRS has received an unmodified opinion on its financial statements for the 26th consecutive year. Our external auditors also issued an unmodified opinion on the overall effectiveness of our internal controls over financial reporting. The IRS continues making progress to remediate the remaining significant deficiency in internal control over financial reporting related to unpaid assessments. This demonstrates the IRS's overall commitment to continuous improvement and fiduciary responsibility.

Key Modernization Efforts

The CFO organization's modernization efforts have expanded to embrace a wider range of technologies, enhancing efficiency, accuracy, and data analytics capabilities. We are leveraging artificial intelligence to automate complex document analysis, ensuring compliance with new financial standards while significantly reducing manual review times. Robotic process automation continues to be a key tool for streamlining high-volume data entry, which standardizes workflows and minimizes errors. Additionally, we implemented automated invoice reports and notifications to vendors, eliminating the need for manual notices on paper invoices. We also automated manual

assessments, deposits, and refunds, streamlining operations accounting for billions of dollars in transactions and effectively eliminating a significant number of manual journal entries. These advancements provide our teams with reliable data, enhance our operational resilience, and enable us to make smarter data-driven decisions that maximize the impact of every dollar spent.

Empowered Workforce

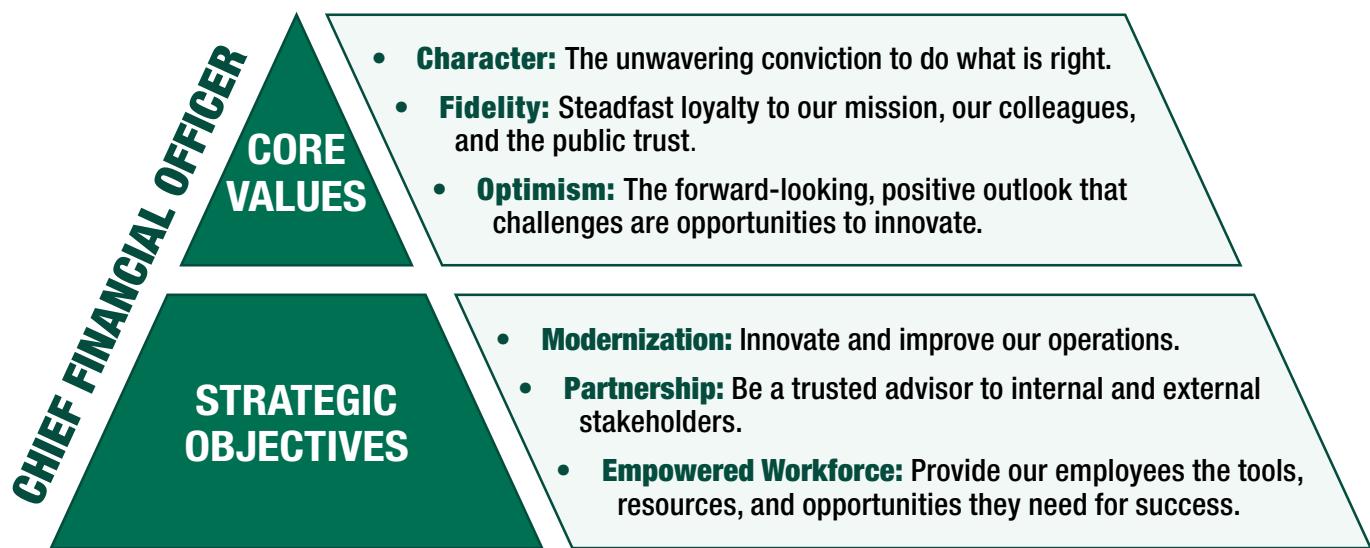
Our people are the key to our success. Their efforts in delivering comprehensive, reliable, and timely financial, budgetary, and accounting services are critical to supporting the IRS mission. CFO continues to invest in workforce development to ensure the organization is well-equipped to deliver exceptional results. We implemented new and improved training programs and offered career development forums – such as the CFO Learning Lab – which provided our employees opportunities to hone their skills and remain adaptable in the ever-evolving landscape of financial management.

The IRS remains steadfast in its core mission and values and will continue to serve the American people with integrity, precision, and purpose. The CFO's core values of character, fidelity, and optimism drive our unwavering commitment, professionalism, and hard work to meet the IRS mission. We look forward to progressing in our strategic goals, building on a strong foundation to meet the evolving needs of the nation, taxpayers, and the IRS.

Sincerely,



Anthony S. Chavez
Chief Financial Officer
January 12, 2026



INDEPENDENT AUDITOR'S REPORT



441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Chief Executive Officer of the Internal Revenue Service

In our audits of the fiscal year 2025 financial statements of the Internal Revenue Service (IRS), we found

- IRS's financial statements as of and for the fiscal year ended September 30, 2025, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2025; and
- no reportable noncompliance for fiscal year 2025 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes an emphasis-of-matter paragraph related to federal taxes receivable, a section on required supplementary information (RSI),¹ and a section on other information included with the financial statements;² (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

Opinion on the Financial Statements

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, and consistent with our authority to audit statements and schedules prepared by executive agency components, we have audited IRS's financial statements because of the significance of IRS's tax collections to the consolidated financial statements of the U.S. government.³ IRS's financial statements comprise the balance sheet as of September 30, 2025; the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal year then ended; and the related notes to the financial statements. In our opinion, IRS's financial statements present fairly, in all material respects, IRS's financial position as of September 30, 2025, and its net cost of operations, changes in net position, budgetary

¹The RSI consists of Management's Discussion and Analysis and the Required Supplementary Information section, which are included with the financial statements.

²Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

³See 31 U.S.C. §§ 331(e)(2), 3515, 3521(g), (i). Pursuant to the authority of 31 U.S.C. § 3515, the Office of Management and Budget (OMB) requires IRS to issue annual audited financial statements that are separate from those of the Department of the Treasury or that are presented separately in the department's audited, consolidated financial statements. See Office of Management and Budget, *Audit Requirements for Federal Financial Statements*, OMB Bulletin 24-02, app. B (July 29, 2024).

resources, and custodial activity for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

We also have audited IRS's internal control over financial reporting as of September 30, 2025, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In our opinion, although certain internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2025, based on criteria established under FMFIA. Our fiscal year 2025 audit continued to identify a significant deficiency⁴ in internal control over financial reporting concerning IRS's unpaid assessments.⁵ We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on IRS's fiscal year 2025 financial statements.

Although the significant deficiency in internal controls over unpaid assessments did not affect our opinion on IRS's fiscal year 2025 financial statements, misstatements may occur in unaudited financial information reported internally and externally by IRS because of this significant deficiency.

In addition, because of the significant deficiency in internal controls over unpaid assessments that existed during fiscal year 2025, IRS's financial management systems did not comply substantially with federal financial management systems requirements as required by the Federal Financial Management Improvement Act of 1996.⁶

In addition to the significant deficiency in internal controls over unpaid assessments, we also identified other deficiencies in IRS's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant IRS management's attention. We have communicated these matters to IRS management and, where appropriate, will report on them separately.

⁴A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

⁵An unpaid assessment is an enforceable claim against a taxpayer for which specific amounts are due, have been determined, and the person(s) or entities from which a tax is due have been identified. See implementing guidance in *Internal Revenue Manual* § 1.34.4.1.6 (1) p, *Terms/Definitions* (May 15, 2025).

⁶Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA), which is reprinted in 31 U.S.C. § 3512 note, requires that certain federal agencies, including Treasury, implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level. While IRS's financial management systems did not comply substantially with federal financial management systems requirements, IRS's financial management systems did comply substantially with federal accounting standards and the *U.S. Government Standard General Ledger* at the transaction level. As a Treasury component, IRS is not required to be assessed separately; however, it is included in Treasury's agencywide FFMIA assessment. Since IRS is a significant component of Treasury, we conducted this assessment to support the audit of the Treasury agencywide financial statements. See Office of Management and Budget, *Management of Financial Management Systems – Risk and Compliance*, OMB Circular No. A-123, app. D, § VII.A (Dec. 23, 2022).

Significant Deficiency in Internal Controls over Unpaid Assessments

During fiscal year 2025, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations. Because of these limitations, IRS's systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances.⁷

As in prior years,⁸ IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance to help ensure that this balance was free from material misstatement.⁹ During fiscal year 2025, IRS recorded summary-level adjustments totaling about \$17.8 billion to correct the effects of continued classification errors in its underlying data that it identified during its estimation process. While using this process to determine a material portion of taxes receivable has enabled IRS to produce reliable related balances for year-end reporting, it does not provide IRS management with readily available, reliable unpaid assessment information daily throughout the year for effectively managing unpaid assessment balances.

While not collectively considered a material weakness, IRS's ongoing control deficiencies related to unpaid assessments are important enough to merit attention by those charged with governance of IRS. Therefore, these issues collectively represent a significant deficiency in IRS's internal control over financial reporting as of September 30, 2025. Continued management commitment and sustained efforts are necessary to build on the progress made to date and to fully address IRS's remaining unresolved issues concerning the management and reporting of unpaid assessments.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of IRS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our

⁷Federal accounting standards classify unpaid assessments into one of the following three categories for reporting purposes: federal taxes receivable, compliance assessments, and write-offs. Federal taxes receivable are taxes due from taxpayers that IRS can support through the existence of a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of IRS. Compliance assessments are proposed tax assessments where neither the taxpayer (when the right to disagree or object exists) nor a court has affirmed that the amounts are owed. Write-offs represent unpaid assessments for which IRS does not expect further collections because of factors such as the taxpayer's death, bankruptcy, or insolvency. Federal accounting standards require that IRS report only federal taxes receivable, net of an allowance for uncollectible taxes receivable, on the financial statements. See Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* (May 10, 1996). See also implementing guidance in *Internal Revenue Manual*, § 1.34.4, *Unpaid Assessments* (May 15, 2025).

⁸GAO, *Financial Audit: IRS's FY 2024 and FY 2023 Financial Statements*, GAO-25-107202 (Washington D.C.: Nov. 7, 2024).

⁹In fiscal year 2025, IRS's reported federal taxes receivable consisted of a combination of two distinct types of taxes receivable with different internal control and accounting processes in place: amounts derived from (1) IRS's unpaid assessments statistical estimation process and (2) the Section 965(h) repatriation of foreign earnings provision of the Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, § 14103, 131 Stat. 2054, 2195-2208 (Dec. 22, 2017), which is codified at 26 U.S.C § 965.

audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis-of-Matter: Federal Taxes Receivable

This matter deserves emphasis to put the information in IRS's financial statements into context. As discussed in note 1.G., *Federal Taxes Receivable, Net*, taxes receivable consist of unpaid assessments (taxes, associated penalties, and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of IRS. Consistent with federal accounting standards, IRS's financial statements do not include an estimate for the annual tax gap—the difference between the amount of tax that taxpayers owe and the amount they actually pay voluntarily and on time,¹⁰ nor do they include information on tax expenditures.¹¹ Further detail on the tax gap and tax expenditures, as well as the associated dollar amounts, is provided in the unaudited other information included with the financial statements. Our opinion on IRS's financial statements is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for

- the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in IRS's financial report, and ensuring the consistency of that information with the audited financial statements and the RSI;
- designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- assessing the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and
- its assessment about the effectiveness of internal control over financial reporting as of September 30, 2025, included in the accompanying Management's Report on Internal Control over Financial Reporting on page 28.

¹⁰In October 2022, IRS released its most recent estimate of the tax gap, which covered tax years 2014–2016. IRS estimated the average annual gross tax gap to be \$496 billion for each of those years. IRS also estimated that \$68 billion would be collected through enforcement actions or late payments, leaving a net annual tax gap of \$428 billion. In October 2024, IRS estimated a gross tax gap for tax year 2022 of \$696 billion. IRS also estimated that \$90 billion would be collected through enforcement actions or late payments, leaving a net tax gap of \$606 billion.

¹¹Tax expenditures are provisions of the Internal Revenue Code (Title 26, U.S. Code) that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether effective internal control over financial reporting was maintained in all material respects and (2) issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered IRS's process for evaluating and reporting on internal control over financial reporting based on criteria established under FFMFIA. We did not evaluate all internal controls relevant to operating objectives as broadly established under FFMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that

- transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and
- transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

IRS's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in IRS's financial report. The other information comprises the following sections of the *IRS Fiscal Year 2025 Agency Financial Report*: Introduction, Message from the Chief Financial Officer, Other Information, and Appendices. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audit of IRS's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2025 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to IRS. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

IRS management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to IRS.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to IRS that have a direct effect on the determination of material amounts and disclosures in IRS's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to IRS. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral

part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, IRS stated that it was pleased to receive an unmodified opinion on its financial statements. IRS also commented that it is dedicated to promoting the highest standards of financial management and accountability and will continue to work to provide accurate reporting and improve internal controls. The complete text of IRS's response is reproduced in the enclosure.

//SIGNED//

Dawn B. Simpson
Director
Financial Management and Assurance

January 12, 2026

ENCLOSURE: IRS RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

January 13, 2026

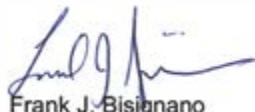
Ms. Dawn B. Simpson
Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Simpson:

Thank you for the opportunity to comment on the draft report titled Financial Audit: IRS's FY 2025 Financial Statements. We are pleased the IRS received an unmodified opinion on its combined financial statements. The unmodified opinion demonstrates that the IRS accurately accounts for tax revenue receipts, tax refunds, and IRS appropriated funds. In addition, we continued to make noteworthy progress in resolving open recommendations.

The IRS's ability to produce reliable financial statements each year is due to the efforts of our outstanding personnel. We are dedicated to promoting the highest standards of financial management and accountability, and we look forward to working with the GAO to continue providing accurate reporting and improving our internal controls.

Sincerely,



Frank J. Bisignano
Chief Executive Officer

FINANCIAL STATEMENTS

Audited, See Accompanying Auditor's Report

The financial statements have been prepared to report the financial position and results of operations of the IRS, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and OMB Circular A-136, Financial Reporting Requirements. The responsibility for the integrity of the financial information included in these statements is with the management of the IRS. The audit of the IRS financial statements was performed by GAO.

The IRS financial statements for FY 2025 are described below:

- The Balance Sheet presents the assets, liabilities, and net position.
- The Statement of Net Cost presents the gross costs incurred less exchange revenue earned from activities, cost not assigned, and the net cost of operations.
- The Statement of Changes in Net Position presents the change in net position resulting from the net cost of operations, budgetary financing sources other than exchange revenues, and other financing sources.
- The Combined Statement of Budgetary Resources presents the Budgetary Resources, the Status of Budgetary Resources, and the Outlays, Net. Additional detail by major budget accounts is available in Required Supplementary Information.
- The Statement of Custodial Activity presents the sources of non-exchange federal tax revenues collected and disposition of refunds and outlays disbursed.

Balance Sheet
As of September 30, 2025
 (In Millions)

ASSETS	
Intragovernmental	
Fund Balance with Treasury (Notes 2 , 3)	\$ 41,484
Accounts Receivable, Net	43
Advances and Prepayments	7
Other Assets	
Due from the General Fund of the U.S. Government (Note 2)	4,238
Total Intragovernmental	45,772
Other than Intragovernmental	
Cash and Other Monetary Assets	4
Accounts Receivable, Net	
Federal Taxes Receivable, Net (Notes 2 , 4 , 7)	91,415
Other Receivables, Net	15
Property and Equipment, Net (Note 5)	3,044
Advances and Prepayments	14
Total Other than Intragovernmental	94,492
Total Assets	\$ 140,264
LIABILITIES	
Intragovernmental	
Other Liabilities	
Due to the General Fund of the U.S. Government (Note 7)	\$ 99,005
Other Liabilities (Note 9)	219
Total Intragovernmental	99,224
Other than Intragovernmental	
Accounts Payable	
Federal Tax Refunds Payable	4,238
Other Payables	323
Federal Employee Salary, Leave, and Benefits Payable (Note 8)	796
Post-Employment Benefits Payable (Note 8)	520
Other Liabilities (Note 9)	6,699
Total Other than Intragovernmental	12,576
Total Liabilities	111,800
Commitments and Contingencies (Note 11)	
NET POSITION	
Unexpended Appropriations	
Funds from Other than Dedicated Collections	25,325
Cumulative Results of Operations	
Funds from Dedicated Collections (Note 12)	261
Funds from Other than Dedicated Collections	2,878
Total Cumulative Results of Operations (Consolidated)	3,139
Total Net Position	28,464
Total Liabilities and Net Position	\$ 140,264

The accompanying notes are an integral part of this statement.

Statement of Net Cost
For the Year Ended September 30, 2025
 (In Millions)

MAJOR PROGRAMS		
Service to the Taxpayer		
Gross Cost	\$	7,243
Earned Revenue		(64)
Net Cost of Program		7,179
Enforcement of Tax Legislation		
Gross Cost	12,214	
Earned Revenue		(480)
Net Cost of Program		11,734
Transformation of Business Systems		
Gross Cost	1,038	
Earned Revenue		(5)
Net Cost of Program		1,033
Cost Not Assigned to Programs		1,245
Net Cost of Operations	\$	21,191

The accompanying notes are an integral part of this statement.

Statement of Changes in Net Position
For the Year Ended September 30, 2025

(In Millions)

	Consolidated Funds from Dedicated Collections (Note 12)	Consolidated Funds from Other than Dedicated Collections	Consolidated Total
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ –	\$ 52,433	\$ 52,433
Appropriations Received	–	12,334	12,334
Appropriations Transferred In/(Out)	–	(120)	(120)
Other Adjustments	–	(20,291)	(20,291)
Appropriations Used	–	(19,031)	(19,031)
Net Change in Unexpended Appropriations	–	(27,108)	(27,108)
Total Unexpended Appropriations, Ending Balances	–	25,325	25,325
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	292	1,793	2,085
Appropriations Used	–	19,031	19,031
Non-exchange Revenue	157	–	157
Transfers In/(Out) Without Reimbursement	–	21	21
Imputed Financing (Note 13)	14	3,048	3,062
Transfers to the General Fund of the U.S. Government	–	(26)	(26)
Net Cost of Operations	(202)	(20,989)	(21,191)
Net Change in Cumulative Results of Operations	(31)	1,085	1,054
Total Cumulative Results of Operations, Ending Balances	261	2,878	3,139
Net Position	\$ 261	\$ 28,203	\$ 28,464

The accompanying notes are an integral part of this statement.

Combined Statement of Budgetary Resources
For the Year Ended September 30, 2025

(In Millions)

BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 15)		\$ 50,632
Appropriations (Discretionary and Mandatory)		(7,392)
Spending Authority from Offsetting Collections (Discretionary and Mandatory)		138
Total Budgetary Resources		\$ 43,378
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)		\$ 19,418
Unobligated Balance, End of Year		
Apportioned, Unexpired Accounts		23,356
Exempt from Apportionment, Unexpired Accounts		7
Unapportioned, Unexpired Accounts		222
Unexpired Unobligated Balance, End of Year		23,585
Expired Unobligated Balance, End of Year		375
Unobligated Balance, End of Year (Total)		23,960
Total Budgetary Resources		\$ 43,378
OUTLAYS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)		\$ 19,164
Distributed Offsetting Receipts		(362)
Outlays, Net (Discretionary and Mandatory)		\$ 18,802

The accompanying notes are an integral part of this statement.

Statement of Custodial Activity
For the Year Ended September 30, 2025
 (In Millions)

REVENUE ACTIVITY		
Collections of Federal Tax Revenue (Note 16)		
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act and Other	\$	4,689,620
Corporate Income		486,384
Excise		90,612
Estate and Gift		31,111
Railroad Retirement		7,258
Federal Unemployment		8,777
Total Collections of Federal Tax Revenue		5,313,762
(Decrease)/Increase in Federal Taxes Receivable, Net		(47,805)
Total Federal Tax Revenue	\$	5,265,957
DISPOSITION OF FEDERAL TAX REVENUE		
Transferred to:		
General Fund of the U.S. Government	\$	5,313,472
Department of the Interior		56
Retained by IRS – Private Debt Collection		234
(Decrease)/Increase in Amounts Yet to be Transferred		(47,805)
Total Disposition of Federal Tax Revenue		5,265,957
Net Federal Revenue Activity	\$	–
FEDERAL TAX REFUND AND OUTLAY ACTIVITIES		
Total Refunds of Federal Taxes and Outlays (Note 17)	\$	638,785
Appropriations Used for Refund of Federal Taxes and Outlays		(638,785)
Net Federal Tax Refund and Outlay Activities	\$	–

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Audited, See Accompanying Auditor's Report

For the Year Ended September 30, 2025

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The IRS administers the nation's tax laws and annually collects nearly all the revenues that fund the U.S. government's operations. The accompanying financial statements present the financial position and results of operations for the IRS, a component entity of the Treasury. All funds established and maintained to track resources and activity under IRS control are included in the financial statements and accompanying notes.

B. Basis of Accounting and Presentation

The financial statements are prepared from the accounting records of the IRS in conformity with U.S. generally accepted accounting principles and in accordance with OMB Circular A-136, Financial Reporting Requirements. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is recognized by the American Institute of Certified Public Accountants as the official body for setting accounting standards of the U.S. government. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Financial statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Statement of Custodial Activity. The Statement of Changes in Net Position separately reports amounts for Funds from Dedicated Collections. The Statement of Budgetary Resources is presented on a combined basis, therefore intra-bureau transactions and balances are not eliminated from the statement. Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental in the financial statements and accompanying notes. Intragovernmental is defined as transactions made between two reporting entities within the U.S. government.

Accounting transactions are recorded on both an accrual and a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Accrual methods of accounting may differ from budgetary accounting principles as the purpose of federal budgetary accounting is to control, monitor, and report on the use of funds made available to federal agencies, and to ensure compliance with laws and regulations. The Statement of Custodial Activity is presented on the modified cash basis of accounting. Under this method, cash collections and transfers to the General Fund of the U.S. Government are reported on a cash basis rather than an accrual basis. Collections and transfers are adjusted on the face of the Statement of Custodial Activity for the net change in taxes receivable, producing modified cash basis balances.

The preparation of financial statements requires management to make certain estimates and assumptions affecting the reported amounts for assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities. Actual results may differ from these estimates. Estimates are used in computing taxes receivables, accruals for accounts payable and actuarial liabilities, and for allocating costs to major programs on the Statement of Net Cost.

C. Fund Balance with Treasury

Fund Balance with Treasury is an asset of a reporting entity and a liability of the General Fund of the U.S. Government. These amounts represent commitments by the U.S. government to provide resources for certain programs, but do not represent net assets to the U.S. government. When the IRS seeks to use Fund Balance with Treasury to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if a budget deficit exists). On the financial statements and accompanying notes, Fund Balance with Treasury represents the aggregate amount of undisbursed IRS funds which include appropriated funds, deposit funds, suspense funds, and special funds (refer to [**Note 3. Fund Balance with Treasury**](#)).

D. Accounts Receivable, Net

Accounts Receivable, Net, represents the net realizable value of amounts owed to the IRS from other federal agencies and the public. Gross receivable balances are reduced to net realizable value through use of an allowance by using the collection criterion of more likely than not. The allowance for uncollectible accounts is based on an annual review of groups of accounts by age for accounts receivable balances older than one year.

Intragovernmental accounts receivable includes an expenditure transfer receivable from the Treasury Forfeiture Fund for the repayment of costs incurred in criminal investigations related to seizures and forfeitures. Reimbursable agreements with federal agencies are recorded as receivables and revenues, which are recognized when services are performed, and costs are incurred. Other than Intragovernmental accounts receivable includes reimbursable agreements, and payroll receivables, such as salary and benefit overpayments, overdrawn leave, leave buybacks under workers' compensation, and federal employees' health benefit payments.

E. Advances and Prepayments

Intragovernmental advances and prepayments include employee transit subsidies paid to the Department of Transportation and postage purchased from the U.S. Postal Service for postage meters, business reply mail, bulk mailing permits, stamps, and postage paid envelopes. The U.S. Postal Service requires payment for the postage in advance. Advances and prepayments to the public represent cash outlays for criminal investigations and employee travel.

F. Cash and Other Monetary Assets

Imprest funds include non-restricted cash maintained by headquarters and field offices in commercial bank accounts and are used by investigative services to provide special agents with funding for ongoing covert operations. Other monetary assets consist of seized monies pending the results of criminal investigations. Seized monies are non-entity assets recorded in a deposit fund account.

G. Federal Taxes Receivable, Net

Federal Taxes Receivable, Net, consists of unpaid assessments and accruals for penalties, and interest due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. The taxes receivable amount also includes restitution-based assessments, which are federal court-ordered assessments for compensation from defendants to the U.S. government for revenue losses caused by tax-related crimes, including conspiracy to defraud the IRS and tax evasion. The net amount of federal taxes receivable is calculated by reducing the gross receivable amount by an allowance for uncollectible taxes receivable which estimates the portion of total taxes receivable deemed to be uncollectible. Internal Revenue Code Section 965(h) requires U.S. shareholders to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the U.S. Under this provision, taxpayers may elect to pay their transition tax on an eight-year installment schedule (refer to [Note 4. Federal Taxes Receivable, Net](#)).

Tax Assessments and Abatements

Internal Revenue Code Section 6201 authorizes and requires the Secretary of the Treasury to make inquiries, determinations, and assessments regarding all taxes not paid, including related interest, additions to tax, and assessable penalties that are imposed under internal revenue laws. The Secretary of the Treasury and IRS Commissioner delegated this authority to the Chief Executive Officer. Unpaid assessments result from taxpayers filing returns without sufficient payments and from the enforcement programs of the IRS, including examination, under-reporter, substitute for return, and combined annual wage reporting.

The Chief Executive Officer has also been delegated the legal authority, under Internal Revenue Code Section 6404, to abate certain assessed taxes, interest, and penalties, whether they have been paid or not. This process, called abatement, is a normal part of tax administration to reduce or cancel amounts owed and happens for several reasons. For example, a corporation might qualify for an abatement if it is claiming a net operating loss that creates a credit when carried back and applied against a prior year's tax liability. Abatements can also fix errors in assessments from enforcement programs, remove taxes cleared in bankruptcy, reduce or eliminate taxes in approved offers-in-compromise situations, or eliminate penalty assessments for reasonable cause. Abatements lead to a refund or reduce what the taxpayer still owes.

Other Unpaid Assessments

Compliance assessments are unpaid assessments which neither the taxpayer nor a court has affirmed is owed to the U.S. government. This includes assessments resulting from an IRS audit or examination in which the taxpayer does not agree with the results. Write-offs consist of unpaid assessments for which the IRS does not expect further collections due to factors such as taxpayers' bankruptcy, insolvency, or death. Compliance assessments and write-offs are not included in Federal Taxes Receivable, Net on the Balance Sheet. According to Statement of Federal Financial Accounting Standard (SFFAS) 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, compliance assessments do

not meet the requirements for asset recognition. Statutory provisions authorize the IRS to collect on unpaid assessments for a specific statutory timeframe. To pursue collection efforts, the IRS maintains unpaid assessment accounts in its financial records until the statute for collection expires, which is generally 10 years from when the IRS assesses the tax.

H. Property and Equipment, Net

Property and equipment are recorded at cost and consist of tangible and intangible assets with a useful life of two or more years. IRS property and equipment includes equipment, leasehold improvements, right-to-use lease assets, and internal use software. Depreciation and amortization expenses are calculated using a straight-line method over the useful life of the asset starting on the in-service date. Assets under development, such as internal use software, are capitalized if the estimated aggregate cost meets the threshold for capitalization. Normal repairs and maintenance costs are recognized as an expense in the period incurred. Impairment costs are recognized in the event of a significant and permanent decline in the service utility of the property and equipment (refer to [Note 5. Property and Equipment, Net](#)).

IRS Capitalization Policy	
Asset Class	Capitalization Threshold
Information Technology Equipment (mainframe, server & telecommunication)	Asset value of \$50 thousand or greater.
Non-Information Technology Equipment	Assets with bulk cost of \$50 thousand or greater or the individual cost is \$10 thousand or greater.
Investigative Equipment	Asset value of \$50 thousand or greater.
Vehicles	No threshold.
Internal Use Software	Projects with an estimated cost greater than or equal to \$10 million per year.
Leasehold Improvements	Improvements with cost of \$50 thousand or greater.
Right-to-Use Lease Asset	Asset value of \$930 thousand or greater.

I. Leases

The IRS leases office space and motor vehicles from the General Services Administration under agreements with lease terms ranging from 1 to 30 years. Intragovernmental lease expenses are recognized as costs are incurred. The IRS is not a lessor to other government entities. In accordance with SFFAS 54, Leases, right-to-use lease assets and lessee lease liabilities are recognized for non-intragovernmental leases that are long term in nature (greater than two years) and when certain conditions are met. For example, the IRS must obtain the right to control access to the economic benefits or services from the underlying assets in exchange for consideration under the lease agreement.

In accordance with SFFAS 62, Transitional Amendment to SFFAS 54, through September 30, 2026, contracts or agreements having both lease and non-lease components are treated as non-lease contracts in their entirety where the IRS has concluded the primary purpose is reasonably attributable to the non-lease components (refer to [Note 10. Leases](#)).

J. Inventory and Related Property, Net

Forfeited property held for sale is acquired through forfeiture proceedings or foreclosure sales to satisfy a tax liability. The Federal Tax Lien Revolving Fund, established in accordance with Title 26 U.S. Code Section 7810, is used to redeem real property foreclosed upon by a holder of a lien. The IRS may sell the property, reimburse the revolving fund in an amount equal to the redemption, and apply any net proceeds to the outstanding tax obligation.

Seized monetary instruments are recognized at their fair market value when seized. They are reported as part of Cash and Other Monetary Assets, and an offsetting liability of equal value is recognized in Other Liabilities. In the event a forfeiture judgment is obtained, the seized asset is reclassified to a forfeited asset, revenue is recognized, and the offsetting liability is removed.

Seized property value, other than monetary instruments, is accounted for in criminal investigation records until the property is forfeited, returned, or otherwise liquidated. Under the Internal Revenue Code Section 6335 valuation of property seized is based on the taxpayer's equity at the fair market value less any third-party liens. Forfeited intangible assets are recognized at fair market value at the time of forfeiture with an offsetting deferred revenue.

K. Due to the General Fund of the U.S. Government

Due to the General Fund of the U.S. Government is a liability which comprises two sources: Federal Taxes Receivable, Net and the State Innovation Waiver Program. The portion for federal taxes receivable will ultimately be distributed to the General Fund of the U.S. Government upon collection. The portion for the State Innovation Waiver Program represents awards by the Centers for Medicare and Medicaid Services, under Section 1332 of the Patient Protection and Affordable Care Act, where the grantees participating in the program have not drawn down the funds per the term of the grant. This program is also referred to as a State Relief and Empowerment Waiver (refer to [Note 7. Due to the General Fund of the U.S. Government](#)).

L. Federal Tax Refunds Payable and Due from the General Fund of the U.S. Government

Federal Tax Refunds Payable comprises measurable and legally payable amounts owed to taxpayers under the established refund processes of the IRS. This liability is fully funded and offset by a corresponding asset, Due from the General Fund of the U.S. Government. The IRS records an amount Due from the General Fund of the U.S. Government to designate approved funding to pay year-end tax refund liabilities to taxpayers.

M. Contingent Liabilities

Contingent liabilities are liabilities that may be incurred by the IRS depending on the outcome of an uncertain future event, such as pending litigation. Contingencies are classified into three categories: probable, reasonably possible, and remote. A contingency is considered probable when the future confirming events are likely to occur. Probable contingent liabilities are recognized by the IRS in the financial statements provided the amount can reasonably be estimated. Contingencies are reasonably possible when the chance of the future confirming event occurring is more than remote but less than probable. Reasonably possible contingencies are disclosed by the IRS in the Notes to the Financial Statements, as well as probable contingencies that cannot reasonably be estimated.

Remote contingencies are not recognized in the financial statements or disclosed in the Notes to the Financial Statements (refer to [Note 11. Commitments and Contingencies](#)).

N. Financing Sources and Revenues

Appropriations Received

The IRS receives most of its funding through annual, multi-year, and no-year appropriations that are available for use within statutory limits for operating and capital expenditures. Appropriations Received are presented on the Statement of Changes in Net Position. Appropriations presented on the Statement of Budgetary Resources are net of temporary and permanent reductions and include special fund receipts.

Exchange Revenues

Exchange revenues are derived from transactions where both the IRS and its trading partners receive value. IRS exchange revenues include reimbursements, user fees, and collections of outstanding inactive tax receivables from private collection agents. Revenues for reimbursements are recognized as costs are incurred for services performed for other federal agencies or the public under the reimbursable agreements. Revenues from user fees are other than intragovernmental transactions and are recognized when earned. The Fixing America's Surface Transportation Act authorizes the IRS's Private Collection Agent Program, which provides the IRS with the authority to enter into qualified tax collection contracts with private collection agents to perform the collection of outstanding inactive tax receivables from the public. Earned revenues in this program reflect the portion of the collections retained to cover the costs of services performed under the contracts. Exchange revenues are assigned to a major program on the Statement of Net Cost.

Non-Exchange Revenues

Non-exchange revenues result from the U.S. government's power to demand payments from the public, generally in the form of tax receipts. IRS tax collections are reported on the Statement of Custodial Activity with an offsetting transfer to the General Fund of the U.S. Government. A portion of the tax receipts is used to fund the Special Compliance Personnel Program which has oversight authority over the Private Collection Agent Program. The Special Compliance Personnel Program has a specifically identifiable and legally enforceable claim to a portion of the delinquent debt collections from outstanding inactive tax receivables to fund the administration of the program.

Imputed Financing

The IRS receives goods and services from other federal entities at no cost or less than the full cost to the providing entity. Certain costs of the providing federal entity — that are identifiable to the IRS but not fully reimbursed — are recognized as imputed costs in the Statement of Net Cost and as imputed financing sources on the Statement of Changes in Net Position. Imputed financing sources include Bureau of the Fiscal Service costs of processing tax payments and collections, employee benefits administered by the Office of Personnel Management, and settled claims paid by the Treasury Judgment Fund.

O. Major Programs

The Statement of Net Cost presents major programs to deliver high quality taxpayer service, fair enforcement of the tax law, and modernize critical technology.

Service to the Taxpayer includes activities and programs such as pre-filing assistance; account management and assistance; processing tax returns and related documents; offering filing and account services; producing media and publications; providing taxpayer advocacy services; and supporting activities. Earned revenues include reimbursable revenues for services provided and user fees, which include photocopies, U.S. residency certifications, and Income Verification Express Service.

Enforcement of Tax Legislation includes the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of under-reporting of tax obligations; securing of unfiled tax returns; collection of unpaid accounts; and supporting activities. Earned revenues consist of user fees for installment agreements; letter rulings and determinations; offers in compromise; enrolled agent and actuary programs; return preparer registrations; advance pricing agreements; services provided under reimbursable agreements; and receipts collected through the Private Debt Collection.

Transformation of Business Systems includes resources for the planning and capital asset acquisition of information technology to modernize the IRS business systems. Primary activities include expanding online account capabilities to improve the taxpayer experience; improving individual tax processing technologies; streamlining case and workload management processes; and promoting cybersecurity.

P. Custodial Activity

Revenues

The IRS collects custodial non-exchange tax revenues levied for the following tax classifications: Individual Income, Corporate Income, Excise, Estate and Gift, Railroad Retirement, and Federal Unemployment taxes. Individual income taxes include Federal Insurance Contributions Act, Self Employment Contributions Act, and other miscellaneous items. Tax revenues are not available to the IRS for obligation or expenditure as substantially all the collections are transferred to the General Fund of the U.S. Government to fund the U.S. government's operations. The sources of federal tax revenues and their distributions are presented on the Statement of Custodial Activity.

Appropriations

Legislation grants the IRS permanent and indefinite budgetary authority to disburse tax refunds as the obligations become due. These permanent and indefinite appropriations are not subject to budgetary ceilings set by Congress during the annual appropriations process. Disbursements of federal tax refunds and refundable tax credits are offset by appropriations used for refunds on the Statement of Custodial Activity. Tax refund disbursements are a cost to the U.S. government, not to the IRS.

Refunds owed to taxpayers are reported as Federal Tax Refunds Payable on the Balance Sheet. The IRS recognizes a corresponding asset, Due from the General Fund of the U.S. Government, to reflect the budget authority to pay this liability.

Q. Funds from Dedicated Collections

Funds from Dedicated Collections are specifically identified revenues — often supplemented by other financing sources — which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the U.S. government's general revenues (refer to [**Note 12. Funds from Dedicated Collections**](#)).

R. Allocation Transfers

The IRS is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one federal entity of its authority to obligate budget authority and outlay funds to another federal entity. A separate Treasury Account Symbol, used as an allocation account, is created as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Financial activity related to these allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The IRS allocates funds, as the parent entity, to the Department of Health and Human Services. The IRS receives allocation transfers, as the child entity, from the Department of Transportation's Federal Highway Administration and Department of Health and Human Services.

S. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the U.S. government of cash or other assets in which non-federal individuals or entities have an ownership interest the U.S. government must uphold. IRS fiduciary activities include the net collections for a taxable year from U.S. military and U.S. employees working in the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam, and American Samoa. These fiduciary assets are not assets of the IRS (refer to [**Note 18. Fiduciary Activities**](#)).

T. Budgetary Terms

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law. Common budgetary terms applicable to IRS reporting are described below. Further information on the U.S. government's commonly used budgetary terms can be found in the Office of Management and Budget Circular A-11, Section 20.3.

- **Appropriation:** A provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- **Budgetary Resources:** Amounts available to incur obligations in a given fiscal year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- **Obligation:** A binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- **Offsetting Collections:** Payments to the U.S. government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the U.S. government and from intragovernmental transactions with other U.S. government accounts. The authority to spend offsetting collections is a form of budget authority.
- **Offsetting Receipts:** Payments to the U.S. government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the U.S. government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the U.S. government, and from intragovernmental transactions with other U.S. government accounts.
- **Outlay:** A payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are “means of financing” transactions). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of U.S. government spending.

U. Employee Compensation and Benefits

Accrued Annual, Sick and Other Leave

Annual and compensatory leave is accrued and expensed as earned and used. Annually, the IRS adjusts the balance in the accrued annual leave liability account to reflect current pay rates. Under the current budget execution rules, the accrued annual leave liability is reported as not covered by budgetary resources because the liability is not funded until leave is taken, or the amount is paid as a lump sum at the end of employment. Sick leave and other types of non-vested leave are expensed as used.

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection and other death benefits to beneficiaries for federal civilian employees with proper coverage who are injured on the job, have incurred work-related occupational diseases, or whose deaths were attributed to job-related injuries or occupational diseases. This program is administered by the Department of Labor, which pays valid claims and subsequently seeks reimbursement for claims paid. The accrued Federal Employees' Compensation Act liability represents amounts due to the Department of Labor for claims paid on behalf of the IRS. The actuarial Federal Employees' Compensation Act liability represents the liability for future workers' compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The Department of Labor estimates the liability for future payments based on past events.

Employee Health and Life Insurance Benefits

IRS employees are eligible to participate in the Federal Employees' Health Benefit Program and Federal Employees' Group Life Insurance Program administered by the Office of Personnel Management. The Federal Employees' Health Benefit Program offers a wide variety of group plans and coverage that are available to employees, retirees, and their eligible family members. The cost for each plan varies and is shared between the IRS and the employee.

An employee participating in the Federal Employees' Group Life Insurance Program can obtain basic term life insurance by paying two-thirds of the cost and the IRS paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may continue into retirement if certain requirements are met. The IRS recognizes the full cost of providing these benefits.

Employee Pension Benefits

The IRS recognizes the full costs of providing future pension benefits to covered employees. Cost factors provided by the Office of Personnel Management estimate the full cost of providing the pension benefits. The excess of the full cost compared to contributions made by the IRS and its employees is recognized as imputed costs. The liabilities associated with these costs are reported by the Office of Personnel and Management, which administers the plans. Eligibility of employees to participate in the Civil Service Retirement System or the Federal Employees Retirement System is based on their hire date with the U.S. government and the IRS contributes a percentage of an employee's basic pay towards their retirement plan.

All IRS employees are eligible to contribute to the Thrift Savings Plan, a defined contribution plan. For employees participating in the Federal Employees Retirement System, the IRS contributes 1% per year of the employee's basic pay to the Thrift Savings Plan. In addition, the IRS matches voluntary employee contributions up to 3% of the employee's basic pay and matches one-half of contributions between 3% and 5% of the employee's basic pay. There are no agency contributions to the Thrift Savings Plan for Civil Service Retirement System participants. IRS contributions to the Thrift Savings Plan are recognized as current operating expenses.

Employee and Agency Pension Benefit Contribution Rates			
	Category	Employee	Agency
Civil Service Retirement System Rates	Regular	7.0%	7.0%
	Law Enforcement Officers	7.5%	7.5%
Federal Employees Retirement System Rates hired prior to January 1, 2013	Regular	0.8%	18.4%
	Law Enforcement Officers	1.3%	38.2%
Federal Employees Retirement System – Revised Annuity Rate hired January 1, 2013–December 31, 2013	Regular	3.1%	16.5%
	Law Enforcement Officers	3.6%	36.4%
Federal Employees Retirement System – Further Revised Annuity Rate hired January 1, 2014 or later	Regular	4.4%	16.5%
	Law Enforcement Officers	4.9%	36.4%

V. Cost Not Assigned to Programs

Other Post-Employment Benefits costs include salary continuation, severance payments, counseling and training, health care, and workers compensation benefits paid to former or inactive employees per SFFAS 5, Accounting for Liabilities of the Federal Government. These costs are recognized as expenses when the cost event occurs. Costs associated with the deferred resignation programs and Voluntary Separation Incentive Payments cannot be traced, assigned, or allocated to segments and their outputs. These unassigned costs are recognized as Cost Not Assigned to Programs on the Statement of Net Cost.

Note 2. Non-Entity Assets

Non-entity assets are not available for use by the IRS. Federal Taxes Receivable, Net are collected for the U.S. government, but the IRS does not have the authority to spend them. Fund Balance with Treasury, as presented in this note, consists of offers-in-compromise, voluntary deposits received from taxpayers pending application of funds to taxpayer's account, and funds to administer the State Innovation Waiver Program and Clean Vehicle Credits.

(In Millions)	2025
INTRAGOVERNMENTAL	
Fund Balance with Treasury	\$ 14,198
Due from the General Fund of the U.S. Government	4,238
Total Intragovernmental	18,436
OTHER THAN INTRAGOVERNMENTAL	
Federal Taxes Receivable, Net	91,415
Other Receivables, Net	8
Total Other than Intragovernmental	91,423
Non-entity Assets	109,859
Entity Assets	30,405
Total Assets	\$ 140,264

Note 3. Fund Balance with Treasury

The Status of Fund Balance with Treasury includes unobligated and obligated balances. The Unobligated Balance is comprised of available (unexpired appropriations as of the end of the current fiscal year) and unavailable (expired appropriations and amounts not apportioned for obligation as of the end of the current fiscal year). Unobligated balances become available when apportioned by OMB. The Obligated Balance Not Yet Disbursed represents the unpaid funds with budgetary obligations.

Non-Budgetary and Other Fund Balance with Treasury includes Non-Fiduciary Deposit Funds and Clearing Accounts collections awaiting classification, as well as Section 1332 State Innovation Waiver Program funds where the grantee has not drawn down funds per the terms of the grant (refer to [Note 1.C. Fund Balance with Treasury](#)).

(In Millions)	2025
STATUS OF FUND BALANCE WITH TREASURY	
Unobligated Balance	\$ 23,960
Obligated Balance Not Yet Disbursed	3,316
Non-Budgetary and Other Fund Balance with Treasury	
Non-Fiduciary Deposit Funds and Clearing Accounts	6,318
State Innovation Waiver Program	7,582
Clean Vehicle Credits	298
Other	10
Fund Balance with Treasury	\$ 41,484

Note 4. Federal Taxes Receivable, Net

Federal taxes receivable are taxes due from taxpayers for which the IRS can support the existence of a receivable through either a taxpayer agreement or a court ruling determining an assessment. Federal Taxes Receivable, Net is the portion of federal taxes receivable estimated to be collectible, and the corresponding liability is Due to the General Fund of the U.S. Government which is to be transferred when collected.

The taxes receivable as of September 30, 2025, consist primarily of two categories:

- Delinquent tax assessments, penalties and interest not paid or abated, which were agreed to by the taxpayer and the IRS or upheld by the courts. The net delinquent unpaid assessments for this category totaled \$64,945 million.
- Nondelinquent assessments are detailed in [Note 1.G. Federal Taxes Receivable, Net](#). All nondelinquent assessments are from Internal Revenue Code Section 965(h) which allowed taxpayers to elect to pay this tax on an eight-year installment schedule. Net Federal taxes receivable for Internal Revenue Code Section 965(h) consists of \$26,470 million.

For taxes receivable, specific collectability methods were applied to each of the categories mentioned above to determine Allowance for Uncollectible Taxes Receivable:

- **Delinquent tax assessments.** In FY 2025, the \$64,945 million in collectible delinquent tax assessments was primarily derived from a three-year average (FY 2023–2025) to normalize the effect of year-to-year fluctuations including the collectible point estimate of \$52,673 million (+/- \$12,173 million).
- **Internal Revenue Code Section 965(h) elections.** In FY 2025, the IRS considered indicators of financial health of the largest business modules (91.3% of the remaining unpaid deferral balance) along with industry specific data in determining the degree to which Internal Revenue Code Section 965(h) taxpayers are considered at-risk of non-payment. The overall collectability estimate for Internal Revenue Code Section 965(h) taxes receivable estimated collectability was 94.1%.

(In Millions)	2025
OTHER THAN INTRAGOVERNMENTAL	
Federal Taxes Receivable	\$ 361,340
Allowance for Uncollectible Taxes Receivable	(269,925)
Federal Taxes Receivable, Net	\$ 91,415

Note 5. Property and Equipment, Net

The following tables display property and equipment by asset class with corresponding cost and accumulated depreciation/amortization.

(In Millions)	Useful Life (Years)	Cost	Accumulated Depreciation/ Amortization	Net Book Value
ASSET CLASS				
Information Technology Equipment	3 to 7	\$ 821	\$ (516)	\$ 305
Internal Use Software-in-Use	2 to 15	4,345	(3,398)	947
Internal Use Software-in-Development	N/A	1,532	–	1,532
Leasehold Improvements	2 to 10	328	(140)	188
Vehicles	5	5	(4)	1
Non-Information Technology Equipment	8 and 10	66	(33)	33
Right-to-Use Lease Asset	2 to 5	4	(1)	3
Investigative Equipment	10	4	(3)	1
Leasehold Improvements Construction-in-Progress	N/A	34	–	34
Property and Equipment, Net		\$ 7,139	\$ (4,095)	\$ 3,044

The IRS holds an Energy Savings Performance Contract with a useful life of 17 years to align the amortization with the liability. This agreement is the only exception to the leasehold improvement useful life threshold in the table above. For more information on right-to-use leases, see [Note 10. Leases](#). Capitalization criteria and other information regarding property and equipment are discussed in [Note 1.H. Property and Equipment, Net](#).

Components of the Changes in Property and Equipment, Net

(In Millions)	2025
Balance Beginning of Year	\$ 2,450
Capitalized Acquisitions	915
Amortization of Right-to-Use Lease Assets	(1)
Dispositions	(57)
Depreciation Expense	(263)
Balance at End of Year	\$ 3,044

Note 6. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources are from the receipt of goods and services, or occurrence of eligible events in the current or prior periods, for which revenue or other funds to pay the liabilities has not been made available through appropriations of the IRS.

Liabilities Covered by Budgetary Resources are liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities Not Requiring Budgetary Resources are liabilities that have not in the past required, and will not in the future require, the use of budgetary resources. This includes liabilities for clearing accounts, non-fiduciary deposit funds, and accrued custodial collections.

(In Millions)	2025
INTRAGOVERNMENTAL	
Unfunded Federal Employees' Compensation Act Liability	\$ 69
Other Unfunded Employment Related Liability	3
Total Intragovernmental	72
OTHER THAN INTRAGOVERNMENTAL	
Unfunded Leave	525
Actuarial Federal Employees' Compensation Act Liability	340
Other Liabilities without Related Budgetary Obligations	27
Total Other than Intragovernmental	892
Liabilities Not Covered by Budgetary Resources	964
Liabilities Covered by Budgetary Resources	13,095
Liabilities Not Requiring Budgetary Resources	97,741
Total Liabilities	\$ 111,800

Note 7. Due to the General Fund of the U.S. Government

Due to the General Fund of the U.S. Government reports General Fund assets held and managed on behalf of the U.S. government. These General Fund assets constitute resources available to meet the operating needs of the U.S. government. The Federal Taxes Receivable, Net is the portion of gross federal taxes receivable estimated to be collectible and will be transferred to the General Fund when collected. The Fund Balance with Treasury represents funds to administer the State Innovation Waiver Program. These funds are not available for use by the IRS (refer to [Note 1.K. Due to the General Fund of the U.S. Government](#)).

(In Millions)	2025
INTRAGOVERNMENTAL	
Federal Taxes Receivable, Net	\$ 91,415
Fund Balance with Treasury	7,582
Other Receivables, Net	8
Due to the General Fund of the U.S. Government	\$ 99,005

Note 8. Federal Employee Benefits Payable

The following table provides additional details of the Balance Sheet line items Federal Employee Salary, Leave, and Benefits Payable as well as Post-Employment Benefits Payable.

(In Millions)	2025
OTHER THAN INTRAGOVERNMENTAL	
Unfunded Leave	\$ 525
Accrued Funded Payroll	261
Employer Contributions for Thrift Savings Plan	10
Federal Employee Salary, Leave, and Benefits Payable	\$ 796
Other Post Employment Benefits Due and Payable	\$ 180
Actuarial Federal Employees' Compensation Act Liability	340
Post-Employment Benefits Payable	\$ 520

Unfunded Leave is a current liability not covered by budgetary resources. Accrued Funded Payroll and Employer Contributions for Thrift Savings Plan are current liabilities for personnel salaries and benefits. Other Post Employment Benefits Due and Payable represents the accrual of terminal leave. The Federal Employees' Compensation Act is administered by the Department of Labor to provide income and medical cost protection to covered employees who are injured on the job. The actuarial liability represents the estimated liability for future workers compensation resulting from past events, which is noncurrent and not covered by budgetary resources.

Note 9. Other Liabilities

The other current liabilities not covered by budgetary resources include: Unfunded Federal Employees' Compensation Act Liability for \$31 million, Other Unfunded Employment Related Liability for \$3 million, and Other Liabilities without Related Budgetary Obligations on the Energy Savings Performance Contract for \$1 million.

(In Millions)	2025
INTRAGOVERNMENTAL	
Employer Contributions and Payroll Taxes Payable	\$ 96
Unfunded Federal Employees' Compensation Act Liability	69
Other Liabilities with Related Budgetary Obligations	51
Other Unfunded Employment Related Liability	3
Other Liabilities	\$ 219
OTHER THAN INTRAGOVERNMENTAL	
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections and Liability for Clearing Accounts	\$ 6,318
Other Liabilities with Related Budgetary Obligations	351
Other Liabilities without Related Budgetary Obligations	27
Lessee Lease Liability	3
Other Liabilities	\$ 6,699

Note 10. Leases

Intragovernmental Leases

The Intragovernmental lease schedule presents the annual rental expense by asset category under lease agreements with the General Services Administration.

(In Millions)	2025
INTRAGOVERNMENTAL LEASE EXPENSE CATEGORY	
Office Space	\$ 610
Vehicles	14
Intragovernmental Leases, Expense	\$ 624

Right-to-Use Lease

The IRS holds a five-year lease with a commercial vendor for postage meter equipment located at IRS facilities in all 50 states, Puerto Rico, and the U.S. Virgin Islands. The table below provides details on the net present value of the lease liability and the interest portion of the future lease payments due from FY 2026 through FY 2030 (refer to [Note 5. Property and Equipment, Net](#) and [Note 9. Other Liabilities](#)).

(In Millions)	Principal	Interest	Total
FISCAL YEAR			
2026	\$ 1	\$ -	\$ 1
2027	1	-	1
2028	1	-	1
2029	-	-	-
2030–2034	-	-	-
Total Estimated Future Lease Payments	\$ 3	\$ -	\$ 3

Note 11. Commitments and Contingencies

The IRS is a party to legal actions that may ultimately result in settlements or decisions adverse to the U.S. government. Additionally, the IRS is party to lawsuits categorized as reasonably possible. One case seeks the return of user fees paid to obtain a tax identification number plus interest and the other case claims an IRS contractor leaked numerous taxpayers' tax return information. The estimated damages in those suits are presented in the below table.

(In Millions)	2025
REASONABLY POSSIBLE	
Lower End Range of Loss	\$ 800
Upper End Range of Loss	\$ 1,070

There are no probable contingencies requiring funding through the agency's budget. As such, no contingent liabilities are recognized in the financial statements. The IRS is involved in no cases that are indeterminable in probability and range of loss.

Tort claims against federal agencies are administered and resolved by the Department of Justice with amounts necessary for resolution funded through the Treasury Judgment Fund. The Treasury Judgment Fund was enacted by Congress in 1956 as a permanent, indefinite appropriation for the payment of claims that did not have another funding source. The recognition of claims to be funded through the Treasury Judgment Fund represents a claim against the U.S. government as a whole and should not be interpreted as claims against the assets of an agency.

Note 12. Funds from Dedicated Collections

The IRS administers Funds from Dedicated Collections for the Private Collection Agent Program, Special Compliance Personnel Program, Federal Tax Lien Revolving Fund, and Informant Payment Program. They are presented in accordance with SFFAS 27: Identifying and Reporting Earmarked Funds, as amended by SFFAS 43: Funds from Dedicated Collections: Amending SFFAS 27. There are no eliminations between the four Funds from Dedicated Collections for FY 2025 (refer to [Note 1.Q. Funds from Dedicated Collections](#)).

	2025				
	Private Debt Collection	Other Dedicated Collections	Consolidated Funds from Dedicated Collections		
(In Millions)					
BALANCE SHEET					
Assets					
Intragovernmental					
Fund Balance with Treasury	\$ 266	\$ 8	\$ 274		
Total Intragovernmental	266	8	274		
Total Assets	\$ 266	\$ 8	\$ 274		
Liabilities					
Other than Intragovernmental					
Accounts Payable	\$ 4	\$ -	\$ 4		
Federal Employee Salary, Leave, and Benefits Payable	4	-	4		
Other Liabilities	5	-	5		
Total Other than Intragovernmental	13	-	13		
Total Liabilities	13	-	13		
NET POSITION					
Cumulative Results of Operations			8		
Total Liabilities and Net Position	\$ 266	\$ 8	\$ 274		
STATEMENT OF NET COST					
Gross Costs	\$ 279	\$ -	\$ 279		
Earned Revenue	(77)	-	(77)		
Net Costs of Operations	\$ 202	\$ -	\$ 202		
STATEMENT OF CHANGES IN NET POSITION					
Cumulative Results of Operations					
Beginning Balances	\$ 284	\$ 8	\$ 292		
Intragovernmental Non-exchange Revenues	157	-	157		
Imputed Financing	14	-	14		
Net Costs of Operations	(202)	-	(202)		
Net Change in Cumulative Results of Operations	(31)	-	(31)		
Total Cumulative Results of Operations, Ending Balances	\$ 253	\$ 8	\$ 261		

Private Debt Collection

Enacted in December 2015, the Fixing America's Surface Transportation Act amended Title 26 U.S. Code Section 6306, requiring the IRS to enter into one or more qualified tax collection contracts for the collection of outstanding inactive tax receivables in the Private Collection Agent Program. This program has the authority to retain a portion of the delinquent tax collections to use for the costs performed under the contracts. The revenue is recognized as exchange revenue on the Statement of Net Cost. In FY 2025, exchange revenue totaled \$157 million, the IRS returned \$80 million to the general fund tax receipt accounts, and net exchange revenue totaled \$77 million. The cumulative results of operations totaled \$5 million.

The Fixing America's Surface Transportation Act amended Title 26, U.S. Code, Section 6307, to establish the Special Compliance Personnel Program. The program requires hiring, training, and employment of special compliance personnel. A portion of the collections from outstanding inactive tax receivables funds the program. In FY 2025, \$157 million is recognized as non-exchange revenue on the Statement of Changes in Net Position, with cumulative results of operations totaling \$248 million.

Other Dedicated Collections

Section 112(a) of the Federal Tax Lien Act of 1966 established the Federal Tax Lien Revolving Fund to serve as the source of financing for the redemption of real property by the U.S. government. The forfeited property may be sold at auction to reimburse the revolving fund in an amount equal to the redemption. The net proceeds are applied to the outstanding tax obligation. The cumulative results of operations total \$8 million.

The Informant Payments Fund was established by the Taxpayer Bill of Rights of 1996. The fund provides for payments to individuals from the proceeds of amounts collected by reason of the information provided, and any amount collected shall be available for such payments. The custodial collection activities are reported in the Statement of Custodial Activity.

Note 13. Inter-Entity Costs

Imputed financing sources are recognized for goods or services received from other federal agencies without reimbursement from the IRS. This includes pension and other benefit costs administered by the Office of Personnel Management; costs of processing payments and collections by the Bureau of the Fiscal Service; and legal judgments paid by the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified within this note are not included in IRS financial statements.

(In Millions)	2025
Fiscal Service Cost for Tax Collections and Refunds	\$ 1,539
Federal Employees Benefit Programs	1,523
Inter-Entity Costs	\$ 3,062

Note 14. Undelivered Orders at the End of the Period

Undelivered orders are the value of goods and services ordered and obligated but not yet received. Amounts include any prepaid or advanced orders for which delivery or performance has not yet occurred.

(In Millions)	Other than			2025	
	Intragovernmental	Intragovernmental		Total	
Unpaid	\$ 404	\$ 2,006		\$ 2,410	
Paid	7	14		21	
Undelivered Orders at the End of the Period	\$ 411	\$ 2,020		\$ 2,431	

Note 15. Statement of Budgetary Resources

The FY 2027 Budget of the U.S. Government presenting the actual amounts for the year ended September 30, 2025, has not been published as of the issue date of these financial statements and will be available at a future date on the [OMB President's Budget webpage](http://www.whitehouse.gov/omb/budget/) (www.whitehouse.gov/omb/budget/). Presented below is a reconciliation of the FY 2024 Combined Statement of Budgetary Resources and the FY 2024 actual amounts in the FY 2026 Appendix, Budget of the U.S. Government.

(In Millions)	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts			Outlays, Net
Combined Statement of Budgetary Resources	\$ 68,968	\$ 18,580	\$ (346)	\$ (346)	\$ 18,325	
NOT IN THE BUDGET OF THE U.S. GOVERNMENT						
Expired Funds	(361)	–	–	–	–	
Other	(2)	–	–	–	(2)	
NOT IN THE COMBINED STATEMENT OF BUDGETARY RESOURCES						
Refundable Tax Credits, Interest Refunds to Taxpayers, and Other Outlays	237,057	237,056	–	–	211,569	
Informant Payments	88	88	–	–	88	
Budget of the U. S. Government	\$ 305,750	\$ 255,724	\$ (346)	\$ (346)	\$ 229,980	

Refundable Tax Credits, Interest Refunds, Other Outlays and Informant Payments total \$237,145 million in appropriations. These appropriations are reported in the Federal Tax Refund and Outlay Activities on the Statement of Custodial Activity and are not reported as budgetary resources on the Statement of Budgetary Resources.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

(In Millions)	2025
Unobligated Balance, Brought Forward from Prior Year	\$ 50,388
Adjustments to Unobligated Balance Brought Forward:	
Recoveries of Prior Year Unpaid Obligations	301
Recoveries of Prior Year Paid Obligations	53
Cancelled Authority	(91)
Capital Transfers of Unobligated Balances to the General Fund	(19)
Unobligated Balance from Prior Year Budget Authority, Net	\$ 50,632

Net Adjustments to the Unobligated Balance, Brought Forward, October 1 primarily includes current year activity related to downward adjustments of prior year undelivered and delivered orders, and cancelled authority.

Note 16. Collections of Federal Tax Revenue

The IRS collects tax revenues on behalf of the General Fund of the U.S. Government. Substantially all tax revenue collections are transferred to the General Fund of the U.S. Government, except tax revenue retained by the IRS pertaining to Private Debt Collection or transferred to the Department of the Interior. The Private Debt Collection earnings are further discussed in [Note 12. Funds from Dedicated Collections](#). The IRS transfers revenues to the Department of the Interior for excise taxes collected for the Federal Aid in Wildlife Restoration Act. Similar detailed information for the prior years can be found at www.irs.gov/about-irs/irs-financial-reports.

(In Millions)	Tax Year				Fiscal Year	
	2025	2024	2023	Prior Years	2025***	
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act, and Other	\$ 2,942,242*	\$ 1,648,518	\$ 59,497	\$ 39,363	\$ 4,689,620	
Corporate Income	242,808**	170,629	5,916	67,031	486,384	
Excise	60,254	29,492	291	575	90,612	
Estate and Gift	3,287	22,740	2,015	3,069	31,111	
Railroad Retirement	5,564	1,687	1	6	7,258	
Federal Unemployment	5,072	3,483	26	196	8,777	
Collections of Federal Tax Revenue	\$ 3,259,227	\$ 1,876,549	\$ 67,746	\$ 110,240	\$ 5,313,762	

*Includes other collections of \$835 million.

**Includes Tax Year 2026 corporate income tax receipts of \$10,637 million.

***FY 2025 totals represent the sum of collections for Tax Years 2025–2023 and any prior years.

Note 17. Federal Tax Refund and Outlay Activities

Federal tax refunds and outlays activities include overpayments from taxpayers, payments for the various refundable credits, and other payments for the Basic Health Program and the State Innovation Waiver Program under the Patient Protection and Affordable Care Act of 2010. Similar detailed information for the prior years can be found at www.irs.gov/about-irs/irs-financial-reports.

(In Millions)	Tax Year				Fiscal Year
	2025	2024	2023	Prior Years	2025*
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act, and Other	\$ 152,305	\$ 308,129	\$ 46,418	\$ 88,439	\$ 595,291
Corporate Income	1,843	6,895	14,101	13,691	36,530
Excise	778	3,138	275	797	4,988
Estate and Gift	–	435	596	770	1,801
Railroad Retirement	–	23	(1)	4	26
Federal Unemployment	–	82	11	56	149
Federal Tax Refunds and Outlay Activities	\$ 154,926	\$ 318,702	\$ 61,400	\$ 103,757	\$ 638,785

*FY 2025 totals represent the sum of refunds and outlay activities for Tax Years 2025–2023 and any prior years.

Note 18. Fiduciary Activities

The IRS has four fiduciary funds not reported on the Balance Sheet:

- Internal Revenue Collections for Northern Mariana Islands
- Coverover Withholdings – Guam
- Coverover Withholdings – American Samoa
- Coverover Withholdings – U.S. Virgin Islands

(In Millions)	2025	2024
Fiduciary Net Assets, Beginning of Year	\$ 59	\$ 47
Contributions	907	847
Disbursements to and on Behalf of Beneficiaries	(916)	(835)
Increase in Fiduciary Net Assets	(9)	12
Fiduciary Net Assets, End of Year	\$ 50	\$ 59

Rounding adjustments were made to the FY 2024 amounts.

In Coverover Withholdings – U.S. Virgin Islands, the Fiduciary Net Assets, End of Year balances are pending a tax matter resolution.

Internal Revenue Code Section 7654 governs the tax coordination between the governments of the U.S. and the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam, and American Samoa.

The collections of federal income taxes withheld from U.S. military and federal employees working in these U.S. territories are maintained in fiduciary funds of the IRS. The disbursements of these collections to these U.S. territory governments represent the transfer of the individual tax liability for a taxable year (refer to [Note 1.S. Fiduciary Activities](#)).

Note 19. Budget and Accrual Reconciliation

The Net Cost of Operations is presented on an accrual basis and must be reconciled to the net outlays presented on the budgetary basis during the reporting period. The accrual basis of accounting reports the net cost of resources used and includes information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports the outlays of financial resources to acquire or provide goods and services.

The IRS transactions are recorded in budgetary and proprietary accounts, and because different accounting guidelines are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. This reconciliation serves to identify costs paid for in the past and those to be paid in the future, and to ensure integrity between budgetary and financial accounting.

		2025		
(In Millions)		Intragovernmental	Other than Intragovernmental	Total
Net Cost of Operations	\$ 8,429	\$ 12,762	\$ 21,191	
COMPONENTS OF NET COST NOT PART OF NET OUTLAYS				
Property and Equipment Depreciation	–	(263)	(263)	
Property and Equipment Disposal and Reevaluation	–	(57)	(57)	
Lessee Lease Amortization	–	(1)	(1)	
Private Collection Agent Program Revenue Not in Actual Offsetting Collections	77	–	77	
Other	–	24	24	
INCREASE/(DECREASE) IN ASSETS				
Accounts Receivable, Net	(4)	1	(3)	
Advances, Prepayments and Inventory	5	–	5	
(INCREASE)/DECREASE IN LIABILITIES				
Accounts Payable	–	(11)	(11)	
Federal Employee Salary, Leave, and Benefits Payable	–	137	137	
Post-Employment Benefits Payable	–	(143)	(143)	
Other Liabilities	(47)	80	33	
OTHER FINANCING SOURCES				
Imputed Costs	(3,062)	–	(3,062)	
Total Components of Net Cost Not Part of Net Outlays	(3,031)	(233)	(3,264)	
COMPONENTS OF NET OUTLAYS NOT PART OF NET COST				
Acquisition of Capital Assets	–	144	144	
Applied Overhead and Cost Capitalization Offset	–	771	771	
BUDGETARY AND OTHER FINANCING SOURCES				
Transfers Out/(In) Without Reimbursement	(40)	–	(40)	
Total Components of Net Outlays Not Part of Net Cost	(40)	915	875	
Net Outlays	\$ 5,358	\$ 13,444	\$ 18,802	

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited, See Accompanying Auditor's Report

The Combining Statement of Budgetary Resources major budget account funding provides resources for the Statement of Net Cost major programs:

- Service to the Taxpayer
- Enforcement of Tax Legislation
- Transformation of Business Systems

The major programs receive funding from multiple budget accounts to include primary budget accounts, Private Debt Collections, User Fees, Energy Security, and Direct E-File as shown below.

Major Budget Accounts	Major Programs		
	Service to Taxpayer	Enforcement of Tax Legislation	Transformation of Business Systems
Taxpayer Service	X		
Enforcement		X	
Business Systems Modernization			X
Operations Support	X	X	X
Other			
Private Debt Collection		X	
IRS Miscellaneous Retained Fees (User Fees)	X	X	
Energy Security	X		
Direct E-File	X		

Combining Statement of Budgetary Resources by Major Budget Account

(In Millions)							2025
	Taxpayer Services	Enforcement	Business Modernization	Operations Support	Other	Total	
BUDGETARY RESOURCES							
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary & Mandatory)	\$ 2,062	\$ 22,728	\$ 2,752	\$ 21,968	\$ 1,122	\$ 50,632	
Appropriations (Discretionary & Mandatory)	3,222	(15,069)	–	3,846	609	(7,392)	
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	23	61	–	53	1	138	
Total Budgetary Resources	\$ 5,307	\$ 7,720	\$ 2,752	\$ 25,867	\$ 1,732	\$ 43,378	
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments (Total)	\$ 4,447	\$ 7,207	\$ 840	\$ 6,643	\$ 281	\$ 19,418	
Unobligated Balance, End of Year							
Apportioned, Unexpired Accounts	807	388	1,872	18,949	1,340	23,356	
Exempt from Apportionment, Unexpired Accounts	–	–	–	–	7	7	
Unapportioned, Unexpired Accounts	5	13	31	73	100	222	
Unexpired Unobligated Balance, End of Year	812	401	1,903	19,022	1,447	23,585	
Expired Unobligated Balance, End of Year	48	112	9	202	4	375	
Unobligated Balance, End of Year (Total)	860	513	1,912	19,224	1,451	23,960	
Total Budgetary Resources	\$ 5,307	\$ 7,720	\$ 2,752	\$ 25,867	\$ 1,732	\$ 43,378	
OUTLAYS, NET							
Outlays, Net (Total) (Discretionary & Mandatory)	\$ 4,385	\$ 7,009	\$ 6,453	\$ 1,048	\$ 269	\$ 19,164	
Distributed Offsetting Receipts	–	–	–	–	(362)	(362)	
Outlays, Net (Discretionary & Mandatory)	\$ 4,385	\$ 7,009	\$ 6,453	\$ 1,048	\$ (93)	\$ 18,802	

Other Claims for Refunds

The IRS estimates amounts (principal and interest) that may be paid as claims for tax refunds pending judicial review by the federal courts or internally by the Independent Office of Appeals. In FY 2025, the total estimated payout for claims pending judicial review by the federal courts is \$1,963 million and by the Independent Office of Appeals is \$4,326 million. To the extent judgments against the U.S. government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

Federal Taxes Receivable, Net

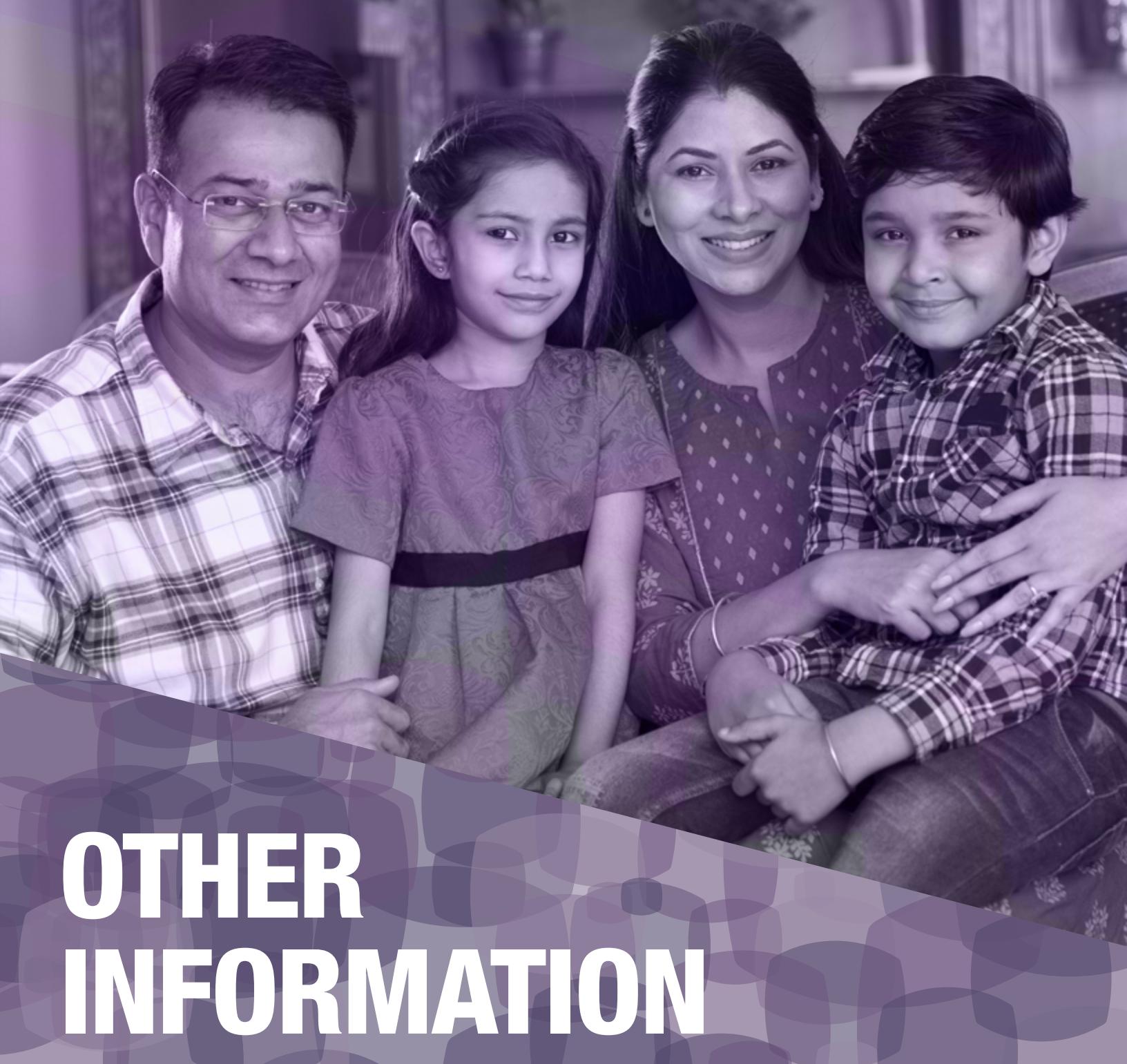
In accordance with the SFFAS 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, some unpaid assessments do not meet the criteria for financial statement recognition as discussed in [**Note 1.G. Federal Taxes Receivable, Net**](#) and [**Note 1.K. Due to the General Fund of the U.S. Government**](#).

Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the IRS acting on behalf of the U.S. government. There is, however, a significant difference in the collection potential of these categories. During FY 2025, compliance assessments decreased 4.42%, or \$3,988 million.

The components of the total unpaid assessments and derivation of Federal Taxes Receivable, Net were as follows:

(In Millions)	2025
Total Unpaid Assessments	\$ 540,318
Compliance Assessments	(86,142)
Write-Offs	(92,836)
Gross Federal Taxes Receivable	361,340
Allowance for Uncollectible Taxes Receivable	(269,925)
Federal Taxes Receivable, Net	\$ 91,415

Total unpaid assessments include \$28,177 million of nondelinquent taxes receivable in Internal Revenue Code Section 965(h) tax, which \$26,470 million is collectible based on the type of taxpayer and the financial health of large dollar businesses. The nondelinquent Internal Revenue Code Section 965(h) component refers to taxpayers who elected to pay their tax on an eight-year installment schedule. The IRS cannot reasonably provide amounts for pre-assessment work in process. The IRS cannot reasonably estimate the allowance for uncollectible amounts pertaining to the value of pre-assessment work in process. In accordance with federal accounting standards, the IRS does not include the compliance assessments amount in taxes receivable.



OTHER INFORMATION

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SECTION A: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following table summarizes the results of the IRS's FY 2025 financial statement audit, in addition to assurances regarding conformance with the Federal Managers' Financial Integrity Act of 1982 and compliance with the Federal Financial Management Improvement Act of 1996.

Table 1: Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 2: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (Federal Managers' Financial Integrity Act of 1982 Section 2)

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Effectiveness of Internal Control Over Operations

(Federal Managers' Financial Integrity Act of 1982 Section 2)

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Conformance with Federal Financial Management System Requirements

(Federal Managers' Financial Integrity Act of 1982 Section 4)

Statement of Assurance: Federal systems conform, except for instances of non-conformance, to financial management system requirements.

Non-Conformances	Beginning Balance	New	Resolved	Reassessed	Ending Balance
Unpaid Assessments¹	1	0	0	0	1
Total Non-Conformances	1	0	0	0	1

¹Refer to Independent Auditor's Report in the Financial Information section of this report.

Compliance with Federal Financial Management Improvement Act of 1996

Section 803(a)

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of Substantial Compliance Noted	Lack of Substantial Compliance Noted
2. Applicable Federal Accounting Standards	No Lack of Substantial Compliance Noted	No Lack of Substantial Compliance Noted
3. U.S. Standard General Ledger at Transaction Level	No Lack of Substantial Compliance Noted	No Lack of Substantial Compliance Noted

Federal Managers' Financial Integrity Act of 1982 and Federal Financial Management Improvement Act of 1996 Requirements

The Federal Managers' Financial Integrity Act of 1982 requires agencies to establish and maintain internal control to ensure that federal programs operate efficiently, effectively, and in compliance with laws and regulations. In support of the Treasury Secretary's Assurance Statement, the Chief Executive Officer must evaluate and report annually on (a) whether there is reasonable assurance that the IRS's controls are achieving their intended objectives and (b) material weaknesses in the IRS's controls (Federal Managers' Financial Integrity Act of 1982 Section 2). Additionally, the Chief Executive Officer must evaluate and report separately on whether the IRS's financial management systems comply with government-wide requirements (Federal Managers' Financial Integrity Act of 1982 Section 4). The Federal Managers' Financial Integrity Act of 1982 requires agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements. The requirements of the Federal Managers' Financial Integrity Act of 1982 serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal controls over operations, reporting, and compliance with laws and regulations.

As of September 30, 2025, the IRS had no material weaknesses under Section 2 or Section 4 of the Federal Managers' Financial Integrity Act of 1982. However, the IRS has one non-conformance with the federal financial management systems requirements of Section 4 of the Federal Managers' Financial Integrity Act of 1982. This non-conformance also constitutes a lack of substantial compliance with the federal financial management system requirements – as reported above – under Federal Financial Management Improvement Act of 1996 Section 803(a). The IRS is actively working on resolving this non-conformance, and additional information can be found in the [Management's Discussion and Analysis – Analysis of Systems, Controls, and Legal Compliance](#), and the [Financial Information – Independent Auditor's Report](#).

SECTION B: TAX BURDEN, TAX GAP, AND TAX EXPENDITURES

Tax Burden

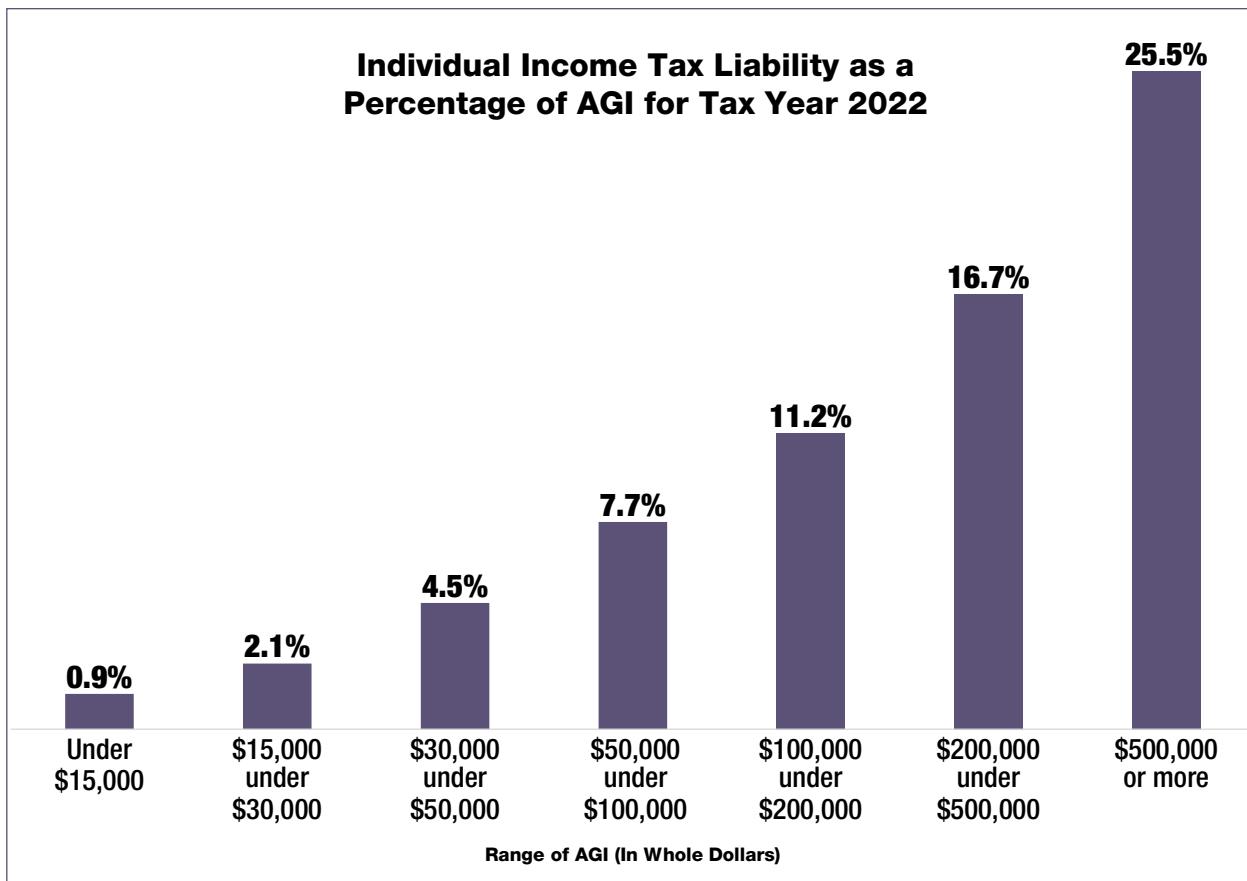
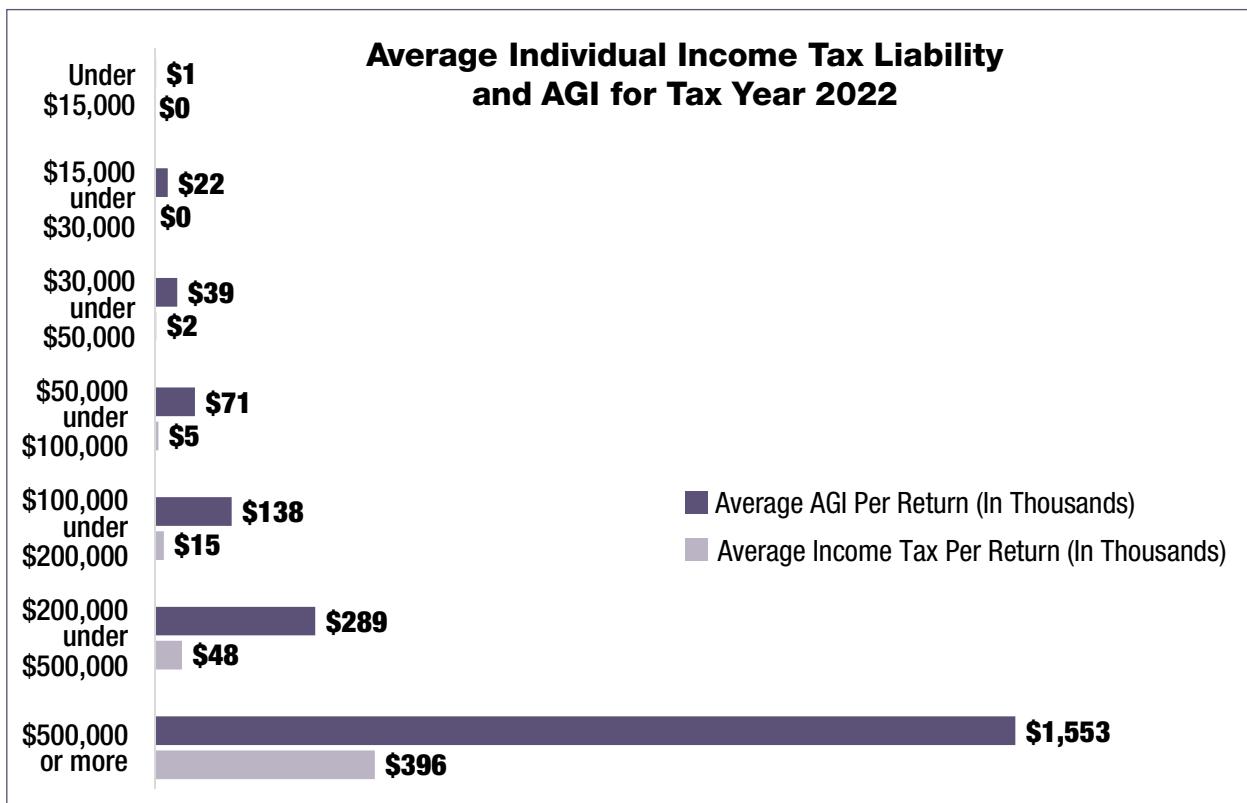
The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher tax rates. The following pages present, in both graph and table format, various income levels and tax liability levels reported by individuals and corporations. That is, these amounts do not account for tax burdens that taxpayers do not report on their returns. This information is the most recent available for individuals (Tax Year 2022) and corporations (Tax Year 2021). For individuals, the information illustrates, in both percentage and dollar terms, the tax burden that taxpayers bear by varying levels of adjusted gross income (AGI). The corporate information illustrates, for varying corporate asset categories, the tax burden borne by these entities as a percentage of taxable income. The following graphs and charts are representative of more detailed data and analyses available from the IRS Statistics of Income Office.

The IRS Statistics of Income Office compiled statistics on stratified probability samples of income tax returns or other forms filed with the IRS. As returns are filed and processed for tax purposes, they are assigned to sampling classes (strata) based on such criteria as industry, presence or absence of a tax form or schedule, and various income factors or other measures of economic size (such as total assets, total receipts, size of gift, and size of estate). The samples are selected from each stratum over the appropriate filing periods.

The table below presents individual income tax liability by levels of AGI. All figures below are estimates and based on sampling provided by the IRS Statistics of Income Office. All negative AGI under \$15,000 are treated as zero-dollar amounts.

Individual Income Tax Liability for Tax Year 2022

AGI	Number of Taxable Returns (In Thousands)	AGI (In Millions)	Total Income Tax (In Millions)	Average AGI Per Return (In Whole Dollars)	Average Income Tax Per Return (In Whole Dollars)	Income Tax as a Percentage of AGI	
						Average AGI Per Return (In Whole Dollars)	Average Income Tax Per Return (In Whole Dollars)
Under \$15,000	29,840	\$ 41,952	\$ 377	\$ 1,406	\$ 13	0.9%	
\$15,000 under \$30,000	25,099	558,008	11,917	22,232	475	2.1%	
\$30,000 under \$50,000	29,027	1,144,446	51,632	39,427	1,779	4.5%	
\$50,000 under \$100,000	38,987	2,782,106	213,183	71,360	5,468	7.7%	
\$100,000 under \$200,000	25,887	3,567,048	397,758	137,793	15,365	11.2%	
\$200,000 under \$500,000	10,018	2,891,065	483,057	288,587	48,219	16.7%	
\$500,000 or more	2,479	3,849,333	981,999	1,552,777	396,127	25.5%	
Totals	161,337	\$14,833,958	\$2,139,923				

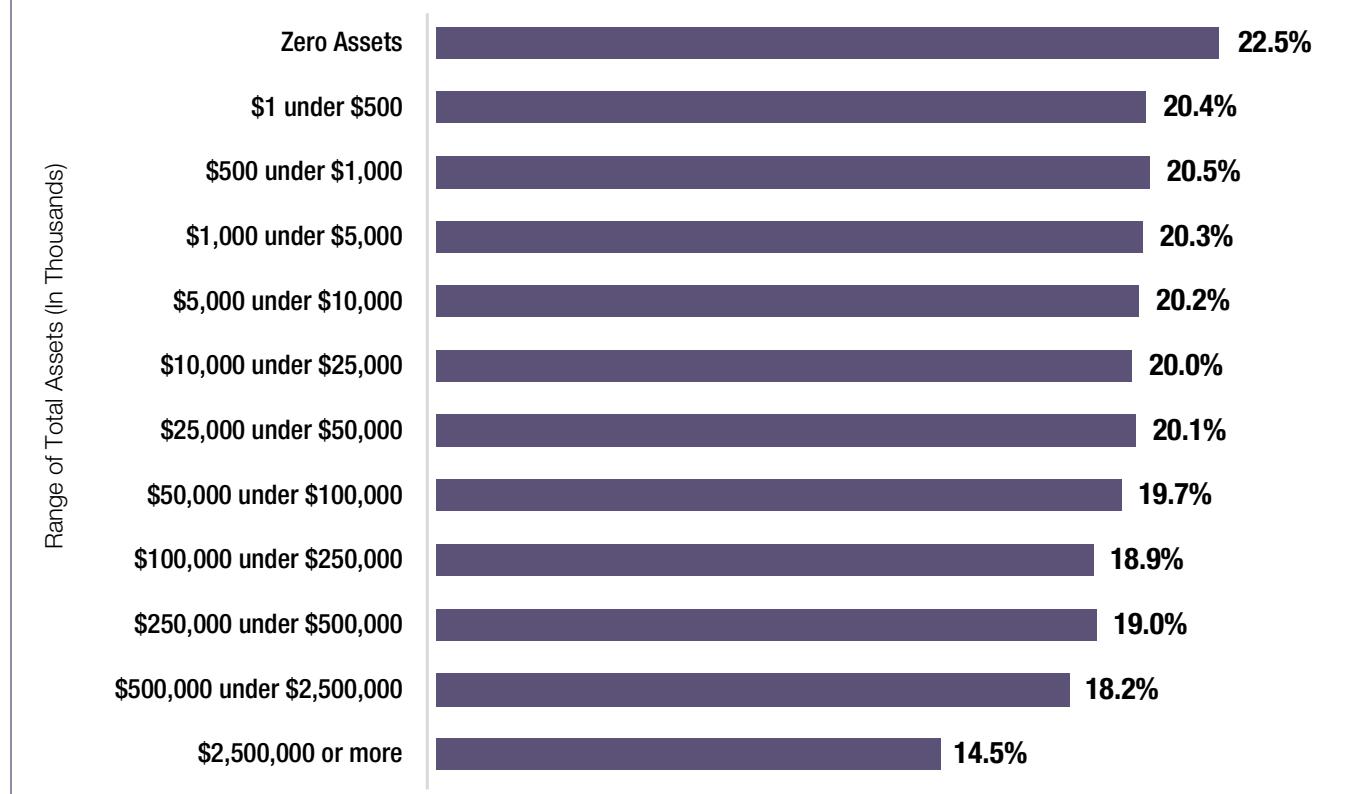


The table below presents corporation income tax liability by total assets. All figures below are estimates and based on sampling provided by the IRS Statistics of Income Office.

Corporate Income Tax Liability for Tax Year 2021

Total Assets (In Thousands)	Income Subject To Tax (In Millions)	Total Income Tax After Credits (In Millions)	Percentage Of Income Tax After Credits To Taxable Income
Zero Assets	\$ 36,888	\$ 8,286	22.5%
\$1 under \$500	8,903	1,814	20.4%
\$500 under \$1,000	6,161	1,264	20.5%
\$1,000 under \$5,000	25,182	5,120	20.3%
\$5,000 under \$10,000	16,461	3,333	20.2%
\$10,000 under \$25,000	27,838	5,577	20.0%
\$25,000 under \$50,000	24,753	4,973	20.1%
\$50,000 under \$100,000	27,941	5,497	19.7%
\$100,000 under \$250,000	43,788	8,280	18.9%
\$250,000 under \$500,000	40,240	7,633	19.0%
\$500,000 under \$2,500,000	176,908	32,255	18.2%
\$2,500,000 or more	1,986,987	287,371	14.5%
Totals	\$ 2,422,050	\$ 371,403	

Corporate Tax Liability as a Percentage of Taxable Income for Tax Year 2021



Tax Gap

The gross tax gap is the amount of true tax liability for a given tax year not paid voluntarily and/or timely. The IRS's tax gap projections for Tax Year 2022 show a projected gross tax gap of \$696 billion. The Tax Year 2022 projected gross tax gap is \$12 billion lower than the revised Tax Year 2021 projection of \$708 billion.

The IRS develops tax gap estimates on a periodic basis. A particular challenge for tax gap estimation is the time it takes to collect certain compliance data, especially data on underreporting that come from completed audits. This results in a timing difference between when the compliance behavior occurred and the development of tax gap estimates. To address this issue, the IRS produces annual tax gap projections to provide more current tax gap information. In October 2024, the IRS issued tax gap projections for Tax Year 2022 and revised projections for Tax Years 2020 and 2021. Reports on the [tax gap](http://www.irs.gov/statistics/irs-the-tax-gap) (www.irs.gov/statistics/irs-the-tax-gap) are published on the IRS website by the Research, Applied Analytics and Statistics Division.

There are three primary sources of noncompliance:

4. Nonfiling tax gap (the tax not paid on time by those who do not file required returns on time).
5. Underreporting tax gap (the net understatement of tax on timely filed returns).
6. Underpayment tax gap (the amount of tax reported on timely filed returns not paid on time).

The projected gross tax gap of each of these components is \$63 billion for nonfiling, \$539 billion for underreporting, and \$94 billion for underpayments (detail may not add to the total due to rounding). The gross tax gap can be grouped by type of tax, as follows:

- \$514 billion for individual income tax.
- \$50 billion for corporation income tax.
- \$127 billion for employment tax.
- \$5 billion for estate tax.

The net tax gap is the gross tax gap less tax subsequently paid either voluntarily paid late or collected through IRS administrative and enforcement activities. As a result, the net tax gap is the portion of the gross tax gap that will not be paid. The portion of gross tax gap that is projected to be eventually collected is \$90 billion, resulting in a net tax gap of \$606 billion. The projection by type of tax is:

- \$68 billion for individual income tax.
- \$10 billion for corporation income tax.
- \$8 billion for employment tax.
- \$4 billion for estate tax.

Tax Expenditures

The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344) defines tax expenditures as “revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability.” Tax expenditures are the foregone federal revenue resulting from deductions and credits provided in the Internal Revenue Code. Since tax expenditures directly affect funds available for government operations, decisions to forego federal revenue are as important as decisions to spend federal revenue.

While the term *revenue losses* is used in the statutory definition, tax expenditures have traditionally been measured as reductions in federal tax revenues relative to normal baseline provisions of an individual and corporate income tax system, which were properly approved and authorized by Congress to accomplish identified policy objectives, recognizing that federal tax revenues would be reduced.

In accordance with SFFAS 52: Tax Expenditures, narrative disclosures, and information regarding tax expenditures are reported in the Consolidated Financial Report of the U.S. government. Such disclosures do not apply to the financial statements of component reporting entities such as the IRS. Tax expenditures also do not affect the reporting in the Budget of the U.S. government or any other special purpose report.

SECTION C: MANAGEMENT AND PERFORMANCE CHALLENGES

Treasury Inspector General of Tax Administration (TIGTA) Identified Management and Performance Challenges Facing the IRS for FY 2026

This section contains management and performance challenges identified by TIGTA, as required by the Reports Consolidation Act of 2000, and the IRS's response.



DEPARTMENT OF THE TREASURY
INSPECTOR GENERAL FOR TAX ADMINISTRATION
WASHINGTON, D.C. 20024

October 15, 2025

MEMORANDUM FOR SECRETARY BESSENT

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

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

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

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

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

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

MANAGING A REDUCED WORKFORCE AND BUDGET

What's the challenge?

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

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

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

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

What progress has the IRS made?

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

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

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

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

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

What key recommendations have been implemented?

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

What ongoing work does TIGTA have to address the challenge?

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

We planned 12 reviews to address this challenge.

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

IMPROVING OPERATIONAL EFFICIENCIES

What's the challenge?

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

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

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

What progress has the IRS made?

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

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

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

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

What key recommendations have been implemented?

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

What ongoing work does TIGTA have to address the challenge?

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

We planned 12 reviews to address this challenge.

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

PROTECTING TAXPAYER DATA

What's the challenge?

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

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

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

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

What progress has the IRS made?

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

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

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

What key recommendations have been implemented?

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

What ongoing work does TIGTA have to address the challenge?

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

We planned 15 reviews to address this challenge.

IMPLEMENTING TAX LAW CHANGES

What's the challenge?

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

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

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

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

What progress has the IRS made?

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

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

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

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

What key recommendations have been implemented?

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

What ongoing work does TIGTA have to address the challenge?

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

We planned five reviews to address this challenge.

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

IMPROVING TAXPAYER SERVICE AND PROTECTING TAXPAYERS' RIGHTS

What's the challenge?

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

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

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

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

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

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



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

What progress has the IRS made?

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

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

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

What key recommendations have been implemented

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

What ongoing work does TIGTA have to address the challenge?

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

We planned 28 reviews to address this challenge.

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

MODERNIZING INFORMATION TECHNOLOGY

What's the challenge?

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

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

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

What progress has the IRS made?

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

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

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

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

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

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

What key recommendations have been implemented?

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

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

What ongoing work does TIGTA have to address the challenge?

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

We planned seven reviews to address this challenge.

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

ENSURING TAX COMPLIANCE

What's the challenge?

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

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

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

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



What's an improper payment?

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



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

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

What progress has the IRS made?

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

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

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

What key recommendations have been implemented?

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

What ongoing work does TIGTA have to address the challenge?

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

We planned 17 reviews to address this challenge.

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

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

Conclusion

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

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

Appendix: Significant TIGTA Reports Referenced

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IRS Response to TIGTA Identified Management and Performance Challenges Facing the IRS for FY 2026

The IRS appreciates TIGTA's identified management and performance challenges, to improve taxpayer services, strengthen its compliance efforts, protect taxpayer information, and improve its operations. In FY 2025, the IRS made steady progress in each of these areas despite having fewer resources and a reduced workforce. The IRS is committed to building on these accomplishments to be more modern, efficient, and responsive. The following are the IRS's responses.

CHALLENGE 1 – Managing a Reduced Workforce and Budget

The IRS must eliminate wasteful spending and build an operational foundation that delivers its core mission with maximum efficiency. Between the start of the 2025 filing season and May, the IRS workforce decreased by approximately 25 percent. Staffing and budget reductions have affected many of the IRS's processes and responsibilities, from processing returns to protecting taxpayer data. Despite these challenges, the IRS will accomplish its objectives and fulfill the nation's core tax administration responsibilities while maintaining high standards for service and compliance.

In FY 2025, the IRS developed a robust workforce planning process. This process identifies essential positions on a recurring basis, ensuring resources are allocated to roles that are critical for statutory compliance, taxpayer assistance, and enforcement activities. To ensure that mission-critical roles are maintained, the IRS implemented exceptions to its hiring freeze, focusing its efforts on recruitment of positions that directly support statutory obligations, taxpayer services, and enforcement. These exceptions enabled the IRS to hire additional staff in high-priority areas, such as customer service, to support taxpayers during the 2026 Filing Season.

Even with a reduced workforce, the IRS has made measurable progress in processing tax return inventories and reducing backlogs. Between May and September 2025, the IRS processed approximately 303,000 individual amended returns, reducing the inventory to just over 63,000. This represents a decrease from the mid-May inventory of 366,000 and is substantially lower than the 120,000 cases pending at the same time last year.

Automation has played a key role in reducing backlogs. The 1040X Automation Project went live in July 2025, with 13 approved use cases covering non-complex Tax Years 2023 and 2024 amended returns. These automations handle changes to wages and withholding, retirement income, self-employment income and taxes, farm income, interest and dividends, capital gains and losses, and supplemental income, such as rental property, royalties, partnerships, S corporations, estates, and trusts. The initial automations address approximately 42 percent of total use cases and, as of September 30, 2025, achieved an accuracy rate of 92.6 percent. Programming updates continue weekly, and additional use-case expansions are underway.

Resource limitations in other areas continue to create operational challenges. The Criminal Investigation Division has reduced capacity to assist other federal agencies, which impacts interagency support for investigations and compliance initiatives. To address this issue, the IRS plans to onboard an approximately 100 additional Special Agents, as part of a broader initiative to strengthen the IRS's investigative capacity. Despite limitations, the IRS prioritizes cases that protect government revenue and enforce the tax code effectively.

CHALLENGE 2 – Improving Operational Efficiencies

The IRS continues to look for ways to simplify processes, reduce paperwork, and use technology to better serve taxpayers. Executive Order 14247, Modernizing Payments To and From America's Bank Account, directs federal agencies to prioritize electronic payments and deposits to and from bank accounts, accelerating efforts the IRS had already begun implementing. The IRS progressed on several initiatives to automate manual processes, expand digital tools, and ensure that payment and refund processes are accurate, timely, secure, and accessible.

In FY 2025, the IRS added new capabilities to IRS Online Account, through which taxpayers can view their tax balance, make payments electronically, and monitor refunds. The platform now supports multiple saved bank accounts, digital wallets, and debit/credit card payments. Taxpayers may also make same-day payments, schedule recurring payments, and establish or modify payment plans without relying on traditional paper forms. As the IRS continues to centralize data systems and enhance digital capabilities, the Online Account will remain a key feature in reducing reliance on paper-based processes.

Additionally, the IRS conducted outreach through press releases, updates on IRS.gov, and coordination with software providers to encourage taxpayers to use direct deposit. Currently, over 90 percent of individual tax refunds are issued electronically. Businesses represent the largest opportunity for growth in electronic refunds, as only four percent of business refunds are electronic. To expand electronic deposits for businesses, the IRS updated tax forms to include fields for direct deposit information, making it easier for businesses to receive refunds directly into their accounts.

The IRS continued to use text-based chatbot and voice-bot self-service tools in collections to improve taxpayer access and move away from traditional phone interactions. These bots address common inquiries, such as questions about payment plans or checking account balances and are available in multiple languages. In FY 2025, the IRS focused on resolving a substantial number of taxpayer issues through bots without escalation to live assistors. The IRS is committed to identifying ways that these services can be more efficient and useful to taxpayers, by adding new topics, using surveys to gather feedback, and enhancing its self-service options.

In FY 2025, the IRS used artificial intelligence to enhance the speed, accuracy, and efficiency of its operations. To support this effort, the IRS launched several pilot projects to speed up case review by automatically comparing addresses, reading attachments for amended returns, and helping identify which cases need manual review. The IRS also tested artificial intelligence tools that can help draft standard taxpayer letters, allowing IRS personnel to focus on complex collection cases. To ensure that artificial intelligence is used responsibly, the IRS adopted an interim artificial intelligence governance policy that sets rules for protecting taxpayer rights, privacy, and data security.

Many of the operational changes will be in effect for the 2026 filing season, including new and updated forms, expanded options for direct deposit to checking and savings accounts, and verified digital payment accounts. While systems and processes are updated, the IRS will continue to accept paper checks and maintain lockbox operations until January 2027.

By combining expanded electronic payment options, digital submissions, targeted outreach, and modernization of paper-based processes, the IRS has strengthened its taxpayer services. These initiatives lay the groundwork for a more streamlined, digital-first tax administration process while preparing the IRS for continued progress in future filing seasons.

CHALLENGE 3 – Protecting Taxpayer Data

Safeguarding taxpayer data remains one of the IRS's most critical responsibilities. Each year, the IRS processes millions of returns, generating vast amounts of sensitive information, and protecting this data from unauthorized access or misuse is essential to maintaining taxpayer trust. Retiring older systems that tracked taxpayer data and incidents of potential exposure has allowed the IRS to consolidate monitoring tools, improve detection of unauthorized access, and prevent data loss more effectively. The transition to modernized platforms enhances both the security and reliability of taxpayer information while reducing the complexity of legacy systems.

In FY 2025, the IRS strengthened its procedures to ensure that former employees do not retain access to sensitive systems. The IRS improved its processes to remove user accounts and track IRS-issued resources such as computers, badges, and devices. These measures prevent the possibility of unauthorized access and help maintain the integrity of sensitive data. The IRS also strengthened identity controls, endpoint monitoring, and behavior-based access oversight across the workforce. These tools enable rapid identification of non-compliant or unknown devices and the IRS to isolate potential threats while supporting the secure recovery of government equipment.

The IRS also continued to refine interagency data sharing processes. The IRS routed all information through the Enterprise Data Platform to reduce duplication and provide partner agencies with a single, authoritative source of information. Before transmitting Federal Tax Information to any other federal agencies, the IRS evaluates requests to confirm authority under the Internal Revenue Code and determines which data elements can be shared and implements the required data security measures. Agencies are periodically reviewed to ensure they adhere to safeguards for confidential taxpayer information. In FY 2025, the IRS Office of Safeguards conducted 84 reviews of approximately one-third of these agencies, providing feedback to 240 agencies based on 357 corrective action submissions.

In FY 2025, the IRS expanded multi-factor authentication across its workforce and strengthened access controls, to reduce the risk of unauthorized access. Instead of allowing all systems or users inside the organization to communicate freely, the IRS limited access to sensitive data and quickly flagged unusual activity. The IRS will continue to make progress on implementing its Zero Trust protocols by continuously verifying every user and the multiple connections to reduce the risk of security breaches by both external and internal threats. The IRS plans to continue these efforts, including the launch of an Unauthorized Access Awareness Day and additional system updates.

The IRS also strengthened audit trail and system monitoring capabilities for the Compliance Data Warehouse. Using Splunk Enterprise as a central audit platform, sign-ins and access events are tracked consistently and accurately, with machine-learning dashboards flagging anomalous behavior such as credential misuse or password-spray attempts. Authorized personnel can generate reports to ensure transparency and accountability. Building on these improvements, the IRS will leverage artificial intelligence and machine learning to automate log collection, normalization, correlation, and analysis, allowing faster detection of anomalies and enabling real-time monitoring across systems.

CHALLENGE 4 – Implementing Tax Law Changes

Each new law that brings changes to the tax code requires the IRS to update systems, forms, guidance, and enforcement approaches. The One Big Beautiful Bill Act, which was signed into law on July 4, 2025, provided pro-growth tax cuts and included provisions affecting both individual and business taxpayers. In FY 2025, the IRS focused on making sure these new provisions are as straightforward as possible so that taxpayers can meet their obligations without delays.

Another important area of focus in FY 2025 has been processing claims for the Paid Sick and Family Leave Credits and the Employee Retention Credit. These pandemic-era credits have been especially challenging; the IRS has faced fraud risks, complex eligibility questions, and a large volume of claims. The One Big Beautiful Bill Act brought changes to the Employee Retention Credit to strengthen compliance and mitigate improper claims, including a cutoff such that no new claims for the third and fourth quarter of 2021 may be allowed or refunded if those claims were filed after January 31, 2024, even if otherwise eligible.

The IRS has also increased examinations of Employee Retention Credit claims. Using advanced data analytics and case selection models, the IRS is better equipped to detect patterns associated with erroneous filings and promote faster resolution of legitimate claims. The One Big Beautiful Act helped to reinforce the IRS's compliance and integrity measures, allowing the IRS to process the credit accurately and timely. The IRS will continue its extensive work to validate all claims, recover improper payments, and balance preventing fraud with paying qualified businesses more efficiently as we transform into a data-driven organization.

These efforts reflect a broader IRS strategy as tax laws change; the IRS must not only build out state-of-the-art systems and processes but also manage risk carefully. The IRS is adapting to the numerous tax law changes while maintaining the integrity, fairness, and efficiency that the public expects in tax administration.

CHALLENGE 5 – Improving Taxpayer Service and Protecting Taxpayer Rights

The IRS is committed to strengthening service delivery while continuing to protect taxpayer rights. Every taxpayer who reaches out to the IRS, whether through a phone call, online, or in person, brings a unique need. Delivering high-quality service and protecting taxpayer rights require the IRS to balance limited resources with growing demand, while continuing to adapt its tools and processes to better serve the public. At the same time, the IRS must also ensure that its actions uphold the fundamental rights taxpayers are entitled to under the law. Protecting taxpayer rights is central to maintaining public trust in tax administration.

In FY 2025, the IRS focused on its front-line capacity so taxpayers could receive timely, accurate assistance without unnecessary barriers. To prepare for the filing season, the IRS ensured that all new hires were fully onboarded and trained before the February peak period. As a result, the IRS exceeded its 85% Filing Season Level of Service target, delivering a Level of Service of 87% through April 19, 2025.

The IRS is scaling up its workforce to maintain strong service levels while preparing for increased demand. The IRS received approval to hire 2,000 seasonal and 1,500 term Customer Service Representatives. The IRS held 10 direct-hire events and plans to onboard approximately 3,500 employees. To ensure these employees are available for taxpayer support during the filing season, the IRS established two training paths for handling inquiries by phone and paper correspondence.

In FY 2025, the IRS strengthened processes to ensure taxpayers receive clear information, timely notice, and meaningful opportunities to exercise their rights. The IRS expanded efforts to reinforce Collection Due Process protections. For example, the IRS published updated guidance for employees conducting account reviews when a levy may have been incorrectly issued. These updates clarified steps for reviewing potentially inaccurate or outdated tax records before initiating levy action. The IRS enhanced systems that check and match taxpayer information automatically, ensuring systemic levies apply only to the correct accounts.

The IRS also enhanced internal safeguards to ensure taxpayers and their authorized representatives receive timely and accurate Collection Due Process notices. This includes reinforcing employee responsibilities related to reviewing accounts, issuing notices, and documenting actions taken. These updates promote adherence to statutory and administrative requirements while ensuring taxpayers understand their rights and how to exercise them.

In FY 2025, the IRS improved protections surrounding taxpayer information during telephone interactions. The IRS clarified and updated Internal Revenue Manual instructions related to verifying the identity of callers before disclosing sensitive information. These improvements help ensure frontline employees consistently apply authentication requirements, reducing the risk of unauthorized disclosures. To support this effort, the IRS is developing additional resources and job aids.

CHALLENGE 6 – Modernizing Information Technology

Modernizing information technology is one of the IRS's most complex and high-stakes challenges. The IRS maintains some of the oldest systems in government, and it is introducing new platforms that can deliver faster service, protect sensitive data, and support evolving tax laws. While the IRS has made strides in updating core systems and processes, it must advance efforts that ensure that it can administer the nation's tax laws efficiently, effectively and securely well into the future.

In FY 2025, the IRS made progress in retiring outdated legacy systems and consolidating disjointed systems. The IRS considered multiple factors in determining which systems should be retired, including a revised definition of “legacy system,” shifting from age and technology-based criteria to business value criteria. This ensures that modernization resources were directed to systems posing the greatest risk of delays. These efforts will be closely aligned with the IRS's ongoing work on the Enterprise Data Platform, which is an official, trusted digital platform that ensures real-time updates across systems.

Further, IRS also modernized taxpayer account processing, a foundational requirement for the nation's tax system. In July 2025, the IRS completed a major milestone by moving approximately 90% of the Individual Master File's posting, settlement, and analysis logic from assembler code to modern Java. This transition greatly improved functionality without burdening taxpayers. The IRS also focused on retiring aging systems that support critical tax processing programs containing more than 15 million lines of Common Business Oriented Language code.

The IRS initiated a Technical Road mapping Initiative to guide the modernization and strategic direction of the information technology infrastructure and systems. In April 2025, the IRS and Treasury held a kickoff meeting, which was organized around four key priorities: establishing an interface to enable consistent and secure access to core systems and data across platforms; enabling easier and faster software build, test, and deployment; eliminating paper-based processes and moving toward digital workflows; and updating vendor contracts to save money and ensure contractors are focused on the IRS's priorities.

CHALLENGE 7 – Ensuring Tax Compliance

Fair and consistent tax compliance is the foundation of trust in the tax system. The IRS is committed to ensuring that all taxpayers meet their obligations, while also keeping pace with an economy that is constantly evolving. The IRS plans to implement new strategies to address noncompliance in both traditional and emerging areas. These efforts are designed to protect the nation's bank account and ensure that taxpayers who meet their responsibilities are not unfairly burdened by those who do not.

A challenge continues to be reducing improper payments associated with refundable tax credits, especially those involving reckless or fraudulent claims. Much of the information needed to validate these credits before refunds are issued is not available in databases, making pre-refund verification difficult. Historically, the IRS expended enforcement resources auditing returns that claim refundable credits, a process that increased delays and administrative costs. To meet this challenge, the IRS shifted toward prevention, expanding outreach, education, and early intervention, rather than relying solely on pre-refund audits.

In FY 2025, the IRS increased its engagement with taxpayers and paid preparers, who assist more than half of all individuals claiming refundable credits. The IRS updated its Interactive Due Diligence Training Module, completed by more than 23,750 preparers, and delivered extensive due diligence education at the annual Nationwide Tax Forum. These efforts strengthen the ability of preparers to identify eligibility issues, apply due diligence requirements, and reduce errors before returns are filed.

The IRS continues to fulfill its responsibilities in the Global High Wealth and International Individual Compliance programs, which are key to addressing noncompliance in this population. In addition, the IRS continues its enforcement work on domestic and foreign businesses with significant assets and U.S. reporting obligations. The IRS is committed to ensuring that all taxpayers meet their tax obligations consistently and fairly.

Field enforcement activities remain an important component of compliance. In FY 2025, the IRS continued targeted sweeps conducted by revenue officers, with a particular focus on high-income non-filers. These sweeps intend to bring taxpayers back into the system, collect assessments already owed, and reinforce that failure to file is not without consequence. This strategy is intended to increase visibility, boost voluntary compliance, and help prevent long-term accumulation of unpaid liabilities.

The IRS continues to confront noncompliance in virtual currency and other digital asset transactions. Criminal Investigation and other enforcement divisions are expanding analytics, strengthening collaborations with law enforcement agencies and private sector partners, and using new tools to identify concealed income, false reporting, and unfiled tax obligations of digital assets. These efforts intend to reduce the growing tax gap associated with rapidly evolving financial technologies.

SECTION D: GRANTS PROGRAMS

The IRS has three grant programs: Volunteer Income Tax Assistance, Low Income Taxpayer Clinics, and Tax Counseling for the Elderly. The summary table below illustrates the total number and balances of federal grants and cooperative agreement awards for which closeout has not occurred and the period of performance has elapsed by more than two years.

(Number of Actual Agreements and Amount in Whole Dollars)

Category	2–3 Years	4–5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	224	1	–
Number of Grants/Cooperative Agreements with Undisbursed Balances	65	–	–
Total Amount of Undisbursed Balances	\$ 1,346,544	\$ –	\$ –

The IRS continues to make the closeout of awards a priority every fiscal year. The IRS did see a decrease in the number of expired grant and cooperative agreements with a period of performance over two years from 500 in FY 2024 to 290 in FY 2025. Grant recipients have not correctly completed and submitted all progress reporting forms and financial forms in the Payment Management System, which continues to be a challenge to the closeout of awards. Other factors include competing priorities, employee turnover, and challenges associated with integrating a new grants management system. The program offices are reviewing closeout procedures and are dedicated to closing out the remaining accounts in FY 2026.

SECTION E: REFUNDABLE TAX CREDITS AND OTHER OUTLAYS

Refundable Tax Credits and Other Outlays

To offer tax relief to certain individuals and businesses, Congress provides assistance in the form of tax credits. The economic benefit for most tax credits is limited to the taxpayer's tax liability; these tax credits are termed non-refundable. In contrast, refundable tax credits are fully payable to the taxpayer, even if the credit exceeds the tax liability. Refundable tax credits provide greater economic benefits because the taxpayer realizes the full amount of the credit, regardless of the underlying tax liability.

The following overview summarizes the refundable tax credits and other outlays programs the IRS administers and pays, describing refundable tax credits in existence for many years and those created more recently by Congress.

Premium Tax Credit

People who purchase health insurance coverage through the Health Insurance Marketplace may be eligible for the Premium Tax Credit. In general, a person is eligible for the refundable tax credit if they:

- Buy health insurance through the Health Insurance Marketplace;
- Are ineligible for coverage through an employer or government plan;
- Are within certain income limits;
- Do not file a Married Filing Separately tax return (unless they meet specific criteria that allow certain victims of domestic abuse to claim the Premium Tax Credit using the Married Filing Separately filing status); and
- Cannot be claimed as a dependent by another person.

Eligible individuals may elect to have some or all their estimated credit paid in advance directly to their insurance company to lower the amount they must pay out-of-pocket for their monthly premiums. Or they may elect to receive all of the credit when they file their tax return. Each person who receives the benefit of a credit advance or who wishes to claim the credit must file an income tax return.

Earned Income Tax Credit

Congress enacted the earned income tax credit under the Tax Reduction Act of 1975. This is a refundable tax credit available to eligible low-to-moderate income working individuals and families to offset the burden of social security taxes and to provide an incentive to work. To qualify, taxpayers must meet certain requirements and file an annual tax return, even if they did not have sufficient income to meet regular tax return filing requirements.



DID YOU KNOW? •

50th Anniversary of the Earned Income Tax Credit

This tax credit was signed into law on March 29, 1975, as part of the Tax Reduction Act of 1975. It has since grown into one of the U.S. government's largest anti-poverty programs, providing financial assistance to millions of low-to-moderate income workers and families.

Additional Child Tax Credit

The child tax credit was enacted in 1997 by the Taxpayer Relief Act of 1997 to help ease the financial burden that families incur when they have children. The additional child tax credit is a refundable portion of the child tax credit and is available for eligible taxpayers subject to additional criteria with respect to wage limits and qualifying children. For Tax Year 2025 the refundable amount is generally calculated as 15% of earned income exceeding \$2,500, up to the maximum of \$1,700 per child.

Sick & Paid Family Leave Credit, Employee Retention Credit, and Consolidated Omnibus Budget Reconciliation Act

The sick and paid family leave credit is part of the Coronavirus Disease 19 (COVID-19) legislation that provided tax relief to employers who paid sick and family leave to their employees during the COVID-19 pandemic. Under the Families First Coronavirus Response Act of 2020, eligible employers are entitled to tax credits for wages paid for certain leave taken by employees related to the COVID-19 pandemic. The Families First Coronavirus Response Act of 2020, as amended, extended tax credits to eligible small and midsize employers that reimburse the cost of providing qualified sick and family leave wages to eligible employees for periods of leave beginning April 1, 2020, through March 31, 2021. The American Rescue Plan Act of 2021 superseded the Families First Coronavirus Response Act of 2020 and provided similar credits for wages paid for periods of leave beginning April 1, 2021, through September 30, 2021. The requirements for the sick and paid family leave credit are different depending on the time period for which an employer claims the credit.

The Coronavirus Aid, Relief, and Economic Security Act of 2020 provides relief for eligible employers that had employees and were affected by the COVID-19 pandemic. The employee retention credit is a refundable tax credit for eligible employers who paid qualified wages to their employees during the COVID-19 pandemic. Under Coronavirus Aid, Relief, and Economic Security Act of 2020, the credit is available to eligible employers that paid qualified wages to employees after March 12, 2020, and before January 1, 2021. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 amended and extended the employee retention credit for the first and second calendar quarters of 2021. The American Rescue Plan of 2021 modified and extended the employee retention credit for the third and fourth quarters of 2021. The Infrastructure Act of 2021 terminated the employee retention credit for wages paid in the fourth quarter of 2021 for employers that are

not recovery startup businesses. The requirements for the employee retention credit are different depending on the time period for which an employer claims the credit.

The Consolidated Omnibus Budget Reconciliation Act of 1986 is a federal law that obligates eligible employers with group health plans to offer eligible employees and their dependents the right to continue coverage under a group plan in certain circumstances where the coverage otherwise would cease. The American Rescue Plan Act of 2021 requires certain employers to offer this coverage for free to certain individuals between April 1, 2021, and September 30, 2021, and provides tax credits to employers to offset the cost of that coverage.

State Innovation Waiver Program

Starting January 1, 2017, states can apply for a waiver under Section 1332 of the Patient Protection and Affordable Care Act of 2010. The waivers enable states to implement innovative ways for providing access to quality health care to their residents. The coverage must be at least as comprehensive and affordable as would be provided absent the waiver. In addition, states must extend coverage to a comparable number of residents as coverage would be provided absent a waiver and must not increase the federal deficit. Pass through funding is the foundation of the waivers, which will grant states the equivalent of the forgone financial assistance they otherwise would receive absent the waiver, such as the Premium Tax Credit (Internal Revenue Code Section 36B) and the Small Business Health Insurance Tax Credit (Internal Revenue Code Section 45R).

Interest on Tax Refunds

The IRS pays interest on refunds sent later than 45 days from the original filing deadline of the federal tax return. Additionally, interest is generally paid on amended returns that result in a refund. Returns that have been examined that show an overpayment also result in the payment of interest. The interest rate on overpayments is adjusted quarterly.

New Clean Vehicle Credit

Internal Revenue Code Section 30D provides a tax credit for eligible individuals. For new qualified clean vehicles purchased from eligible entities after December 31, 2023, an eligible individual may elect to transfer their tax credit to the eligible entity selling qualified clean vehicles. Once an electing taxpayer takes possession of the vehicle, the eligible transferee may claim and receive a refund from the IRS for 100% of the credit allowance in advance of filing their federal tax return. The vehicle transfer election and advanced payment program ended September 30, 2025.

Elective Payment for Energy Property and Electricity Produced

Internal Revenue Code Section 6417 allows applicable entities to elect to receive any of 12 specified energy production or investments credits as a payment to such entity regardless of the entity's tax liability. In general, the applicable entities are treated as making a payment against tax equal to the amount of the applicable energy credit which may result in a payment to the applicable entities.

American Opportunity Tax Credit

The American Opportunity Tax Credit program allows a credit for qualified education expenses paid for eligible students. Eligible taxpayers can claim 100% of the first \$2,000 of qualified education expenses paid for each student and 25% of the next \$2,000 of qualified education expenses paid for that student for a maximum annual credit of \$2,500 per eligible student as a nonrefundable tax credit. If the credit brings the tax liability to zero, then a taxpayer, based on additional eligibility requirements, can apply 40% of any remaining amount of their credit allowance, up to \$1,000, as a refundable tax credit and may receive a refund from the IRS.

Advanced Manufacturing Investment Credit

The Creating Helpful Incentives to Produce Semiconductors Act of 2022 added Internal Revenue Section 48D, the Advanced Manufacturing Investment Credit. This credit is designed to incentivize manufacturers of semiconductors and semiconductor manufacturing equipment within the U.S. The Advanced Manufacturing Investment Credit for any taxable year is generally equal to 25% of an eligible taxpayer's qualified investment in a qualified advanced manufacturing facility. Additionally, eligible taxpayers may elect to receive the credit allowance as a payment against their tax liability when filing their annual federal tax return in lieu of claiming a general business credit. Partnerships and S corporations may also choose an elective payment election provided special rules apply.

Build America and Recovery Zone Bonds

The American Recovery and Reinvestment Act of 2009, Section 1531, allowed state and local governments to issue Build America Bonds between February 17, 2009, and December 31, 2010. These tax credit bonds, which include Recovery Zone Bonds, differ from tax-exempt governmental obligation bonds in two principal ways: (1) interest paid on tax credit bonds is taxable; and (2) a portion of the interest paid on tax credit bonds takes the form of a federal tax credit. The bond issuer may elect to receive a direct payment in the amount of the tax credit. This federal subsidy payment provides state and local governments lower net borrowing costs. The subsidy allowed them to reach more sources of borrowing than they could with more traditional tax-exempt or tax credit bonds.

Corporate Alternative Minimum Tax Credit

The Tax Cuts and Jobs Act of 2017 repealed the corporate alternative minimum tax effective January 1, 2018. It also added Internal Revenue Code Section 53(e) which allowed corporations to treat their aggregated prior year alternative minimum tax amounts as refundable tax credits in future tax years beginning after 2017 and before 2022. This allowed corporations the opportunity to receive a refundable credit between 2017 and 2022 for 50% of the alternative minimum tax paid (the prior year minimum tax credit), which could be carried forward and claimed against their regular corporate tax liability in future tax years, to the extent such liability exceeds alternative minimum tax in a particular year. The Coronavirus Aid, Relief, and Economic Security Act of 2020, as amended, allowed 100% of the unused prior credit to be refunded in Tax Years beginning in 2018 or 2019.

Basic Health Program

Section 1331 of the Patient Protection and Affordable Care Act of 2010 gives states the option of creating a health benefits coverage program for low-income residents who would otherwise be eligible to purchase coverage through the Health Insurance Marketplace. The Basic Health Program gives states the ability to provide more affordable coverage for these low-income residents and improve continuity of care for people whose income fluctuates from Medicaid and Children's Health Insurance Program levels. These subsidies, which are U.S. government outlays, are not tax credits and are not reported on the recipient's federal income tax return.

Recovery Rebate Credit

The Coronavirus Aid, Relief, and Economic Security Act of 2020 established 2020 recovery rebates for certain individuals in the form of a tax credit. The Consolidated Appropriations Act, 2021 added additional recovery rebate credit provisions and modified the 2020 recovery rebate credit provisions. Recovery rebate credits for individuals are refundable credits for those who missed out on one or more economic impact payments that were automatically issued by the IRS in 2020 and 2021. Individuals who did not receive either the correct or full amount of an economic impact payment may be eligible to claim a recovery rebate credit for Tax Years 2020 and 2021 by filing a tax return to make their claim.

Previously Owned Clean Vehicles Credit

Internal Revenue Code Section 25E provides a tax credit for eligible individuals. For previously owned qualified clean vehicles purchased from eligible entities after December 31, 2023, an eligible individual may elect to transfer their tax credit to the eligible entity selling qualified clean vehicles. Once an electing taxpayer takes possession of the vehicle, the eligible transferee may claim and receive a refund from the IRS for 100% of the credit allowance in advance of filing their federal tax return. The vehicle transfer election and advanced payment program ended September 30, 2025.

Qualified School Construction Bonds

Congress created Qualified School Construction Bonds to help schools raise funds to renovate and repair buildings, invest in equipment and current technology, develop more challenging curricula, and train teachers. Proceeds from the bonds may be used to acquire land provided that the facility to be constructed with the same issue of Qualified School Construction Bonds will be located on the land. The tax credit portion of these bonds depends on the issuance date of the bonds, the number of bonds outstanding, and the time remaining until their redemption.

New Clean Renewable Energy Bonds

New Clean Renewable Energy Bonds may be issued by public power utilities, electric cooperatives, certain lenders that finance renewable energy projects, and government entities (states, cities, counties, territories, and Indian tribal governments). New Clean Renewable Energy Bonds were originally structured as tax credit bonds. The Hiring Incentives to Restore Employment Act changed New Clean Renewable Energy Bonds from tax credit bonds to direct subsidy bonds similar to Build America Bonds. The issuer pays the investor a taxable coupon and receives a rebate from Treasury.

Qualified Zone Academy Bonds

Congress created Qualified Zone Academy Bonds to rehabilitate or repair the public-school facility in which the academy is established to: provide equipment for use at such academy; develop course materials for education to be provided at such academy; and train teachers and other school personnel in such academy. Qualified Zone Academy Bonds may not be used for new construction. The tax credit portion of these bonds depends on the issuance date of the bonds, the number of bonds outstanding, and the time remaining until their redemption.

Qualified Energy Conservation Bonds

Qualified Energy Conservation Bonds may be issued by state, local, and tribal governments to finance qualified energy conservation projects. A minimum of 70% of a state's allocation must be used for governmental purposes and the remainder may be used to finance private activity projects. Qualified Energy Conservation Bonds were originally structured as tax credit bonds. However, the Hiring Incentives to Restore Employment Act of 2010 changed Qualified Energy Conservation Bonds from tax credit bonds to direct subsidy bonds similar to Build America Bonds. The Qualified Energy Conservation Bonds issuer pays the investor a taxable coupon and receives a rebate from Treasury.

Child and Dependent Care Tax Credit

Child and Dependent Care Tax Credit was created by the American Rescue Plan. The credit, for 2021, expands the child and dependent care credit by making the credit refundable. Additionally, Child and Dependent Care Tax Credit increased the limit on qualifying expenses from \$3,000 for one child and \$6,000 for two or more children to \$8,000 and \$16,000, respectively. The refundable tax credit increased the amount for employer-provided dependent care assistance which can be excluded from gross income. For tax years before and after 2021, the credit is \$5,000 for all tax filing statuses other than married filing separately, \$2,500 for married filing separately. For Tax Year 2021, the credit was \$10,500 for all tax filing statuses other than married filing separately, \$5,250 for married filing separately.

Payments of Refundable Tax Credits and Other Outlays

The table below shows payments of refundable tax credits in excess of tax liabilities and other outlays in FY 2025.

(In Millions)	2025
Premium Tax Credit*	\$ 110,832
Earned Income Tax Credit	66,008
Additional Child Tax Credit	26,567
Sick & Paid Family Leave Credit, Employee Retention Credit, and Consolidated Omnibus Budget Reconciliation Act	18,173
State Innovation Waiver Program	17,451
Interest on Tax Refunds	16,819
New Clean Vehicle Credit	2,836
Elective Payment for Energy Property and Electricity Produced	2,619
American Opportunity Tax Credit	2,549
Advanced Manufacturing Investment Credit	2,240
Build America and Recovery Zone Bonds	1,664
Corporate Alternative Minimum Tax Credit	1,173
Basic Health Program	977
Recovery Rebate Credit	847
Previously Owned Clean Vehicles Credit	577
Qualified School Construction Bonds	537
New Clean Renewable Energy Bonds	37
Qualified Zone Academy Bonds	34
Qualified Energy Conservation Bonds	28
Child and Dependent Care Tax Credit	12
Refundable Tax Credits and Other Outlays	\$ 271,980

* Includes advanced amounts for the Premium Tax Credit. Beginning in FY 2015, preliminary outlay amounts are adjusted upward or downward based on information from tax returns. In FY 2025, total Premium Tax Credit advances disbursed by the Centers for Medicare and Medicaid Services totaled \$132,652. The FY 2025 advanced amount was adjusted downward based on tax return information.

SECTION F: SOCIAL SECURITY AND MEDICARE TAXES

The Federal Insurance Contributions Act provides for a federal system of old-age, survivors, disability, and hospital insurance benefits. Payments to trust funds established for these programs are financed by payroll taxes on employee wages and tips, employers' matching payments, and a tax on self-employment income.

A portion of Federal Insurance Contributions Act benefits involve old-age, survivors, and disability payments. These benefits are funded by the social security tax, which is 12.4% for calendar year 2025. Employees and employers each pay 6.2% on wages and tips up to \$176,100. These benefits are also funded by a self-employment tax of 12.4% on self-employment income up to \$176,100.

Remaining benefits under the Federal Insurance Contributions Act pertain to hospital benefits (referred to as Medicare) and are funded by a separate 1.45% tax on all wages and tips and the employer matching contribution of 1.45%, for a total of 2.9% for calendar year 2025. Self-employed individuals pay a Medicare tax of 2.9% on all self-employment income. Beginning in 2013, an additional Medicare tax of 0.9% was collected on earned individual income of more than \$200,000 and earned income of more than \$250,000 for married couples filing jointly.

In FY 2025 social security taxes collected by the IRS were approximately \$1,295,067 million and Medicare taxes collected by the IRS were approximately \$317,112 million. Social security taxes and Medicare taxes are included in the Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act and Other line item on the Statement of Custodial Activity.



APPENDICES

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APPENDIX A: GLOSSARY OF ACRONYMS

Acronym usage is minimized to the greatest extent possible in this publication. Acronyms are generally not used in financial statements or tables. Commonly understood acronyms and those used primarily throughout the document are defined here for the reader's convenience. Letters and reports included from external properties define their acronyms within their documents and are not added in this glossary.

AGI	Adjusted Gross Income
CFO	Chief Financial Officer
COVID-19	Coronavirus Disease 19
FY	Fiscal Year
GAO	Government Accountability Office
IRS	Internal Revenue Service
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standard
TIGTA	Treasury Inspector General of Tax Administration
Treasury	Department of the Treasury
U.S.	United States

APPENDIX B: AWARDS AND ACKNOWLEDGEMENTS

Certificate of Excellence in Accountability Reporting

In May 2025, AGA presented the IRS its third Certificate of Excellence in Accountability Reporting award for its [FY 2024 Agency Financial Report](http://www.irs.gov/about-irs/irs-financial-reports) (www.irs.gov/about-irs/irs-financial-reports). This award is the highest form of recognition in U.S. government financial management and performance accountability reporting. As a third-time winner of this distinguished award, the IRS is honored to be recognized for demonstrating the highest standards in financial and performance accountability reporting. The IRS also received recognition with a Best-In-Class award for letters from leadership. The IRS Commissioner's message was lauded for being candid, comprehensive, and inspirational; it provided a vision, highlighted challenges and progress, spoke to serving the people, and included a video link for readers to access an update on the vision. The CFO's letter continued with the commitment to service and recognized the value of the Chief Financial Officer organization far beyond the backroom of accounting and financial reporting by highlighting modernization efforts and a commitment to innovation and enhanced transparency, in addition to strengthening internal controls and continuing financial reporting excellence. These awards are a significant accomplishment that showcases the IRS's reporting excellence in the financial management community.



Acknowledgements

Year-round efforts to compile the IRS's financial statements and accompanying notes, implement and monitor internal controls, address improper payments, and manage the financial statement audit demonstrates the IRS as a responsible steward of public funds. This report could not have come together without the work of everyone's contributions. The CFO's office partners with representatives in almost every IRS function to develop the Agency Financial Report, and offers special thanks for their contributions in the design and production of this report.

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Applied Research and Methods (ARM)

Sara Daleski (Assistant Director) and Joyce Harvey.

Information Technology and Cybersecurity (ITC)

Vijay D'Souza (Director), Edward Alexander Jr. (Assistant Director), Larry Crosland (Assistant Director), Daniel Swartz (Assistant Director), Luis Alicea, Anastasia Barron, Leland Buggie, Alexander Engel, Andrew Erickson, Linda Erickson, Sailaja Ledalla, and Kevin Metcalfe.

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