U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

November 12, 2026

The Honorable Scott Bessent
Secretary of the Treasury

Financial Audit: IRS's FY 2026 and FY 2025 Financial Statements

Dear Mr. Secretary:

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2026 and 2025 financial statements of the Internal Revenue Service (IRS), which is incorporated in the enclosed *IRS Fiscal Year 2026 Agency Financial Report.*

As discussed more fully in the auditor's report that begins on page 34 of the enclosed financial report, we found

- IRS's financial statements as of and for the fiscal years ended September 30, 2026, and 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, 2026; and
- no reportable noncompliance for fiscal year 2026 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. IRS is one of these designated

[1]A 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.

[2]See 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 Media Relations 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,

//SIGNED//

Dawn B. Simpson
Director, Financial Management and Assurance

Enclosure

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

IRS

Freedom 250

2026 AGENCY FINANCIAL REPORT



250 YEARS OF TAX ADMINISTRATION



DIGITAL TOOLS FOR TAXPAYERS 2001–2026

The IRS continues to lean into digital innovation:

- 2026 **IRS app** (replaced IRS2Go)
- 2023 **Document Upload Tool**
- 2016 **Online Account**
- 2013 **Direct Pay**
- 2011 **IRS2Go app**
- 2007 **Sales Tax Deduction Calculator**
- 2004 **Transcript Delivery System**
- 2003 **Free File**
- 2002 **Where's My Refund**
- 2001 **Withholding Calculator**

ELECTRONIC FILING 1991

The IRS started electronic filing to lower operating costs and paper use. The IRS anticipated over 90% of 150 million individual returns would be filed electronically for the 2019 tax filing season.



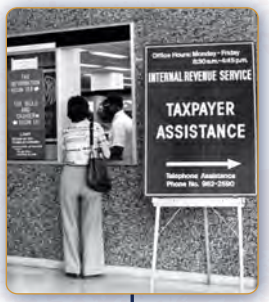
TAXPAYER SERVICE 1966–1967

The toll free telephone network system, piloted in 1966, eventually allowed the IRS to handle most taxpayer inquiries by phone. On January 1, 1967, the IRS launched a nationwide, automated federal tax system. That same year, the IRS established a long range study to determine automated data processing requirements through 1970 and beyond.

INTERNAL REVENUE SERVICE CREATED 1953

In 1952, President Harry S. Truman called for a comprehensive reorganization of the Bureau of Internal Revenue. The agency officially became the Internal Revenue Service on July 9, 1953.





TAXPAYER COMMUNICATION AND SUPPORT 1950–PRESENT

During the 1950s, the IRS primarily interacted with taxpayers through written and print communication using the U.S. Postal Service and walk in offices. Walk-in offices, or Tax Assistance Centers, continue to help taxpayers today.

continued on inside back cover

TABLE OF CONTENTS

ii About this Report

iii Message from the Chief Executive Officer

1 MANAGEMENT'S DISCUSSION AND ANALYSIS

2 About the IRS

4 Performance Overview

16 Enterprise Risk Management

17 Analysis of Financial Statements

25 Analysis of Systems, Controls, and Legal Compliance

31 FINANCIAL INFORMATION

32 Message from the Chief Financial Officer

34 Independent Auditor's Report

42 Enclosure: IRS Response to the Independent Auditor's Report

43 Financial Statements

50 Notes to the Financial Statements

77 Required Supplementary Information

81 OTHER INFORMATION

82 Section A: Summary of Financial Statement Audit and Management Assurances

84 Section B: Tax Burden, Tax Gap, and Tax Expenditures

89 Section C: Management and Performance Challenges

119 Section D: Grants Programs

120 Section E: Refundable Tax Credits and Other Outlays

127 Section F: Social Security and Medicare Taxes

129 APPENDICES

130 Appendix A: Glossary of Acronyms

131 Appendix B: Awards and Acknowledgements

*Certain pages within these sections reproduce documents prepared and provided by the Government Accountability Office and the Treasury Inspector General for Tax Administration (TIGTA) and are presented as received. Accordingly, their design may differ from the rest of this report, and acronyms may not be fully defined in Appendix A.

ABOUT THIS REPORT

This Agency Financial Report presents the Internal Revenue Service's (IRS) financial information in relation to its mission and stewardship of entrusted resources for the Fiscal Year (FY) 2026 reporting period (October 1, 2025, through September 30, 2026). This report highlights key accomplishments and opportunities associated with programs that advance the IRS mission. This report is available on IRS.gov (**www.irs.gov/about-irs/irs-financial-reports**).

The IRS, a bureau of the United States (U.S.) Department of the Treasury (Treasury), prepares this report in accordance with Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements, including requirements applicable to a component entity. The title "Agency Financial Report" is consistent with annual financial reports in the U.S. government.

How This Report is Organized

The Agency Financial Report consists of the following sections:

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

Provides a high-level overview of the IRS's mission, structure, performance, enterprise risks, financial condition, and systems, controls, and legal compliance. It also presents management's assurances on the effectiveness of internal controls and is required supplementary information to the financial statements.

Section 2: Financial Information

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

Section 3: Other Information (Unaudited)

Includes the 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.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



On behalf of my dedicated colleagues at the IRS, I am pleased to present the IRS's Agency Financial Report for FY 2026. This report demonstrates our commitment to responsible stewardship of the resources entrusted to us and provides an assessment of the IRS's financial position, performance, and progress toward delivering a more efficient taxpayer experience.

FY 2026 was defined in large part by our successful implementation of the Working Families Tax Cuts, a set of provisions within the One Big Beautiful Bill Act, and one of the most substantial changes to the tax code in decades. Throughout this effort, we remained focused on ensuring taxpayers receive the benefits of the new law while maintaining the integrity, security, and reliability of the nation's tax system.

As a result of the Working Families Tax Cuts, the IRS delivered a historically successful tax filing season and provided financial benefits to our citizens as never before. The IRS implemented new tax provisions that enabled working families, seniors, and small businesses to retain more of their hard-earned income. This past filing season, we successfully processed 276 million individual tax returns and forms, issued approximately 120 million refunds totaling nearly $415 billion — a 16% increase over last year — and delivered 90% of refunds within 21 days. These operational accomplishments reflect careful planning, discipline, and an unwavering commitment to serving the American people.

> “As a result of the Working Families Tax Cuts, the IRS delivered a historically successful tax filing season and provided financial benefits to our citizens as never before.”

FY 2026 also marked our nation's 250th anniversary, offering a special opportunity to reflect on our history and the importance of public service. For generations, IRS employees have contributed to the strength of our country by faithfully administering the tax laws and helping taxpayers meet their responsibilities. As we commemorate this historic milestone, we honor the public servants who came before us, celebrate the dedication of those serving today, and look ahead to the responsibilities that will guide us into the future. We honor that proud tradition as we look forward to the next chapter in our nation's history.

To achieve our mission during FY 2026, the IRS focused on five priorities:

Improving Taxpayer Services

Providing taxpayers with convenient and reliable ways to meet their tax obligations remains central to our mission. Taxpayers increasingly rely on IRS digital services to access information and resolve

tax matters. In FY 2026, taxpayers visited IRS.gov approximately 953 million times and used Where's My Refund? nearly 469 million times to check their refund status online.

In FY 2026, we continued expanding our online services, with adoption reaching about 38 million individuals, nearly 2 million businesses, and 513,000 tax professionals. We also launched a new Tax Debt Help tool to help taxpayers understand their options for resolving a tax debt.

We continued transforming the IRS into a digital-first organization that provides taxpayers with secure, convenient, and accessible services. Investments in online accounts, expanded self-service capabilities, and automation are helping reduce burdens on taxpayers while enabling the IRS to operate more efficiently. At the same time, we remained committed to meeting taxpayers where they are. We continued offering free filing and tax preparation options through IRS Free File.

Strengthening Compliance

A fair and effective tax system depends on everyone meeting their tax obligations. In FY 2026, we strengthened our ability to identify and address significant areas of tax noncompliance. We continued investing in advanced analytics and super intelligence to improve tax administration. These tools allowed us to identify significant areas of noncompliance more effectively, detect fraudulent filings, improve collections, and better deploy enforcement resources while reducing unnecessary burden on compliant taxpayers. We also launched **IRS.gov/SubmitATip**, providing the public with a centralized resource for reporting suspected tax fraud, scams, and other tax-related violations.

> "Parents and legal guardians can claim their child's Trump Account through the official Trump Accounts mobile app, which is available through TrumpAccounts.gov, the Apple App Store, or Google Play."

Whistleblowers also continue to play an important role in protecting the integrity of the tax system. Since 2007, information submitted to the IRS Whistleblower Office has contributed to the recovery of approximately $8 billion in taxes, penalties, interest, and other amounts. In FY 2026, we took steps to make it easier for the public to understand how to report noncompliance and access information about the Whistleblower Program.

Enabling Efficient and Effective Operations

We took significant steps in FY 2026 to make the IRS more efficient and to ensure our resources are focused where they are needed most. During the 2026 filing season, we changed how approximately 16,000 customer service representatives were scheduled across phones, correspondence, and web chat, reducing idle time by almost 50% while keeping average speed of answer below 10 minutes. We also took steps to reduce our physical office footprint by eliminating excess space and better aligning our facilities with the needs of our workforce.

At the same time, we continued redesigning our processes to reduce operating costs while improving service and productivity. Through our Zero Paper Initiative, we digitized more than 3 million paper-filed Forms 1040 in FY 2026, reducing manual work and improving processing efficiency. We will build on this progress as we continue finding better ways to meet the changing needs of taxpayers and our workforce.

Transforming Technology, Leveraging Data, and Protecting Privacy

Transforming the IRS touches every aspect of how we serve taxpayers, including how we give our employees the technology and information they need to do their jobs effectively and protect the sensitive taxpayer data entrusted to us. In FY 2026, we advanced Taxpayer 360, giving Customer Service Representatives a more complete view of taxpayer information and better tools to resolve taxpayer issues. We expanded Business Tax Account with additional digital notices, downloadable Employer Identification Number verification notices, and Offer in Compromise payments, opening the platform to millions more entities. We also continued our development of the Enterprise Data Platform, intended to give employees consistent, trusted information across the IRS rather than information fragmented across systems.

Safeguarding taxpayer data is fundamental to public trust. Throughout FY 2026, the IRS strengthened its cybersecurity, enhanced fraud detection capabilities, and continued working with our federal, state, and private-sector partners to combat identity theft and refund fraud.

Supporting Legislative Implementation

Supporting the implementation of new tax legislation is a fundamental part of our responsibility to administer the nation's tax laws. In FY 2026, much of that work centered on implementing the Working Families Tax Cuts. The IRS updated hundreds of forms, instructions, and publications; developed extensive taxpayer guidance; transformed systems; and worked tirelessly across all areas to ensure taxpayers could receive the historic benefits enacted by Congress accurately and on time. The average American family saw significant tax relief due to several signature provisions, including no tax on tips, no tax on overtime, no tax on car loan interest for vehicles assembled in the U.S., a special deduction for seniors, and permanent extension of several important tax provisions that were due to expire.

Part of our implementation efforts was establishing Trump Accounts, a new savings opportunity for children created by the Working Families Tax Cuts. Working with the Treasury, we issued guidance and proposed regulations, established processes to administer the program, and enabled families to make elections through their IRS Individual Online Account. In October 2026, the Treasury Department created Trump Accounts for more than 60 million eligible children under age 18 with a valid Social Security number. Parents and legal guardians can claim their child's Trump Account through the official Trump Accounts mobile app, which is available through **TrumpAccounts.gov**, the Apple App Store, or Google Play. As we move into the next phase, we will communicate to families about how to claim their child's account and the contribution opportunities that exist with Trump Accounts.

The IRS enters the future with a strong foundation, a clear direction, and a long-term strategy to guide our work. Building on the progress of FY 2026, we will continue transforming our operations, embracing innovative technologies, strengthening accountability, and delivering measurable results across the IRS.

Sound financial management remains fundamental to how we operate. I am proud to report that for the 27th consecutive year, the IRS 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 federal financial systems compliance and conformance objectives as outlined in the **Management's Discussion and Analysis – Analysis of Systems, Controls, and Legal Compliance**.

As I reflect on FY 2026, I am proud of the progress we have made and the foundation we have established for the future. I am committed to ensuring that we remain focused on our mission while never losing sight of the people we serve or the employees who make that mission possible. Our success depends on our ability to adapt, collaborate, and hold ourselves to the highest standards. I recognize that transformation is not accomplished in a single year, and more work lies ahead to deliver the service, efficiency, and accountability taxpayers expect and deserve. Together, we will meet that challenge by remaining united by our shared purpose of delivering exceptional service to taxpayers. I am honored to lead this important work, and I am confident that we will continue building an IRS that earns the trust and confidence of the American people.

> "Our success depends on our ability to adapt, collaborate, and hold ourselves to the highest standards."

Sincerely,



Frank J. Bisignano
Chief Executive Officer of Internal Revenue
November 5, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS



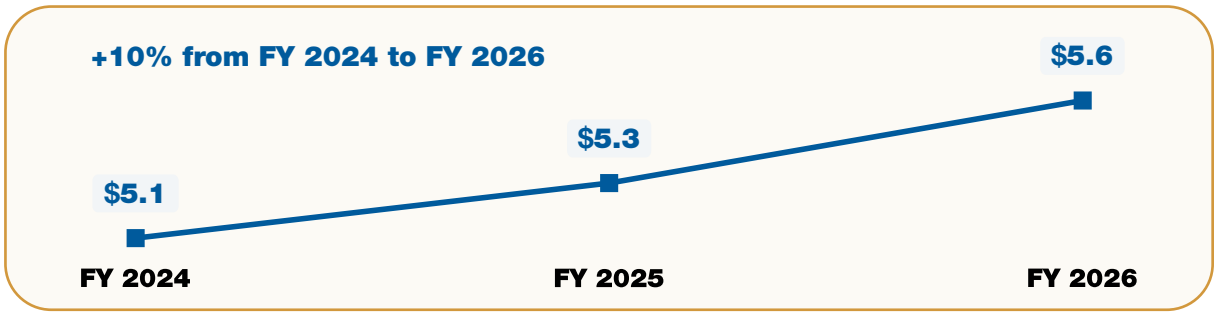
Section Cover Art: The Internal Revenue Service Building, built between 1928 and 1936, was the first building to be constructed within the Federal Triangle. Image taken on June 13, 1928.

ABOUT THE IRS

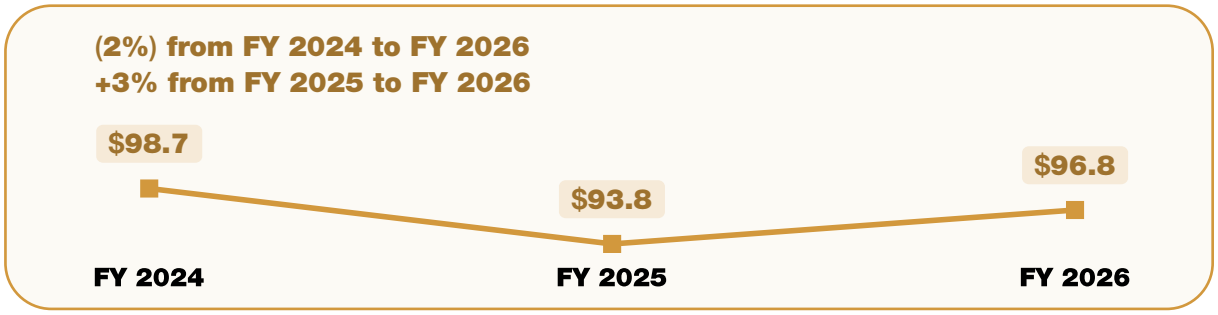
One of the oldest bureaus in the U.S. government, the IRS administers the nation's tax laws with integrity, fairness, and efficiency. The IRS collects most of the revenue that funds the U.S. government operations. As a steward of the federal tax system, the IRS promotes voluntary compliance, safeguards public trust, and adapts to meet the evolving needs of taxpayers. For more information about the IRS history, visit the **IRS History Timeline** (www.irs.gov/irs-history-timeline).

FY 2024–2026 Key Tax Statistics:

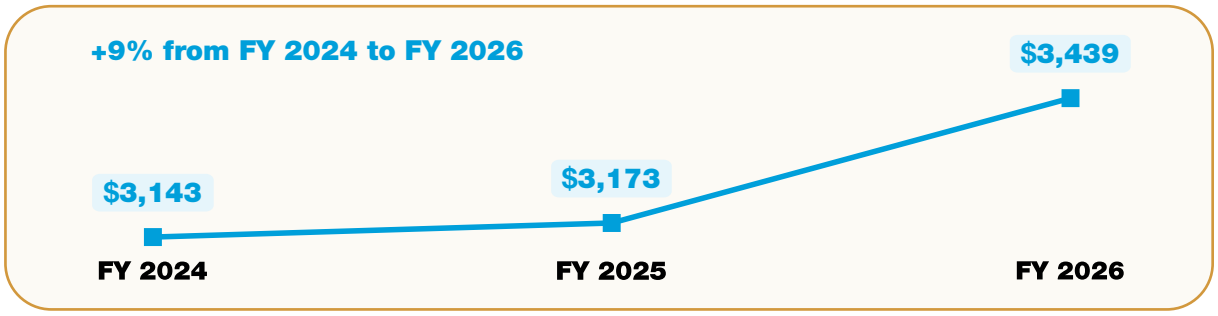
Total Taxes Collected ($ in Trillions)



Enforcement Revenue Collected ($ in Billions)



Average Individual Refund* ($ in Dollars)



*The average individual refund amount includes refunds issued in the above indicated fiscal years 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 fulfills this mission through a broad range of tax administration activities, including collecting taxes, processing tax returns, assisting taxpayers, enforcing tax laws, and investigating tax-related crimes. The IRS also administers specialized programs involving tax-exempt organizations, tax-exempt bonds, refundable tax credits, and other areas of tax administration. These responsibilities require the IRS to manage a large and complex organization and the systems, data, and operations needed to administer the nation's tax laws.

The IRS's organizational structure includes a Commissioner, Chief Executive Officer, and several senior and chief officer positions. This structure is comparable to organizational models of large financial institutions with an emphasis on taxpayer service, operational oversight, financial stewardship, technology, and data management. Visit the **IRS organization and leadership structure** (www.irs.gov/about-irs/irs-organization) for the latest information.



Department of Labor and Interstate Commerce, Internal Revenue Building, Department of Justice and Archives. Image taken from the Washington Monument by J. K. Hillers, July 1937.

PERFORMANCE OVERVIEW

Performance Summary

FY 2026 was a year of continued transformation for the IRS, marked by historic filing season performance and implementation of the Working Families Tax Cuts, enacted on July 4, 2025. The IRS delivered larger refunds to more taxpayers, processed returns and issued refunds timely, and improved workforce productivity. Direct deposit adoption increased to about 98% of taxpayers receiving refunds, up from 94% at the same point in the 2025 filing season. The average individual refund increased 16% to $3,439.

The IRS expanded lower-cost digital service options, strengthened compliance selection and case management, and advanced enterprise technology and data initiatives to improve taxpayer service and strengthen compliance. These efforts were undertaken amid evolving workforce capabilities and an increased focus on maximizing return on investment while reducing administrative costs. The following discussion explains how these factors influenced the IRS's performance, costs, risks, and strategic priorities during FY 2026.

Performance Framework

The IRS measures performance under the framework established by the Government Performance and Results Act of 1993 and its 2010 Modernization Act. The framework emphasizes measurable outcomes, data-driven decision-making, and accountability, helping stakeholders assess performance, resource allocation, and progress towards strategic objectives. The IRS aligns its performance measures and reporting with the Secretary of the Treasury's priorities and adheres to Treasury's strategic goals through efforts to improve service, privacy, and collections. In April 2026, Treasury published its **strategic plan for FY 2026-2030** (home.treasury.gov/about/budget-financial-reporting-planning-and-performance/strategic-plan).

For FY 2026, the IRS's performance is presented across three major programs aligned to the Statements of Net Cost: Service to the Taxpayer, Enforcement of Tax Legislation, and Transformation of Business Systems. From FY 2022 to FY 2025, costs fluctuated for Service to the Taxpayer and increased for Enforcement of Tax Legislation and Transformation of Business Systems. In FY 2026, net costs increased 2% for Service to the Taxpayer and 24% for Transformation of Business Systems, while costs for Enforcement of Tax Legislation decreased 30% from FY 2025. Overall, net costs declined 19% from FY 2025 to FY 2026, including an $842 million reduction in Cost Not Assigned to Programs. This reduction was primarily attributed to staff reduction costs incurred in FY 2025 and was partially offset by furlough-related costs incurred in FY 2026.

DID YOU KNOW?

IRS APP

You can access all of your information in one app. Get the official IRS app.

Access your tax information with an Individual, Business or Tax Pro Account.

- Refund status
- Payments
- Tax records
- Notifications

Table shows Net Costs by Major Program. For more information, see the **Analysis of the Statements of Net Cost**.

Major Program (in Millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Service to the Taxpayer	$ 6,990	$ 5,889	$ 6,458	$ 7,179	$ 7,292
Enforcement of Tax Legislation	$ 8,007	$ 10,402	$ 11,859	$ 11,734	$ 8,273
Transformation of Business Systems	$ 670	$ 937	$ 909	$ 1,033	$ 1,280
Net Cost of Programs	**$ 15,667**	**$ 17,228**	**$ 19,226**	**$ 19,946**	**$ 16,845**
Cost Not Assigned to Programs	N/A	N/A	N/A	$ 1,245	$ 403
Net Cost of Operations	**$ 15,667**	**$ 17,228**	**$ 19,226**	**$ 21,191**	**$ 17,248**

Procurement provided another opportunity for the IRS to reduce costs and improve the use of resources. In FY 2026, the IRS strengthened its approach by placing greater emphasis on value, competition, requirements discipline, and acquisition outcomes. Acquisition obligations declined to approximately $2.4 billion, compared with $3.4 billion in FY 2025 and $4.0 billion in FY 2024. These amounts represented decreases of 29% and 41%, respectively. The IRS identified approximately $440 million in cost avoidance from March 26 through September 30, 2026, through negotiated price reductions, changes to planned contract scope and other requirements, and shifting selected work to government employees.

Service to the Taxpayer — Net Cost: $7,292 million

Service to the Taxpayer includes activities that assist taxpayers before, during, and after filing their taxes. These activities provide taxpayers with secure digital services and live assistance and include taxpayer outreach and education, account management, tax form processing, digital filing and account services, telephone and face-to-face assistance, and compliance activities that protect the integrity of the tax system.

It also provides an independent channel, known as the Taxpayer Advocate Service, to assist taxpayers with resolving complex issues. This work protects taxpayer rights, identifies systemic challenges, and supports improvements that enhance fairness and efficiency in tax administration.

Performance Analysis

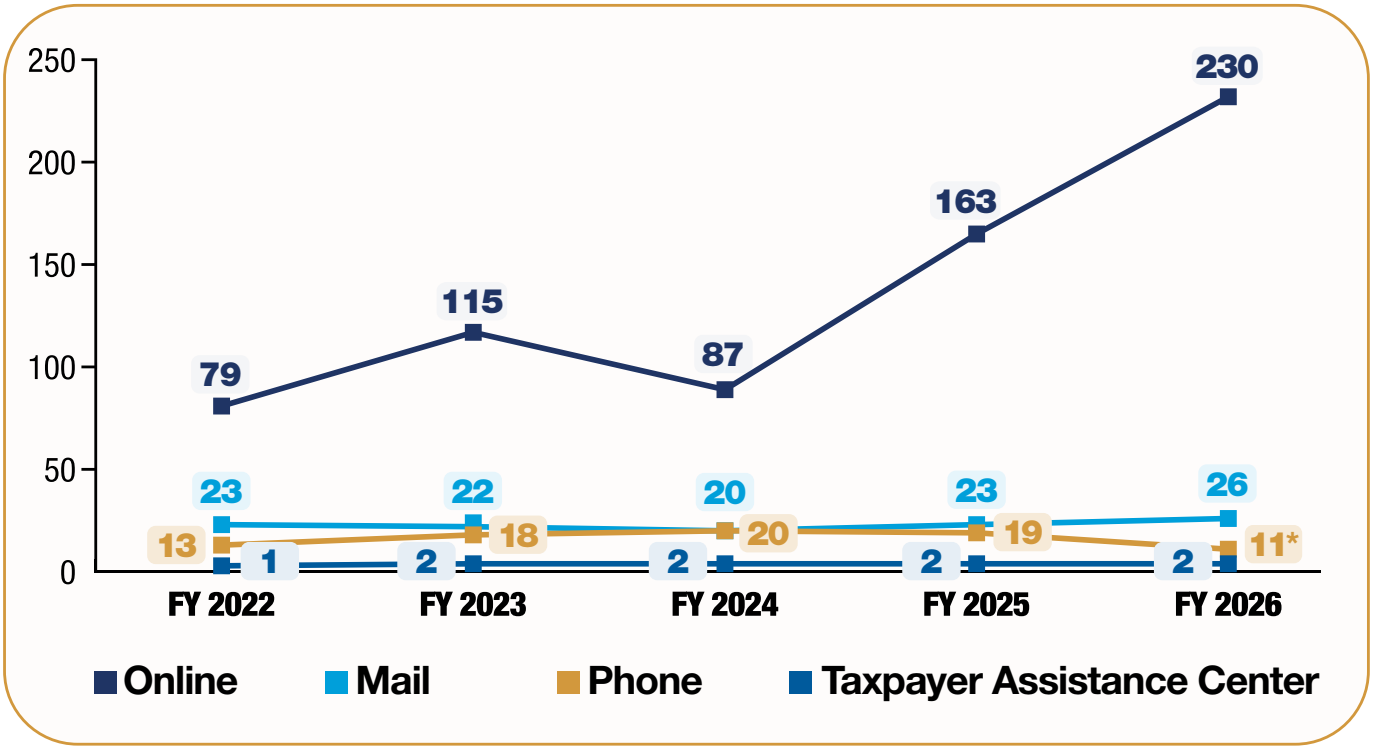
During FY 2026, the IRS successfully implemented provisions of the Working Families Tax Cuts while maintaining effective tax administration throughout Filing Season 2026. The IRS updated tax forms and instructions accurately and on time. In addition, the IRS updated withholding guidance and the Tax Withholding Estimator online tool; issued dozens of regulations, notices, Frequently Asked Questions, fact sheets, and other public guidance; and deployed new digital tools to help taxpayers understand and claim new tax benefits.

The IRS processed 276 million individual tax returns and forms and issued timely refunds, demonstrating operational resilience throughout the filing season. The IRS also established the new Trump Accounts Contribution Pilot Program by issuing implementation guidance, proposing regulations, enabling taxpayers to submit elections through their IRS Individual Online Account, and launching systems to administer the federal contribution for eligible children.

The IRS continued expanding secure digital services that make it easier for taxpayers and tax professionals to interact with the IRS while reducing administrative burden. In September 2026, the IRS launched the new IRS App, formerly IRS2Go, giving taxpayers secure mobile access to key Individual Online Account services, including balances, payments, refund and amended-return status, notices and letters, and tax records. The IRS also introduced a digitally authenticated Tax Compliance Report through Individual Online Account, providing taxpayers with secure access to tax compliance information needed for employment, loans, government benefits, and other services.

The IRS also enhanced IRS Individual Online Account, Business Tax Account, and Tax Pro, allowing more taxpayers and practitioners to access account information, submit documents, make payments, and complete transactions online. Business Tax Account users, for example, gained access to an expanding library of digital IRS notices. Adoption of IRS online services continued to grow, reaching about 38 million individuals, nearly 2 million businesses, and 513,000 tax professionals, up 34%, 52%, and 57%, respectively, from FY 2025.

FY 2022–2026 Volume of Taxpayer Interactions by Service Channel (In Millions)



*Phones include calls to the IRS and telephone assistance provided by Customer Service Representatives. Phones data is through June 30, 2026.

Online interactions reached 230 million in FY 2026, a 41% increase from FY 2025 and more than 191% above FY 2022 levels. Over the same 5-year period, phone, mail, and Taxpayer Assistance Center contacts remained comparatively stable, averaging approximately 16 million phone calls, 23 million mail interactions, and 2 million face-to-face contacts annually. These trends underscore the growing role of digital channels in the IRS's service delivery strategy.

To support a digital-first, multichannel service model, the IRS progressed in improving the workforce tools, paper-processing operations, and employee capabilities that underpin both self-service and live taxpayer assistance. In FY 2026, the IRS expanded its eWorkforce Management initiative to improve workforce scheduling and resource allocation across service channels, aligning staffing more productively with taxpayer demand and improving service delivery during peak periods. Taxpayer 360 also provided customer service representatives with integrated research capabilities, including the Archie tool, which supported approximately 11,400 employees in improving the accuracy, consistency, and timeliness of responses while reducing manual work.

The IRS accelerated its Zero Paper Initiative, digitizing more than 3 million paper-filed Forms 1040 in FY 2026 as part of its efforts to reduce paper return processing times and improve operational efficiency. The IRS further expanded digital intake and document processing capabilities, reducing use of paper returns, correspondence, and historical records while increasing the use of secure electronic submission tools for employees and taxpayers.

The IRS continued improving access to live and community-based assistance. Taxpayer Assistance Centers expanded access through extended hours and Saturday openings at many locations, while appointment reminders and self-service check-in tablets helped streamline visits. The IRS also worked with trusted partners to expand access to free tax preparation, taxpayer education, outreach, and other resources for military members, veterans, Native Americans, rural communities, individuals with disabilities, and other underserved populations.

Challenges, Risks, and Strategic Opportunities

The IRS manages several enterprise risks that affect its ability to deliver timely, accurate, and accessible taxpayer services, including the efficient processing of tax returns. If taxpayer services are not provided efficiently and effectively, taxpayers may have greater difficulty meeting their tax obligations, potentially increasing post-filing enforcement needs, reducing tax revenue, and lessening the overall trust in the level of service provided.

Evolving operational demands can limit the IRS's ability to optimize processes, improve service delivery, and achieve better outcomes. The IRS maintains the expertise and resources needed to deliver taxpayer services and continuously assesses operational processes as taxpayer expectations, legislative requirements, and technology evolve. Complex legislation and other requirements may affect operations and taxpayers' ability to understand and receive the tax benefits for which they are eligible. The IRS addresses these challenges by enhancing digital and self-service capabilities, aligning workforce and resources with taxpayer service demands, and coordinating legislative implementation across forms, guidance, systems, and service channels.

As more taxpayers interact with the IRS online, there are opportunities to reduce taxpayer burden, improve the taxpayer experience, and reduce administrative costs through expanded digital platforms, self-service capabilities, and automation. The IRS assesses costs and volumes of taxpayer interactions across online, phone, in-person, and mail correspondence channels to evaluate the effectiveness of these service options. The IRS continues to enhance the quality and accessibility of digital services while maintaining reliable live assistance for taxpayers.

FY 2026 Key Performance Measure Results for Service to the Taxpayer

The IRS met or exceeded 3 of 4 performance targets in this program with its finalized results, while preliminary data through the third quarter indicate the fifth measure, Enterprise Self-Assistance Participation Rate, was also on track to meet its annual target.

In FY 2026, the IRS exceeded its performance targets for customer accuracy for tax law inquiries, as well as the timely release of critical individual filing season tax products and tax-exempt and business tax products. The IRS achieved its timeliness results through overtime, expedited product reviews, and a surge team of experienced tax law specialists. These efforts enabled the IRS to make 99 of 107 critical individual filing season tax products and 110 of 115 tax-exempt and business tax products available to the public at least 7 calendar days before the official start of the filing season.

Results below target were concentrated in customer accuracy for taxpayer accounts, primarily due to challenges with complex taxpayer cases and inconsistent frontline support. In FY 2027, the IRS will strengthen leadership oversight, improve employee development, and use Taxpayer 360 to increase research accuracy and service quality.

In FY 2026, the IRS expanded its multichannel approach to taxpayer service, using new technologies and process improvements to increase efficiency and accuracy. During the filing season, improved scheduling for approximately 16,000 customer service representatives reduced idle time by nearly 50% while maintaining average answer times below 10 minutes. The IRS also advanced Taxpayer 360 to give assistors faster access to taxpayer information, accelerated updates to tax forms and instructions, and began automating amended paper return processing to improve timeliness.

The IRS replaced its legacy telephone-based service metric with two new enterprise metrics—Assistor Service Rate and Enterprise Service Completion Rate—to better reflect a digital-first taxpayer experience and the expanding range of service channels. Because FY 2026 established the baseline for these measures, they did not have targets. On the Accounts Management phone lines, the Assistor Service Rate for filing season 2026 was 73%, and the Service Completion Rate was 68%.

Comprehensive FY 2026 IRS performance results will be reported in the FY 2028 IRS Congressional Budget Justification and Annual Performance Report and Plan, published in spring 2027 to IRS.gov at **www.irs.gov/about-irs/budget-documents#congressional**.

DID YOU KNOW?

WORKING FAMILIES TAX CUTS

The Working Families Tax Cuts significantly affected federal taxes, credits and deductions.

The Working Families Tax Cuts, a set of provisions within the One Big Beautiful Bill Act, is delivering historic tax relief for working families.

- No tax on tips
- No tax on overtime
- A new tax deduction for seniors
- No tax on car loan interest for American-made cars
- Permanent extension of several important existing tax provisions that were due to expire

Table 1: Summary of FY 2026 Key Performance Measure Results for Service to the Taxpayer.

Key Performance Measures	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Target	2026 Actual
Customer Accuracy – Tax Law (Phones)[1]	92.0%	91.4%	90.4%	86.3%	87.0%	88.7%
Customer Accuracy – Accounts (Phones)[1]	91.8%	89.2%	90.2%	85.2%	87.0%	83.5%
Timeliness of Critical Individual Filing Season Tax Products to the Public[2]	96.4%	96.4%	96.6%	97.3%	78.0%	92.5%
Timeliness of Critical Tax Exempt and Government Entities and Business Tax Products to the Public[2]	96.0%	86.5%	94.8%	97.1%	77.0%	95.7%
Enterprise Self-Assistance Participation Rate[3]	93.9%	94.2%	95.8%	96.6%	96.4%	Not Available

Target met Target not met

[1]Number of correct answers by a live assistor on toll-free or tax law inquiries divided by number of inquiries, shown as a percentage.

[2]Number of critical individual filing season tax products or critical tax exempt and government entities and business tax products available to public seven calendar days before official IRS start of individual filing season divided by total number of products, shown as percentage.

[3]Number of taxpayer self-assisted services completed divided by total number of services, shown as a percentage. Some telephone service data were unavailable at the time of this report's publication; therefore, the FY 2026 performance result is not reported. Full FY 2026 data will be available in the IRS Agency Performance Report. Performance through June 30, 2026, was 97.4%.

Enforcement of Tax Legislation — Net Cost: $8,273 million

Enforcement of Tax Legislation promotes voluntary compliance by directing enforcement resources where they have the greatest results while minimizing burden on taxpayers who meet their tax obligations. This program includes examinations, appeals, technical rulings, oversight of tax-exempt organizations and other tax-favored entities, criminal investigations, identification of underreporting tax obligations and unfiled returns, and collection of unpaid accounts. Through advanced analytics, technology, and a proficient workforce, the IRS identifies and addresses high-risk noncompliance, combats financial crimes, and protects the integrity of the nation's tax system.

Performance Analysis

In FY 2026, the IRS expanded the use of advanced analytics and enterprise case management, while continuing to improve case selection. These capabilities help the IRS identify higher-risk cases, prioritize enforcement resources, and improve the effectiveness and efficiency of compliance activities. Total Enforcement Revenue Collected is a high-level indicator of enforcement results. Total enforcement revenue collected in FY 2026 exceeded the FY 2025 level by $3 billion and was more than $24 billion, or 34%, higher than in FY 2022, reflecting the IRS's sustained efforts and investments to strengthen enforcement operations.

Enforcement Revenue Collected FY 2022–2026 (In Billions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total Enforcement Revenue Collected	**$ 72.4**	**$ 86.1**	**$ 98.7**	**$ 93.8**	**$ 96.8**

Machine learning models analyze large volumes of return and compliance data to identify patterns of potential noncompliance and fraud. These models help the IRS focus on cases with the highest

risk of noncompliance while reducing unnecessary burden on compliant taxpayers. Enhanced case management capabilities also improve workload prioritization, resource allocation, and visibility across the enforcement lifecycle, enabling the IRS to resolve cases more efficiently and reduce case cycle times. The IRS has also established a centralized online reporting platform, **Report Fraud** (www.irs.gov/help/report-fraud), which provides step-by-step instructions for reporting fraud and scams.

In FY 2026, IRS investigated significant tax fraud, financial crimes, and schemes involving taxpayer-funded programs. In partnership with the Department of Justice, IRS participated in a National Tax Enforcement Surge that resulted in prosecutorial actions against 76 defendants and uncovered more than $490 million in alleged tax fraud schemes. Other major investigations included a $148 million construction payroll scheme, a $170 million pandemic-related tax credit fraud scheme, and a $40 million abusive tax shelter operation.

IRS also helped uncover significant fraud involving federal nutrition and healthcare programs. Its investigation into the theft of more than $250 million in federal child nutrition funds resulted in a prison sentence of more than 41 years for the leader of the Feeding Our Future nonprofit organization. IRS also contributed to cases involving a $233 million Affordable Care Act enrollment fraud scheme and a $145 million healthcare fraud scheme, both of which resulted in prison sentences for those responsible. These investigations demonstrate the role IRS plays in identifying complex financial crimes and protecting taxpayer-funded programs.

Challenges, Risks, and Strategic Opportunities

The IRS's ability to carry out effective compliance and enforcement activities depends, in part, on successfully interpreting and implementing complex legislation, new programs, and evolving requirements. To support these efforts, the IRS must continue advancing technology, enhancing data use, and improving processes to address emerging compliance risks and increasingly sophisticated fraud schemes. Strong implementation and adaptable enforcement capabilities help deter bad actors from exploiting tax laws, IRS processes, and technology, reducing tax revenue loss and minimizing burdens on compliant taxpayers.

A skilled enforcement workforce equipped with modern tools remains essential to addressing evolving compliance challenges. The IRS manages these risks by strengthening specialized expertise, refining data-driven case selection, enhancing fraud detection and case management, and coordinating implementation of new requirements.

The IRS leverages advanced analytics and technology to improve case selection, streamline workflows, and increase workforce productivity. Continued investment in these capabilities will help identify potential noncompliance earlier, target enforcement resources to the highest-risk areas, and promote voluntary compliance. Together, these efforts strengthen both automated and employee-led compliance activities, enabling the IRS to address noncompliance more quickly and accurately.

FY 2026 Key Performance Measure Results for Enforcement of Tax Legislation

The IRS met or exceeded 3 of 7 performance targets in this program.

In FY 2026, the IRS continued improving its tax compliance operations through advanced technology and automation to increase process capacity and help address compliance issues at the right time with the right treatment. Adoption of the Enterprise Case Management system

grew to 70% of Field Collection personnel, while super intelligence-assisted case selection pilots advanced in areas such as amended return processing and the Automated Underreporter program.

The collection coverage, large corporation examination starts, and criminal investigations measures met their targets through efforts to improve operational productivity, strengthen workforce capabilities, and emphasize direct collection activities. Collection coverage exceeded its FY 2026 target because the IRS resolved more cases through the Automated Collection System after employees spent more time directly working collection cases. Large corporation examination starts increased 44% from FY 2025, supported by greater examiner availability as on-the-job instructors and former trainees devoted more time to examinations than originally planned. Criminal investigations completed also increased from FY 2025, driven by more fraud and narcotics-related investigations and improved productivity among recently hired agents as they gained experience.

Results below target included individual examination efficiency, high-income individual and partnership examination starts, and the criminal investigations conviction rate. The IRS prioritized higher-yield, more complex examinations that have the potential to produce stronger compliance outcomes, contributing to lower individual examination efficiency and fewer high-income individual examination starts. Partnership examination starts were affected by the timing and scale of pass-through entity training, which began in the third quarter and left less time for newly trained examiners to begin examinations. Although the criminal investigations conviction rate remained below target, it improved from FY 2025 as a result of effective case selection and oversight. The IRS is addressing these results through targeted training and on-the-job experience to strengthen workforce capabilities and improve enforcement performance over time.

Table 2: Summary of FY 2026 Key Performance Measures Results for Enforcement of Tax Legislation

Key Performance Measures	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Target	2026 Actual
Collection Coverage[1]	38.3%	34.9%	39.1%	38.8%	31.0%	36.8%
Examination Efficiency – Individual[2]	101	103	82	71	95	61
Exam Starts – High-Income Individuals[3]	3,625	4,326	4,052	3,692	2,264	2,153
Exam Starts – Partnerships[4]	3,155	6,709	2,285	1,589	2,932	1,790
Exam Starts – Large Corporations (Assets >=$250M)[5]	1,365	1,400	1,263	1,483	1,614	2,140
Criminal Investigations Completed[6]	2,552	2,584	2,481	2,850	2,600	2,998
Conviction Rate[7]	90.6%	88.4%	90.0%	89.0%	92.0%	90.2%

Target met Target not met

[1]Volume of collection work disposed divided by the total volume of collection work available, shown as a percentage.

[2]Sum of all individual 1040 returns closed by Small Business/Self-Employed, Taxpayer Services, and Large Business and International (Field Examinations and Correspondence Examinations programs) divided by the total full-time equivalent expended in relation to those individual returns.

[3]Number of examinations started during the fiscal year of individuals with a total positive income of $10 million and above.

[4]Number of partnership examinations started during the fiscal year.

[5]Number of examinations started during the fiscal year of large corporate returns reporting assets of $250 million and above.

[6]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.

[7]Number of convictions divided by the total of adjudicated criminal cases, shown as a percentage.

Transformation of Business Systems — Net Cost: $1,280 million

Transformation of Business Systems shifts tax administration from paper-based, labor-intensive processes towards a digital, data-driven, and scalable operating model. It strengthens employees' abilities to administer the tax laws, improves the digital tools for taxpayers, and enhances the mission support functions—including finance, human capital, procurement, facilities, communications, strategic planning, and research—that enable the IRS to operate effectively. The IRS develops secure, reliable technology to improve information sharing, strengthen cybersecurity, safeguard taxpayer data, and support IRS operations and taxpayer service. The objective is a lower-cost, higher-performing, and more resilient IRS that improves the taxpayer experience, strengthens compliance, creates workforce capacity, and adapts to future demands.

Performance Analysis

During FY 2026, the IRS continued transforming its business systems with enterprise-wide platforms to serve taxpayers better. Initiatives such as the Enterprise Data Platform, Taxpayer 360, Case Management, and the Zero Paper Initiative expanded access to information, strengthened digital processing capabilities, reduced manual work, and improved the speed and efficiency of IRS operations.

These transformation efforts were part of a larger portfolio of eight enterprise technology initiatives designed to improve taxpayer service, strengthen compliance, enhance mission support, and build a more integrated, digital IRS. Transformation efforts included:

- **Taxpayer 360:** Provides customer service representatives with a single, unified interface that displays the right data at the right time and in the right format to resolve taxpayer inquiries.
- **Online Accounts:** Enables taxpayers or their representatives to complete interactions online and reduce taxpayer burden. International Live Chat for individuals is now available, offering real-time support to users across different countries and making assistance more accessible.
- **Zero Paper Initiative:** Uses cloud-based technology and scanning to extract information from paper documents and transmit data directly into IRS processing systems, reducing the need for physical storage, minimizing manual data entry errors, and improving efficiency.
- **Enterprise Case Management:** Provides one modern platform for IRS employees to manage casework more efficiently from start to finish.
- **Case Selection and Anomaly Detection:** Transforms how the IRS selects and routes compliance work, enables faster identification of pre-refund risks, shortens audit cycles, and improves both compliance revenue and taxpayer fairness.
- **Tax Processing Platform:** Updates the technology the IRS uses behind the scenes to process returns, correct errors, and provide employees with more reliable access to taxpayer account information.
- **Enterprise Data Platform:** Creates a single platform for IRS data so employees can access consistent, trusted information across the IRS.
- **Virtual Infrastructure Replacement:** Enhances the IRS's virtual infrastructure by transitioning from legacy systems to a unified, cloud-ready platform.

In FY 2026, the IRS invested more than $700 million to develop capabilities, expand secure digital services, transform tax return processing, strengthen enterprise data integration, and advance next-generation technology platforms. One example is the Automated Underreporter Advanced Analytics tool, which uses super intelligence to review taxpayer responses to Automated Underreporter notices. The tool helps close cases faster when taxpayers agree with proposed tax changes and flags disagreements for employee review. The model has processed over 38,500 agreed upon responses, resulting in approximately $220 million in assessments. The IRS adapted the model for the Automated Questionable Credit program in just two weeks and is developing additional capabilities to analyze amended returns, identify compliance risks, and accelerate review timelines.

Challenges, Risks, and Strategic Opportunities

Transformation efforts help manage enterprise risks that can affect the reliability, security, and effectiveness of tax administration. Delays in advancing information technology, including the effective integration of super intelligence, could delay operational efficiency gains, slow improvements in taxpayer service, and constrain efforts to strengthen cybersecurity. As digital services and data use expand, the IRS will continue safeguarding sensitive information and adapting protections to increasingly complex cyber threats.

Workforce challenges could slow transformation efforts if the IRS is unable to maintain the technical expertise, experience, and resources needed to operate advanced platforms and adapt to changing mission requirements. Implementation of complex legislation and other regulatory requirements may place additional demands on technology and operations. To sustain transformation efforts, the IRS strengthens cybersecurity and data protections, advances enterprise data and platform capabilities, expands workforce skills, and improves systems to support changing legislative and operational requirements.

The IRS will continue investing in technology, automation, and the accountable use of super intelligence to increase employee productivity, improve taxpayer services, reduce taxpayer burden, and strengthen stewardship of taxpayer dollars. The IRS is advancing foundational platforms, including the Tax Processing Platform, to reduce reliance on legacy systems, address technical debt, and improve technology delivery. Further advances in enterprise data management and super intelligence capabilities create opportunities to improve the utilization of information, automate core processes, and provide taxpayers and employees with more efficient digital tools.

DID YOU KNOW?

TRUMP ACCOUNTS

Long-term financial security for millions of kids is here.

Use your IRS account to elect a child with Form 4547 and check your status.

- Individual retirement account for U.S. citizens under 18
- $1,000 contribution for every American child born 2025 to 2028
- Optional $5,000 a year to deposit

FY 2026 Key Performance Measure Results for Transformation of Business Systems

The IRS met or exceeded 2 of 4 performance targets in this program.

In FY 2026, the IRS made progress in modernizing its information technology hardware and optimizing office space. Information technology investment cost and schedule measures were below target, reflecting changes in program execution and planned activities.

The IRS Rentable Square Feet per Person measure is a key indicator of how efficiently the IRS manages its office space. It tracks the average amount of rentable office space maintained for each person requiring workspace. In FY 2026, the IRS reduced its total rentable office space compared with FY 2025, supporting more efficient use of its facilities.

The IRS also continued to reduce its inventory of aged information technology hardware. The IRS reduced aged hardware to 13.3%, exceeding its target of 20%, by retiring more than 11,000 outdated assets. These efforts reduced reliance on older infrastructure and associated operational risks while supporting the transition to modernized platforms that enable authorized employees to securely access real-time taxpayer data, improving service quality while safeguarding taxpayer information.

In FY 2026, information technology investments generally demonstrated positive cost and schedule performance. 6 of 10 reportable investments remained within 10% of planned costs, and 5 of 10 remained within 10% of planned schedules. Cost variances beyond the 10% threshold generally reflected lower-than-planned spending due to changes in program execution, acquisition strategies, or scope. Similarly, some schedule variances beyond the threshold reflected planned activities completed earlier than anticipated. Overall, these results reflect cost efficiencies and changes in program execution rather than unfavorable cost overruns or schedule delays.

Table 3: Summary of FY 2026 Key Performance Measure Results for Transformation of Business Systems.

Key Performance Measures	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Target	2026 Actual
Rentable Square Feet per Person[1]	264	248	224	230	306	292
Percent of Aged Hardware[2]	7.1%	19.9%	17.6%	13.1%	20.0%	13.3%
Percent of Reportable Information Technology Investments Within +/- 10% Cost Variance at the Investment Level[3]	81.3%	85.7%	85.7%	60.0%	90.0%	60.0%
Percent of Reportable Information Technology Investments Within +/- 10% Schedule Variance at the Investment Level[4]	87.5%	92.8%	71.4%	30.0%	90.0%	50.0%

Target met Target not met

[1]Amount of rentable square feet IRS maintains per person requiring space. This measure improves when the IRS reduces the amount of office space per employee—by using less space, accommodating more employees in the same space, or both.

[2]Quantity of information technology hardware in operation past its useful life divided by the total hardware in use, shown as a percentage.

[3]Number of reportable information technology 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.

[4]Number of reportable information technology 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.



Employees of the Internal Revenue Bureau count stamps. U.S. Internal Revenue stamps are fiscal stamps issued starting in 1862 to collect taxes on domestic goods, legal documents, and luxury items during times of financial need like the Civil War. Image part of the parent series, Photographs of Treasury Department Personnel, Facilities and Activities, between 1804–1917 stored at the National Archives.

ENTERPRISE RISK MANAGEMENT

The IRS operates in a complex risk environment shaped by evolving technology, sophisticated fraud, cybersecurity threats, and changing taxpayer service and compliance needs. Enterprise risk management provides a structured approach for identifying, assessing, and managing risks that could affect the IRS's mission while supporting informed decisions, resource allocation, and timely responses to emerging risks and opportunities.

In FY 2026, the IRS strengthened its enterprise risk management approach by establishing a common framework for identifying, assessing, prioritizing, monitoring, and reporting risks across the organization. The 2027 IRS Enterprise Risk Profile organizes individual enterprise risks into eight overarching categories, providing a consistent view of risk across the IRS while enabling leadership to assess both broad areas of exposure and the specific risks within them. The eight categories are:

Privacy

Risk of unauthorized access, disclosure, or misuse of sensitive taxpayer, employee, or organizational data.

Cybersecurity

Risk of compromise to systems, networks, or data due to cyber threats, vulnerabilities, or malicious activity.

Information Technology

Risk of system failure, degraded performance, or inability of technology systems to support mission operations, including system resilience and recovery capabilities.

Regulatory/Legal Compliance

Risk of failing to comply with laws, regulations, executive orders, or internal policies.

Tax Administration

Risk to the effective delivery of tax administration services, including return processing, taxpayer services, filing season readiness, and operational execution.

Compliance and Enforcement

Risk of ineffective enforcement or compliance activities resulting in revenue loss or reduced voluntary compliance.

Operational

Risk of disruption to mission execution due to failures in processes, people, systems, vendors, facilities, or continuity capabilities.

Financial

Risk of financial management, improper payments, inaccurate reporting, or ineffective budget execution.

ANALYSIS OF FINANCIAL STATEMENTS

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 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. Users of the statements are advised these statements are for a component entity of the Treasury.

Responsibilities of the IRS include administration of the nation's tax system and the custodial collection of taxes for the U.S. government. The IRS has two distinct financial management categories: administrative and custodial. Administrative accounts are included as appropriations and offsetting collections in the **Combined Statements of Budgetary Resources**. These resources are also reflected as assets, liabilities, revenues, expenses, and the net position of the IRS. Custodial activity supports tax collections, refunds of federal taxes, and outlay activities presented on the **Statements of Custodial Activity**. Custodial accounts are also included on the **Balance Sheets** within Federal Taxes Receivable, Net; and Federal Tax Refunds Payable. Audited financial statements with accompanying notes, including the independent auditor's report, are presented in the **Financial Information** section of this report. Percentage changes presented in this section are calculated using rounded amounts.

Financial Highlights

($ in Millions)	2026	2025	$ Change	% Change
Total Assets	$ 95,196	$ 140,264	$ (45,068)	(32.1%)
Total Liabilities	$ 82,079	$ 111,800	$ (29,721)	(26.6%)
Net Cost of Operations	$ 17,248	$ 21,191	$ (3,943)	(18.6%)
Total Budgetary Resources	$ 24,592	$ 43,378	$ (18,786)	(43.3%)
Total Collections of Federal Tax Revenue	$ 5,553,068	$ 5,313,762	$ 239,306	4.5%

Analysis of the Balance Sheets

The Balance Sheets display 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. The financial position as of September 30, 2026, and September 30, 2025, is presented below.

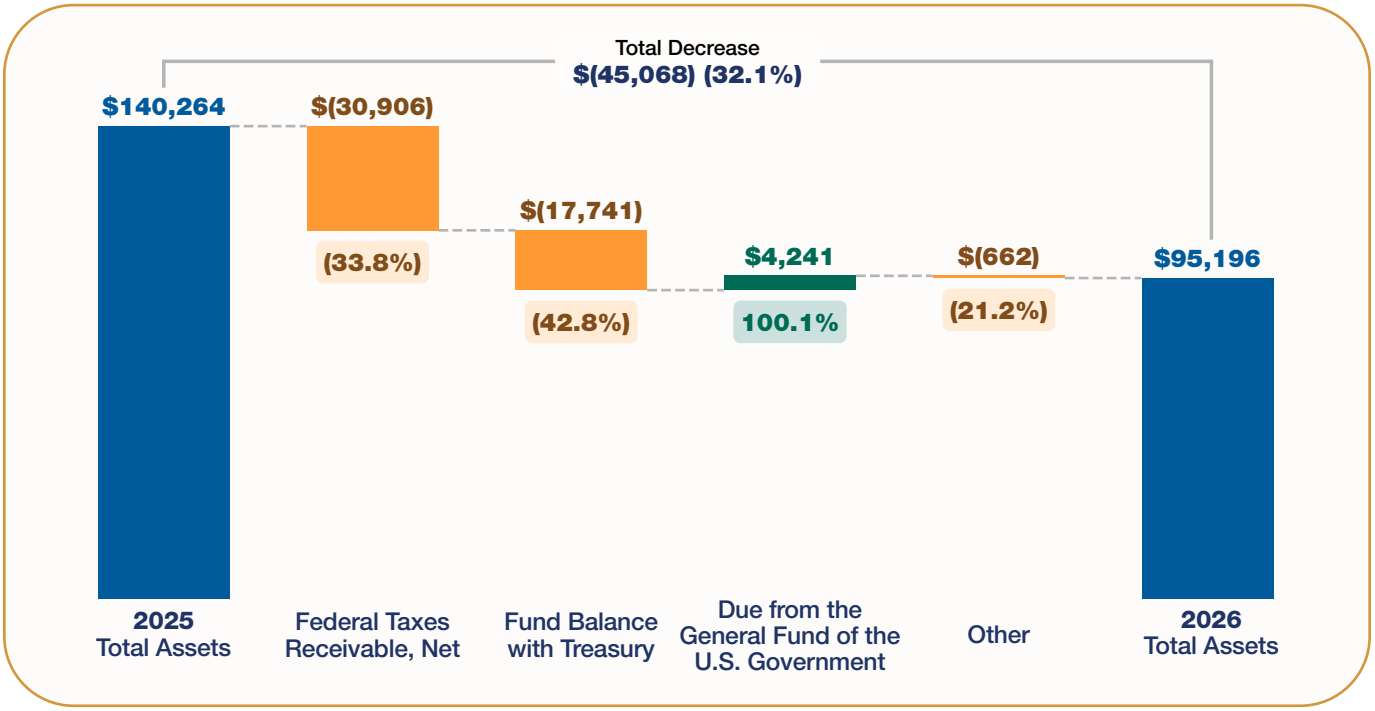
The IRS's FY 2026 assets decreased by $45,068 million (32.1%) from FY 2025.

Assets Composition

($ in Millions)	2026	2025	$ Change	% Change
Federal Taxes Receivable, Net	$ 60,509	$ 91,415	$ (30,906)	(33.8%)
Fund Balance with Treasury	23,743	41,484	(17,741)	(42.8%)
Due from the General Fund of the U.S. Government	8,479	4,238	4,241	100.1%
Other	2,465	3,127	(662)	(21.2%)
Total Assets	**$ 95,196**	**$ 140,264**	**$ (45,068)**	**(32.1%)**

Federal Taxes Receivable, Net decreased by $30,906 million in FY 2026. Additional information on Federal Taxes Receivable, Net can be found in Unpaid Assessments within this section and in **Note 4. Federal Taxes Receivable, Net**. Fund Balance with Treasury was primarily reduced in FY 2026 by the $11,661 million rescission of supplemental technology and operations support funds. A rescission cancels previously enacted budget authority. Annual appropriations decreased by $1,124 million, further reducing available funding.

Total Assets ($ in millions)



The IRS's FY 2026 liabilities decreased by $29,721 million (26.6%) from FY 2025.

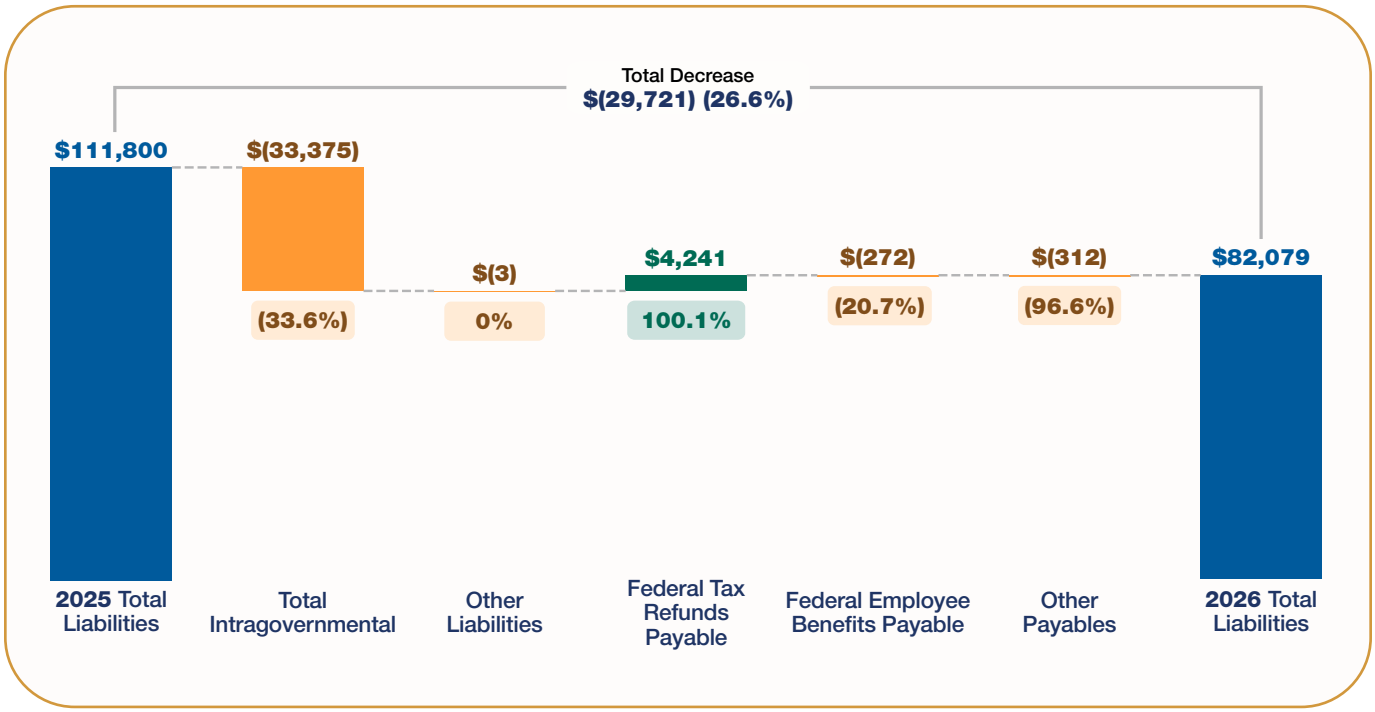
Liabilities Composition

($ in Millions)	2026	2025	$ Change	% Change
Total Intragovernmental	$ 65,849	$ 99,224	$ (33,375)	(33.6%)
Other Liabilities	6,696	6,699	(3)	0.0%
Federal Tax Refunds Payable	8,479	4,238	4,241	100.1%
Federal Employee Benefits Payable	1,044	1,316	(272)	(20.7%)
Other Payables	11	323	(312)	(96.6%)
Total Liabilities	**$ 82,079**	**$ 111,800**	**$ (29,721)**	**(26.6%)**

Total Intragovernmental Liabilities, primarily representing funds to be distributed to the General Fund of the U.S. Government, decreased by $33,375 million in FY 2026, primarily resulting from the Federal Taxes Receivable, Net decrease of $30,906 million. The overall increase of $3,654 million

in Other than Intragovernmental liabilities was primarily attributable to the increase in Federal Tax Refunds Payable. Additional information on Federal Employee Benefits Payable and Other Liabilities can be found in **Note 8. Federal Employee Benefits Payable** and **Note 9. Other Liabilities**.

Total Liabilities ($ in millions)



Net Position consists of Unexpended Appropriations and Cumulative Results of Operations. Funds made available by Congress are recorded in Unexpended Appropriations. Cumulative Results of Operations is the net difference between expenses, losses, and transfers out and financing sources such as expended appropriations, revenues, gains, and transfers in from the inception of an entity or activity, as of the reporting date of the financial statements. The net book value of capitalized assets and future funding requirements of unfunded liabilities both affect net position but do not factor into the unobligated balance as reported on the **Combined Statements of Budgetary Resources**. Net Position decreased by 53.9% primarily due to the $11,661 million rescission in FY 2026, which is also reported as Other Adjustments on the **Statement of Changes in Net Position**.

Analysis of the Statements of Net Cost

The **Statements of Net Cost** present the annual cost of operating the IRS's three major programs: Service to the Taxpayer, Enforcement of Tax Legislation, and Transformation of Business Systems. If costs cannot be traced, assigned, or allocated to segments and their outputs, they are presented as Cost Not Assigned to Programs. Net Cost of Operations includes gross cost, less earned revenue from user fees, reimbursable agreements, and retained earnings from the Private Collection Agent Program to pay the Private Collection Agent vendors responsible for collecting this delinquent debt.

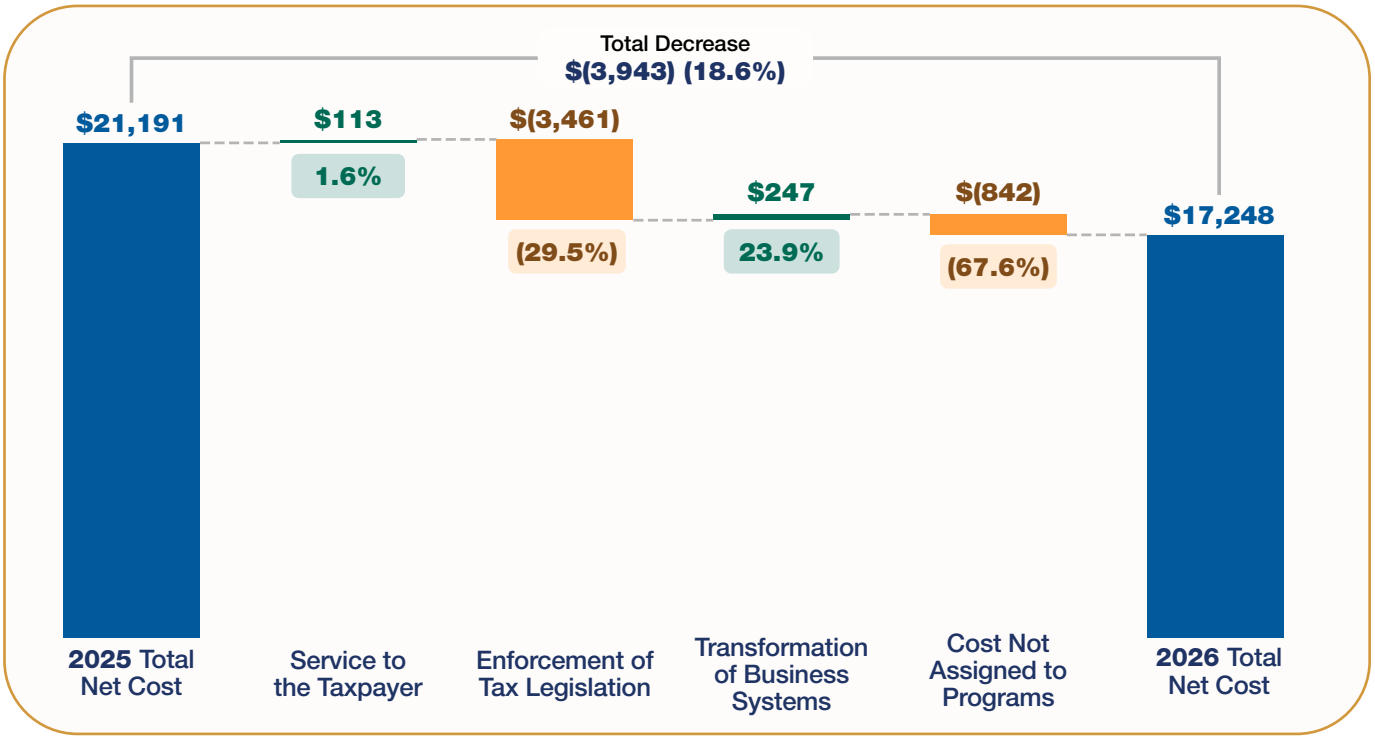
The $3,943 million decrease in FY 2026 in Net Cost of Operations from FY 2025 was primarily attributed to the more than 23,000 employees who accepted the Deferred Resignation Program

offers. The FY 2026 $842 million decrease in Cost Not Assigned to Programs from FY 2025 resulted from having fewer reductions in staff in FY 2026 partially offset by furlough costs. Cost Not Assigned to Programs includes costs associated with furloughs, deferred resignation programs, and Voluntary Separation Incentive Payments.

Net Cost of Programs

($ in Millions)	2026	2025	$ Change	% Change
Net Cost of Programs				
Service to the Taxpayer	$ 7,292	$ 7,179	$ 113	1.6%
Enforcement of Tax Legislation	8,273	11,734	(3,461)	(29.5%)
Transformation of Business Systems	1,280	1,033	247	23.9%
Net Cost of Programs	**$ 16,845**	**$ 19,946**	**$ (3,101)**	**(15.5%)**
Cost Not Assigned to Programs	403	1,245	(842)	(67.6%)
Net Cost of Operations	**$ 17,248**	**$ 21,191**	**$ (3,943)**	**(18.6%)**

Net Cost of Programs ($ in millions)



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 Statements of Budgetary Resources**. Annual appropriations for the IRS are presented in the chart below.

Budgetary Resources

($ in Millions)	2026	2025	$ Change	% Change
Unobligated Balance from Prior Year Authority	$ 24,290	$ 50,632	$ (26,342)	(52.0%)
Appropriations (Discretionary and Mandatory)				
Taxpayer Services	3,036	3,222	(186)	(5.8%)
Enforcement	5,004	(15,069)	20,073	133.2%
Technology and Operations Support	(8,501)	3,846	(12,347)	(321.0%)
Other	626	609	17	2.8%
Total Appropriations	**165**	**(7,392)**	**7,557**	**102.2%**
Spending Authority from Offsetting Collections	137	138	(1)	(0.7%)
Total Budgetary Resources	**$ 24,592**	**$ 43,378**	**$ (18,786)**	**(43.3%)**

The FY 2026 Budgetary Resources net reduction of $18,786 resulted from the following changes:

- $1,330 million decrease in Taxpayer Service
- $2,068 million decrease in Enforcement of Tax Legislation
- $14,967 million decrease in Technology and Operations Support
- $421 million decrease in Business Modernization and Other

The FY 2026 Total Budgetary Resources of $24,592 million decreased by $18,786 million, a decrease of 43.3% from FY 2025. The FY 2026 rescission of $11,661 million of technology and operations support funding was the primary contributor of the decrease in budgetary resources.

Obligation Incurred by Category

($ in Millions)	2026	Percent	2025	Percent
Personnel Salaries and Benefits	$ 10,240	69.3%	$ 13,387	68.9%
Contractual Services	$ 2,239	15.2%	$ 3,390	17.5%
Rent, Communications, Utilities and Miscellaneous	$ 1,326	9.0%	$ 1,363	7.0%
Property and Equipment	$ 957	6.5%	$ 1,278	6.6%
Total Obligations Incurred	**$ 14,762**	**100%**	**$ 19,418**	**100%**

The IRS incurred obligations of $14,762 million in FY 2026, a net decrease of $4,656 million compared to the previous year. Personnel Salaries and Benefits decreased by $3,147 million due to reduced staffing in FY 2026. Contractual Services decreased by $1,151 million due to several contracts being renegotiated or canceled in FY 2025. Property and Equipment decreased by $321 million due to a decrease in Internal Use Software projects to capitalize.

Analysis of Custodial Activities

The Statements of Custodial Activity present custodial revenues (federal tax collections) and the disposition of those revenues. Total custodial revenues were $5,553,068 million and $5,313,762 million for FY 2026 and FY 2025, respectively. Estate and Gift, Railroad Retirement, and Federal Unemployment are grouped into the Other Category shown in the chart below.

($ in Millions)	2026	2025	$ Change	% Change
Collections of Federal Tax Revenue				
Individual	$ 4,964,860	$ 4,689,620	$ 275,240	5.9%
Corporate	$ 442,931	$ 486,384	$ (43,453)	(8.9%)
Excise	$ 89,304	$ 90,612	$ (1,308)	(1.4%)
Other	$ 55,973	$ 47,146	$ 8,827	18.7%
Total Collections of Federal Tax Revenue	**$ 5,553,068**	**$ 5,313,762**	**$ 239,306**	**4.5%**

The overall increase of $239,306 million in Total Collections of Federal Tax Revenue was primarily attributed to the $275,240 million increase in Individual tax, the $43,453 million decrease in Corporate tax, and an $8,921 million increase in Estate and Gift tax collections. The Statements of Custodial Activity present refunds and outlays disbursed by the IRS on behalf of the U.S. government. Total Refunds of Federal Taxes and Outlays were $670,113 million and $638,785 million for FY 2026 and FY 2025, respectively, an increase of $31,328 million. This increase was primarily attributable to a $27,832 million increase in corporate tax refunds, a $5,873 million increase in individual tax refunds, and a $2,103 million decrease in excise tax refunds. Total Refunds of Federal Taxes and Outlays included refunds of tax overpayments, interest payments, disbursements for refundable tax credits such as the Premium Tax Credit, and other outlays such as the Trump Accounts Contribution Pilot Program. 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)	2026	2025	$ Change	% Change
Unpaid Assessments				
Federal Taxes Receivable, Gross	$ 339,467	$ 361,340	$ (21,873)	(6.1%)
Compliance Assessments	81,064	86,142	(5,078)	(5.9%)
Write-Offs	98,017	92,836	5,181	5.6%
Total Unpaid Assessments	**$ 518,548**	**$ 540,318**	**$ (21,770)**	**(4.0%)**

Total unpaid assessments decreased by 4.0%, or $21,770 million, compared with September 30, 2025. This change is primarily due to a decrease in Gross Federal Taxes Receivable. The 6.1% 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 $28,048 million. For additional information, refer to **Note 4. Federal Taxes Receivable, Net** and **Required Supplementary Information, Federal Taxes Receivable, Net**.

The Federal Taxes Receivable, Gross 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**). 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. Taxes Receivable Other consists of the unpaid balances of branded prescription drugs fees and delinquent miscellaneous accounts.

($ in Millions)	2026	2025	$ Change	% Change
Federal Taxes Receivable, Gross				
Nondelinquent Internal Revenue Code Section 965(h) Taxes Receivable	$ 69	$ 28,117	$ (28,048)	(99.8%)
Delinquent Taxes Receivable	335,763	329,865	5,898	1.8%
Delinquent Restitution Based Taxes Receivable	3,399	3,132	267	8.5%
Taxes Receivable Other	236	226	10	4.4%
Federal Taxes Receivable, Gross	**$ 339,467**	**$ 361,340**	**$ (21,873)**	**(6.1%)**

Collectability Modeling and Economic Conditions

Delinquent taxes receivable collectability reflects existing economic conditions of the taxpayers' ability to pay. For nondelinquent taxes receivable, indicators of financial health were reviewed by CFO analysts for tax accounts 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, Gross is reduced by the estimated uncollectible amounts of $278,958 million and $269,925 million as of September 30, 2026 and 2025, respectively, to calculate Federal Taxes Receivable, Net. 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. Federal Taxes Receivable, Net decreased by $30,906 million, or 33.8%, primarily due to final installment payments applied to Internal Revenue Code Section 965(h) deferrals. For additional information, refer to **Note 4. Federal Taxes Receivable, Net**.

Federal Taxes Receivable Estimated Collectability

($ in Millions)	As of September 30, 2026		
	Collectability	Gross	Net
Nondelinquent Taxes Receivable	65.2%	$ 69	$ 45
Delinquent Taxes Receivable	17.8%	339,398	60,464
Federal Taxes Receivable, Gross and Net		**$ 339,467**	**$ 60,509**

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



The IRS Building under construction in Washington, D.C., circa 1930.

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 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 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 evaluate and report on the effectiveness of the organization's internal controls. The Government Accountability Office's Standards for Internal Control in the Federal Government provides the overall framework for establishing and maintaining an effective internal control system.

The Management Controls Executive Steering Committee serves as the IRS's senior governance forum for enterprise-level oversight of internal control. It provides strategic direction, oversight, and accountability for the design, operation, assessment, and improvement of internal control. The committee reviews and discusses internal control topics, including material weaknesses, significant deficiencies, internal control assurance statements, audit results, improper payment reporting, and other control related matters. Executives and subject matter experts from different divisions provide periodic updates on the status of any significant deficiencies and internal control issues.

Analysis of Controls

The IRS's Annual 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 the controls are designed, implemented, and operating effectively. As part of the evaluation process, the IRS conducts the following activities:

- Internal Control Managerial Assessments: Business unit Heads of Office evaluate and certify the effectiveness of their internal controls.
- Internal Control Framework Assessment Workbook: An assessment to identify cross-cutting risks, internal control gaps, and other matters that may affect the effectiveness of the IRS's internal control system.
- OMB Circular A-123, Appendix A: Assessments and testing of internal control over key financial and non-financial transactions.

- Internal Review Program, Quality Assurance Reviews: Managerial, operational, quality, security, and program evaluations.
- Internal Review Program, Internal Control Reviews: Assessments of IRS programs.

Internal Control Over Financial and Non-Financial Reporting

The IRS assessed internal control over financial reporting in accordance with OMB Circular A-123, Appendix A, Management of Reporting and Data Integrity Risk. The IRS also applied the annual Treasury guidance to evaluate the design, implementation, and operating effectiveness of key internal control 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, 2026. Furthermore, the IRS reviewed internal control over non-financial reporting through its Internal Review Program.

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 substantially comply 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 substantially comply 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 substantially comply 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 our assessment, the IRS concluded that its financial management systems substantially complied with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level. However, IRS concluded that its financial management systems did not substantially comply with federal financial management systems requirements due to the significant deficiency related to unpaid assessments, for which we continue to use our well documented, successful estimation process to mitigate the risk of material misstatement.

The significant deficiency relates to limitations in the ability of the IRS's financial management systems to record, classify, and report Federal taxes receivable. To remediate the deficiency, the IRS continues to implement its plan to modernize its financial systems and improve the classification, reliability, and reporting of unpaid assessment data. These corrective actions are dependent on the IRS's broader technology modernization efforts; therefore, a final implementation date has not yet been determined.

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 its financial statements and provide business units with the data needed to carry out their missions. These systems have 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 solution used to account for and summarize all IRS custodial tax transactions and activities. The IRS uses this system 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's responsibilities for 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. The 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 provides cumulative reporting capabilities by merging data from all sub-systems in Business Warehouse.

During FY 2026, the IRS continued implementing system improvements, including:

- Expanded Government Invoicing functionalities for buyer and seller transactions.
- Implemented OneStream Software as a Service cloud solution to replace budget plan development and formulation functions.
- System-wide legislative, technical, and cybersecurity upgrades.
- Completed the transition process of the procurement functionality for Procurement Requests Information Systems Management, also known as PRISM, to go online at the start of FY 2027.

The IRS will build on its FY 2026 progress by evaluating service-provider solutions available through the Financial Management Quality Service Management Office marketplace, enhancing networks and information sharing, improving service delivery, and using data to plan for workforce needs.

Within the next several years, the IRS plans to continue enhancing its financial management systems, including implementing the remaining segments of Government Invoicing functionality, the General Services Administration's GO.gov travel system, and the OneStream 3-year payroll forecasting solution.

Other Laws

The IRS is required to comply with several legal and regulatory requirements, including the Antideficiency Act. The IRS has effective controls in place to provide reasonable assurance of compliance with 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 2026, the IRS consistently reviewed compliance with 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 to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982. The IRS conducted its assessment of risk and internal control in accordance with Office of Management and Budget Circular A-123, Management's Responsibility for Internal Control.

Based on the results of the assessment, the IRS can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2026. 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, 2026, the IRS's financial management systems conform to the requirements of Section 4 of the Federal Managers' Financial Integrity Act of 1982, except for the significant deficiency related to unpaid assessments discussed below.

The Federal Financial Management Improvement Act of 1996 Section 803(a) requires agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. We evaluated the IRS's 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 the results of our assessment, the IRS concluded that, as of September 30, 2026, its financial management systems substantially complied with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level. However, the IRS concluded that its financial management systems did not substantially comply with federal financial management systems requirements due to the significant deficiency related to unpaid assessments and continues to use its well-documented, successful estimation process to mitigate the risk of material misstatement.

To remediate the deficiency, the IRS continues to implement its plan to address the system limitations affecting the recording, classification, and reporting of unpaid assessments. The IRS Information Technology and the Chief Financial Officer organizations are collaborating to modernize financial systems and improve the classification and reliability of unpaid assessment data and general ledger reporting. These corrective actions are dependent on the IRS's broader technology modernization efforts; therefore, a final implementation date has not yet been determined. Additional information about the significant deficiency and related corrective actions can be found in the **Analysis of Systems, Controls, and Legal Compliance** section of this report.



Frank J. Bisignano
Chief Executive Officer of Internal Revenue
November 5, 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's management evaluated the effectiveness of the IRS's internal control over financial reporting as of September 30, 2026, 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, IRS management concluded IRS's internal control over financial reporting was effective as of September 30, 2026.

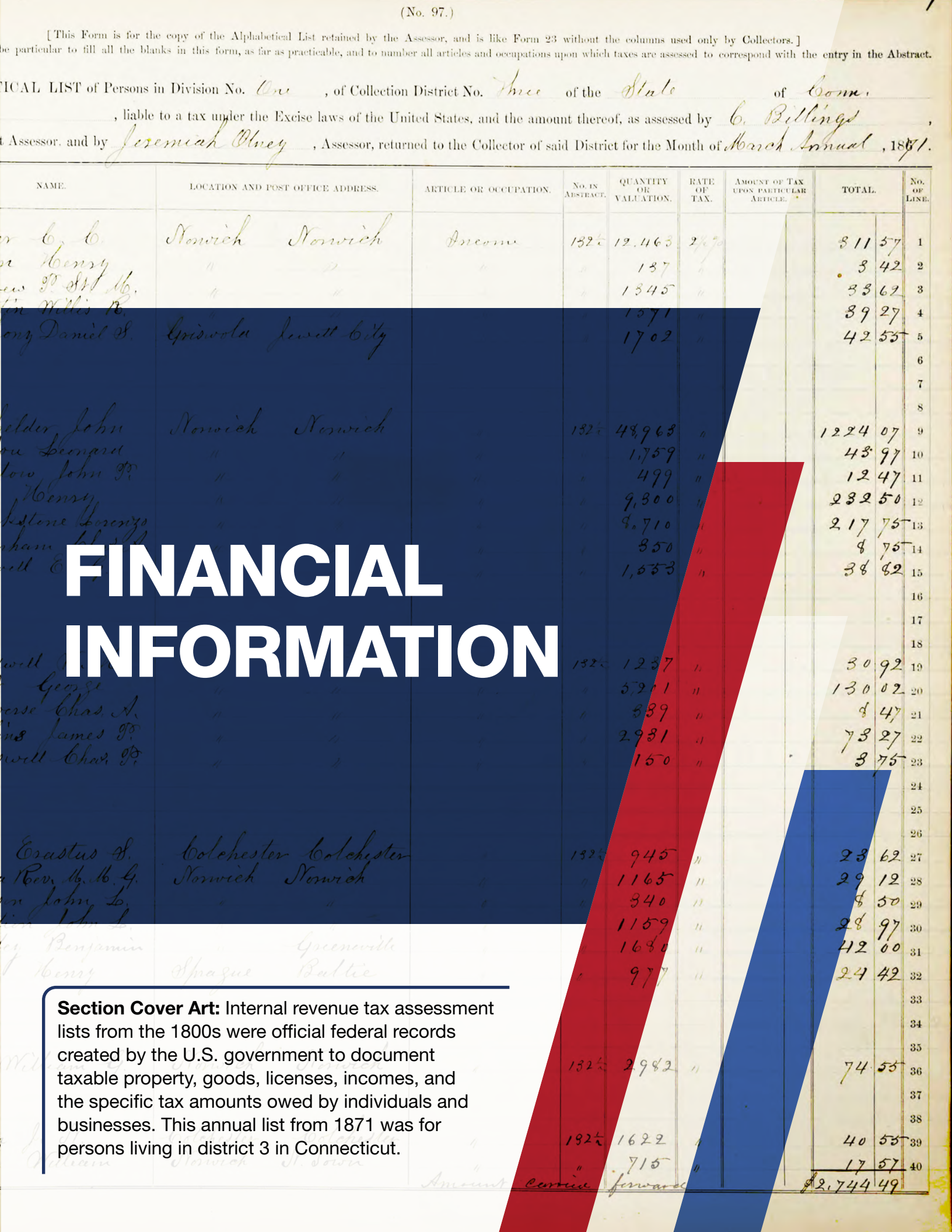


Frank J. Bisignano
Chief Executive Officer of Internal Revenue
November 5, 2026



Todd R. Newnam
Chief Financial Officer
November 5, 2026

FINANCIAL INFORMATION



(No. 97.)

[This Form is for the copy of the Alphabetical List retained by the Assessor, and is like Form 23 without the columns used only by Collectors.]
be particular to fill all the blanks in this form, as far as practicable, and to number all articles and occupations upon which taxes are assessed to correspond with the entry in the Abstract.

TICAL LIST of Persons in Division No. One, of Collection District No. Three of the State of Conn.
, liable to a tax under the Excise laws of the United States, and the amount thereof, as assessed by C. Billings,
t Assessor, and by Jeremiah Olney, Assessor, returned to the Collector of said District for the Month of March Annual, 1871.

NAME.	LOCATION AND POST OFFICE ADDRESS.	ARTICLE OR OCCUPATION.	No. IN ABSTRACT.	QUANTITY OR VALUATION.	RATE OF TAX.	AMOUNT OF TAX UPON PARTICULAR ARTICLE.	TOTAL.	No. OF LINE.
C. C.	Norwich Norwich	Income	132	12,463	3%		311 37	1
Henry	" "	"	"	137	"		3 42	2
[illegible]	" "	"	"	1345	"		33 62	3
[illegible]	" "	"	"	1571	"		39 27	4
[illegible] Daniel S.	Griswold Jewett City	"	"	1702	"		42 55	5
								6
								7
								8
[illegible] John	Norwich Norwich	"	132	48,963	"		1224 07	9
[illegible] Leonard	" "	"	"	1,759	"		43 97	10
[illegible] John Jr.	" "	"	"	499	"		12 47	11
Henry	" "	"	"	9,300	"		232 50	12
[illegible] Lorenzo	" "	"	"	8,710	"		217 75	13
[illegible]	" "	"	"	350	"		8 75	14
[illegible]	" "	"	"	1,553	"		38 82	15
								16
								17
								18
[illegible]	" "	"	132	1237	"		30 92	19
George	" "	"	"	5201	"		130 02	20
[illegible] Chas. A.	" "	"	"	339	"		8 47	21
[illegible] James Jr.	" "	"	"	2931	"		73 27	22
[illegible] Chas Jr.	" "	"	"	150	"		3 75	23
								24
								25
								26
Erastus S.	Colchester Colchester	"	132	945	"		23 62	27
Rev. M. M. G.	Norwich Norwich	"	"	1165	"		29 12	28
[illegible] John L.	" "	"	"	340	"		8 50	29
[illegible]	" "	"	"	1159	"		28 97	30
[illegible] Benjamin	Greenville Baltic	"	"	1680	"		42 00	31
Henry	Sprague Baltic	"	"	977	"		24 42	32
								33
								34
								35
[illegible]	" "	"	132	2982	"		74 55	36
								37
								38
[illegible]	" "	"	192	1622	"		40 55	39
[illegible]	" "	"	"	715	"		17 87	40
Amount	Carried forward						$2,744 49	

Section Cover Art: Internal revenue tax assessment lists from the 1800s were official federal records created by the U.S. government to document taxable property, goods, licenses, incomes, and the specific tax amounts owed by individuals and businesses. This annual list from 1871 was for persons living in district 3 in Connecticut.

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased to present the FY 2026 Agency Financial Report on behalf of the dedicated professionals who support the IRS's financial stewardship and business operations. This report reflects the IRS's commitment to sound financial stewardship, accountability, and the responsible management of public resources. These principles are fundamental to providing America's taxpayers with high-quality service, helping them understand and meet their tax obligations, and enforcing the nation's tax laws with integrity and fairness to all.

As the principal financial management advisor to the IRS Chief Executive Officer, the Chief Financial Officer (CFO) leads financial management and compliance oversight with integrity and accountability, guided by expert planning and execution. In FY 2026, the Office of the CFO expanded to include the CFO, Office of the Chief Procurement Officer (Procurement), Privacy, and Facilities Management & Security Services (Facilities) organizations. Together, these offices supported financial management, acquisition, privacy, facilities, and security operations across the IRS. The Office of the CFO aligned its work with Treasury's strategic priorities: fostering affordable abundance, enhancing stewardship of taxpayer dollars, and improving the efficiency and effectiveness of Treasury operations. The following FY 2026 accomplishments demonstrate progress toward those priorities.

Financial Reporting Excellence

As the primary revenue collector for the U.S. government, the IRS reported approximately $5.6 trillion in tax collections, $670.1 billion in tax refunds and outlays, and $60.5 billion in Federal Taxes Receivable, Net. During FY 2026, the IRS received AGA's Certificate of Excellence in Accountability Reporting for the fourth consecutive year. The IRS also received the Best-in-Class Award for Outstanding Discussion of the Entity's Enterprise Risk Management Program. The award citation described the discussion of the IRS's top enterprise risks as "insightful and compelling." These recognitions reflect the Office of the CFO's commitment to continuous improvement, transparency, and the highest standards of accountability.

> "Sound financial management and strong internal controls are essential to maintaining public trust. For the 27th consecutive year, the IRS received an unmodified opinion on its financial statements."

Effective Compliance Oversight

Sound financial management and strong internal controls are essential to maintaining public trust. For the 27th consecutive year, the IRS received an unmodified opinion on its financial statements.

The external auditors also issued an unmodified opinion on the overall effectiveness of internal control over financial reporting. The IRS continued making progress in addressing the remaining significant deficiency in internal control over financial reporting related to unpaid assessments. This demonstrates a commitment to continuous improvement, accountability, and fiduciary responsibility.

Key Transformation and Productivity Efforts

The IRS Chief Executive Officer challenged the organization to make full use of the latest technologies to transform operations. The IRS made progress on many transformation efforts. Much of the workflow involves large volumes of structured and semi-structured information, including tax laws and regulations, tax forms and returns, taxpayer correspondence, and operational guidance. This has created opportunities to use super intelligence for information retrieval, analysis, and decision support to improve workforce efficiency. Super intelligence provides an opportunity for employees to focus their time and expertise on higher-value work as the IRS responds to increasing demands on tax administration.

The Office of the CFO has been instrumental in supporting transformation efforts. Financial management teams applied super intelligence to automate complex document analysis, strengthen financial controls and standards, and reduce manual data entry and review. Further automation of manual assessments, deposits, and refunds streamlined processes supporting billions of dollars in transactions and eliminated a substantial number of manual journal entries. Automated processing of employee reimbursables and enhanced reporting reduced the need for manual invoice processing.

Procurement focused on opportunities to reduce contract scope and scale and to achieve price reductions compared with historical experience. This included deploying and leveraging new systems and improved internal processes to streamline and enhance the procurement cycle. Improvements included Bidscale, which is a super intelligence acquisition package accelerator and the Treasury Requirements Approval and Coordination System, which is an acquisition ecosystem. Together, these tools improved efficiency, accuracy, and data analytics capabilities and yielded approximately $930 million in reduced purchasing compared with FY 2025.

Facilities executed the mandated Return to Office effort, achieving a 98% workspace assignment rate. During FY 2026, 28 locations were closed and additional space was consolidated or optimized, reducing the IRS real estate footprint by 551,000 square feet and positioning the IRS for future cost savings. Facilities also supported government-wide efficiency by accommodating 668 non-IRS personnel in IRS workspace.

These improvements provided reliable data, strengthened operational resilience, and supported data-informed decisions that maximized the value of IRS spending. The Office of the CFO will further advance initiatives to improve efficiency, strengthen controls, and support effective tax administration.

Sincerely,



Todd R. Newnam
Chief Financial Officer
November 5, 2026

INDEPENDENT AUDITOR'S REPORT

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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 years 2026 and 2025 financial statements of the Internal Revenue Service (IRS), we found

- IRS's financial statements as of and for the fiscal years ended September 30, 2026, and 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, 2026; and
- no reportable noncompliance for fiscal year 2026 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 sheets as of September 30, 2026, and 2025; the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal years 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, 2026, and 2025, and its net cost of

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

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

[3]See 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).

operations, changes in net position, budgetary resources, and custodial activity for the fiscal years 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, 2026, 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, 2026, based on criteria established under FMFIA. Our fiscal year 2026 audit continued to identify a significant deficiency[4] 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 2026 financial statements.

Although the significant deficiency in internal control over unpaid assessments did not affect our opinion on IRS's fiscal year 2026 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 control over unpaid assessments that existed during fiscal year 2026, 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]

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.

---

[4]A 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.

[5]An 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).

[6]Section 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 the Department of the 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 agency-wide FFMIA assessment. Since IRS is a significant component of Treasury, we conducted this assessment to support the audit of the Treasury agency-wide 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).

These other deficiencies include several new and continuing deficiencies in information system controls. In fiscal years 2025 and 2026, IRS made significant changes to its Information Technology (IT) organization and streamlined certain policies, procedures, and processes related to its information security management program, such as those governing IRS's annual security control assessments and ongoing authorizations of systems.[7] IRS also has a number of technology transformation efforts under way, including updates to the technology IRS uses to process tax returns, and has updated its system development life cycle framework. Given the significant role that information systems have in IRS financial reporting, it will be important for IRS management to monitor the risks associated with these changes and continue to build on the progress it has made to address information system control deficiencies and strengthen its information security management program.

Significant Deficiency in Internal Control over Unpaid Assessments

During fiscal year 2026, 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.[8]

As in prior years,[9] IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations on a material portion of its federal taxes receivable balance to help ensure that this balance was free from material misstatement. During fiscal year 2026, IRS recorded summary-level adjustments totaling about $29.8 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 deficiencies collectively represent a significant deficiency in IRS's internal control over financial reporting as of September 30, 2026. Continued

[7]The Department of the Treasury Inspector General for Tax Administration reported a 42 percent reduction of IRS IT employees from January 2025 through January 2026, resulting from workforce reduction efforts, reassignments, and restructuring efforts.

[8]Federal 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; therefore, they do not meet the requirements for asset recognition. 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).

[9]GAO, *Financial Audit: IRS's FY 2025 Financial Statements*, GAO-26-107977 (Washington, DC.: Jan. 20, 2026).

management commitment and sustained efforts are necessary to address the control deficiencies related to 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 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 consists of unpaid assessments (taxes and associated penalties and interest) that are 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 information 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;

[10]In 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 projected a gross tax gap for tax year 2022 of $696 billion. IRS also projected that $90 billion would be collected through enforcement actions or late payments, leaving a net tax gap of $606 billion.

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

- 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, 2026, included in the accompanying Management's Report on Internal Control over Financial Reporting on page 30.

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 FMFIA. We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, 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 2026 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 2026 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 to 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 improve internal controls. The complete text of IRS's response is reproduced in the enclosure.

//SIGNED//

Dawn B. Simpson
Director
Financial Management and Assurance

November 5, 2026

ENCLOSURE: IRS RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT

November 5, 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, Financial Audit: IRS's FY 2026 Financial Statements. We are pleased the IRS received an unmodified opinion on its combined financial statements, reflecting our continued commitment to accurate and reliable financial reporting. We also continued to make meaningful progress in resolving open recommendations.

The IRS's ability to produce reliable financial statements each year reflects 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 improving our internal control over financial reporting.

Sincerely,



Frank J. Bisignano
Chief Executive Officer

FINANCIAL STATEMENTS

Audited, See Accompanying Auditor's Report

The financial statements have been prepared to report on 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 the Government Accountability Office.

The IRS financial statements for FY 2026 and FY 2025 are described below:

- The Balance Sheets present assets, liabilities, and net position.
- The Statements of Net Cost present gross costs incurred less exchange revenue earned from activities, cost not assigned to programs, and the net cost of operations.
- The Statements of Changes in Net Position present 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 Statements of Budgetary Resources present Budgetary Resources, the Status of Budgetary Resources, and the Outlays, Net. Additional details by major budget accounts are presented in Required Supplementary Information.
- The Statements of Custodial Activity present sources of non-exchange federal tax revenues collected and disposition of refunds and outlays disbursed.

Balance Sheets

As of September 30, 2026 and 2025

(In Millions)	2026	2025
Assets		
Intragovernmental		
Fund Balance with Treasury (Notes 2, 3)	$ 23,743	$ 41,484
Accounts Receivable, Net	39	43
Advances and Prepayments	3	7
Other Assets		
Due from the General Fund of the U.S. Government (Note 2)	8,479	4,238
Total Intragovernmental	**32,264**	**45,772**
Other than Intragovernmental		
Cash and Other Monetary Assets	4	4
Accounts Receivable, Net		
Federal Taxes Receivable, Net (Notes 2, 4, 7)	60,509	91,415
Other Receivables, Net	16	15
Property and Equipment, Net (Note 5)	2,383	3,044
Advances and Prepayments	20	14
Total Other than Intragovernmental	**62,932**	**94,492**
Total Assets	**$ 95,196**	**$ 140,264**
Liabilities		
Intragovernmental		
Other Liabilities		
Due to the General Fund of the U.S. Government (Note 7)	$ 65,646	$ 99,005
Other Liabilities (Note 9)	203	219
Total Intragovernmental	65,849	**99,224**
Other than Intragovernmental		
Accounts Payable		
Federal Tax Refunds Payable	8,479	4,238
Other Payables	11	323
Federal Employee Salary, Leave, and Benefits Payable (Note 8)	746	796
Post-Employment Benefits Payable (Note 8)	298	520
Other Liabilities (Note 9)	6,696	6,699
Total Other than Intragovernmental	16,230	**12,576**
Total Liabilities	82,079	**111,800**
Commitments and Contingencies (Note 11)		
Net Position		
Unexpended Appropriations		
Funds from Other than Dedicated Collections	10,270	25,325
Cumulative Results of Operations		
Funds from Dedicated Collections (Note 12)	264	261
Funds from Other than Dedicated Collections	2,583	2,878
Total Cumulative Results of Operations (Consolidated)	**2,847**	**3,139**
Total Net Position	**13,117**	**28,464**
Total Liabilities and Net Position	**$ 95,196**	**$ 140,264**

The accompanying notes are an integral part of these financial statements.

Statements of Net Cost

For the Fiscal Years Ended September 30, 2026 and 2025

(In Millions)	2026	2025
Major Programs		
Service to the Taxpayer		
Gross Cost	$ 7,358	$ 7,243
Earned Revenue	(66)	(64)
Net Program Cost	**7,292**	**7,179**
Enforcement of Tax Legislation		
Gross Cost	8,744	12,214
Earned Revenue	(471)	(480)
Net Program Cost	**8,273**	**11,734**
Transformation of Business Systems		
Gross Cost	1,286	1,038
Earned Revenue	(6)	(5)
Net Program Cost	**1,280**	**1,033**
Cost Not Assigned to Programs	403	1,245
Net Cost of Operations	**$ 17,248**	**$ 21,191**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Position

For the Fiscal Year Ended September 30, 2026

(In Millions)	Consolidated Funds from Dedicated Collections (Note 12)	Consolidated Funds from Other than Dedicated Collections	Consolidated Total
Unexpended Appropriations			
Beginning Balances	$ –	$ 25,325	$ 25,325
Appropriations Received	–	11,195	11,195
Appropriations Transferred In/(Out)	–	–	–
Other Adjustments	–	(11,803)	(11,803)
Appropriations Used	–	(14,447)	(14,447)
Net Change in Unexpended Appropriations	–	(15,055)	(15,055)
Total Unexpended Appropriations	–	10,270	10,270
Cumulative Results of Operations			
Beginning Balance	261	2,878	3,139
Appropriations Used	–	14,447	14,447
Non-Exchange Revenue	190	–	190
Transfers In/(Out) Without Reimbursement	–	37	37
Imputed Financing (Note 13)	4	2,283	2,287
Transfers to the General Fund of the U.S. Government	–	(5)	(5)
Net Cost of Operations	(191)	(17,057)	(17,248)
Net Change in Cumulative Results of Operations	3	(295)	(292)
Total Cumulative Results of Operations	264	2,583	2,847
Net Position	**$ 264**	**$ 12,853**	**$ 13,117**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Position

For the Fiscal 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	–	25,325	25,325
Cumulative Results of Operations			
Beginning Balance	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	261	2,878	3,139
Net Position	$ 261	$ 28,203	$ 28,464

The accompanying notes are an integral part of these financial statements.

Combined Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2026 and 2025

(In Millions)	2026	2025
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 15)	$ 24,290	$ 50,632
Appropriations (Discretionary and Mandatory)	165	(7,392)
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	137	138
Total Budgetary Resources	**$ 24,592**	**$ 43,378**
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	$ 15,233	$ 19,418
Unobligated Balance, End of Year		
Apportioned, Unexpired Accounts	8,441	23,356
Exempt from Apportionment, Unexpired Accounts	7	7
Unapportioned, Unexpired Accounts	506	222
Unexpired Unobligated Balance, End of Year	8,954	23,585
Expired Unobligated Balance, End of Year	405	375
Unobligated Balance, End of Year (Total)	9,359	23,960
Total Budgetary Resources	**$ 24,592**	**$ 43,378**
Outlays, Net		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 15,002	$ 19,164
Distributed Offsetting Receipts	(295)	(362)
Outlays, Net (Discretionary and Mandatory)	**$ 14,707**	**$ 18,802**

The accompanying notes are an integral part of these financial statements.

Statements of Custodial Activity

For the Fiscal Years Ended September 30, 2026 and 2025

(In Millions)	2026	2025
Revenue Activity		
Collections of Federal Tax Revenue (Note 16)		
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act and Other	$ 4,964,860	$ 4,689,620
Corporate Income	442,931	486,384
Excise	89,304	90,612
Estate and Gift	40,032	31,111
Railroad Retirement	7,353	7,258
Federal Unemployment	8,588	8,777
Total Collections of Federal Tax Revenue	5,553,068	**5,313,762**
(Decrease)/Increase in Federal Taxes Receivable, Net	(30,906)	(47,805)
Total Federal Tax Revenue	**$ 5,522,162**	**$ 5,265,957**
Disposition of Federal Tax Revenue		
Transferred to:		
General Fund of the U.S. Government	$ 5,552,703	$ 5,313,472
Department of the Interior	45	56
Retained by IRS – Private Debt Collection	320	234
(Decrease)/Increase in Amounts Yet to be Transferred	(30,906)	(47,805)
Total Disposition of Federal Tax Revenue	5,522,162	**5,265,957**
Net Federal Revenue Activity	**$ –**	**$ –**
Federal Tax Refund and Outlay Activities		
Total Refunds of Federal Taxes and Outlays (Note 17)	$ 670,113	$ 638,785
Appropriations Used for Refund of Federal Taxes and Outlays	(670,113)	(638,785)
Net Federal Tax Refund and Outlay Activities	**$ –**	**$ –**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Years Ended September 30, 2026 and 2025

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The IRS administers the nation's tax laws and oversees the custodial collection of taxes for the U.S. government. The accompanying financial statements present the financial position and results of operations for the IRS, a component entity of Treasury. All funds established and maintained to track IRS controlled resources and activity are included in the financial statements and accompanying notes.

B. Basis of Accounting and Presentation

The financial statements are prepared from the IRS's accounting records 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 accounting standard setting body for the U.S. government. Accounting standards permit certain presentations and disclosures to be modified when necessary to prevent the disclosure of classified information.

The financial statements include the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and Statements of Custodial Activity. These statements and accompanying notes are presented in a comparative format displaying current fiscal year results and prior fiscal year results. The Statements of Changes in Net Position separately report amounts for Funds from Dedicated Collections. The Statements of Budgetary Resources are presented on a combined basis with combining amount by major programs presented as required supplementary information. 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, regardless of 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 while ensuring compliance with laws and regulations. The Statements of Custodial Activity are 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 Statements 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 to allocate costs to major programs on the Statements 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 specific programs, but do not represent net assets to the U.S. government. When the IRS uses Fund Balance with Treasury to liquidate budgetary obligations, Treasury finances the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public if there is a budget deficit. 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, clearing accounts, 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 using an allowance based on the collection criterion of more likely than not. The allowance for uncollectible accounts is based on an annual review of account groups by age for accounts receivable balances older than one year.

Intragovernmental accounts receivable includes expenditure transfer receivables from the Treasury Forfeiture Fund to repay 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 advance payment for the postage. Advances and prepayments to the public represent cash outlays for criminal investigations and employee travel.

F. Cash and Other Monetary Assets

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

G. Federal Taxes Receivable, Net

Federal Taxes Receivable, Net, includes 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 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 Internal Revenue Code Section 965(h), 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 for 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 is delegated legal authority, under Internal Revenue Code Section 6404, to abate certain assessed taxes, interest, and penalties, whether paid or unpaid. This process, called abatement, is a normal part of tax administration to reduce or cancel amounts owed and happen 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 correct 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 result in a refund or reduction in the taxpayer's unpaid assessment.

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 excluded from 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 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 include tangible and intangible assets with a useful life of two or more years. IRS property and equipment consist of 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. Routine repairs and maintenance costs are recognized as an expense in the period incurred. Impairment costs are recognized when there is 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 and telecommunication)	Asset value of $50 thousand or greater.
Non-Information Technology Equipment	Asset value of $50 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 $750 thousand or greater.
Right-to-Use Lease Asset	Asset value of $1.7 million 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 does not lease assets 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 (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 leased asset 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 determined 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 by a lien holder. 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 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 offsetting liability is removed.

The value of seized property, excluding monetary instruments, is tracked in criminal investigation records until the property is forfeited, returned, or otherwise liquidated. Under the Internal Revenue Code Section 6335, the 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

Federal taxes receivable are distributed to the General Fund of the U.S. Government upon collection. The Patient Protection and Affordable Care Act of 2010 directs the IRS to record and the Centers for Medicare and Medicaid Services to disburse amounts related to the State Innovation Waiver Program. Amounts presented for the State Innovation Waiver Program represent awards by the Centers for Medicare and Medicaid Services, under Section 1332 of the Patient Protection and Affordable Care Act of 2010, where grantees participating in the program have not drawn down the funds according to the grant terms, and amounts have been returned to IRS. This program is also known 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 represents measurable and legally payable amounts owed to taxpayers under the IRS's established refund processes. This liability is fully funded and offset by a corresponding asset, Due from the General Fund of the U.S. Government. The IRS records this asset amount to designate approved funding to pay year-end tax refund liabilities to taxpayers.

M. Contingent Liabilities

Contingent liabilities may be incurred 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 future confirming events are likely to occur. Probable contingent liabilities are recognized in the financial statements if the amount can reasonably be estimated. Contingencies are reasonably possible when the likelihood of future events occurring is more than remote but less than probable. Reasonably possible contingencies and probable contingencies that cannot reasonably be estimated are disclosed in the Notes to the Financial Statements. Remote contingencies are neither recognized in the financial statements nor disclosed in the Notes to the Financial Statements (refer to **Note 11. Commitments and Contingencies)**.

N. Net Position

Unexpended Appropriations represents the spending amount authorized as of fiscal year-end, unliquidated or unobligated, and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until canceled. The IRS reports adjustments to unexpended appropriations, such as cancellations of expired funds or rescissions, as Other Adjustments on the Consolidated Statement of Changes in Net Position. Cumulative Results of Operations represents the net results of operations since inception, including cumulative amounts related to investments in capitalized assets and transfers of assets in and out without reimbursement. Reductions to Cumulative Results of Operations also include accruals for expenses requiring funding from future appropriations and assessments. Future funding requirement examples include accumulated annual leave earned but not taken, accrued Federal Employees' Compensation Act, and expenses for contingent liabilities.

O. Financing Sources and Revenue Appropriations Received

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 Statements of Changes in Net Position. Appropriations presented in the Statements 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 customers 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 Statements 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 Statements 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 Statements 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.

P. Major Programs

The Statements of Net Cost present 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; a Technology and Operations Support earned revenue percentage allocation; 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; receipts collected through the Private Debt Collection; and a Technology and Operations Support earned revenue percentage allocation.

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. Earned revenues consist of a percentage allocation from Technology and Operations Support.

Q. 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 in the Statements 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 Statements 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 Sheets. 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.

R. 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**).

S. Allocation Transfers

The IRS is 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 for the Premium Tax Credit. The IRS receives allocation transfers, as the child entity, from the Department of Transportation's Federal Highway Administration fund and Department of Health and Human Services for the No Surprises Act.

T. 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. Since these fiduciary assets are disbursed to U.S. territories, they are not assets of the IRS (refer to **Note 18. Fiduciary Activities**).

U. 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 Treasury securities held by the public. Outlays are the measure of U.S. government spending.

V. 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 (terminal leave). 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 its portion of 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. Liabilities associated with these costs are reported by the Office of Personnel 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 a defined contribution Thrift Savings 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 employer matching 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%

W. Cost Not Assigned to Programs

Certain costs for employees furloughed during the government shutdown, deferred resignation programs, and Voluntary Separation Incentive Payments cannot be traced, assigned, or allocated to segments and their outputs. The IRS recognizes these costs as Cost Not Assigned to Programs on the Statements 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 Credit (refer to **Note 1.L. Federal Tax Refunds Payable and Due from the General Fund of the U.S. Government**, **Note 3. Fund Balance with Treasury**, and **Note 4. Federal Taxes Receivable, Net**).

(In Millions)	2026	2025
Intragovernmental		
Fund Balance with Treasury	$ 11,432	$ 14,198
Due from the General Fund of the U.S. Government	8,479	4,238
Total Intragovernmental	**19,911**	**18,436**
Other than Intragovernmental		
Federal Taxes Receivable, Net	60,509	91,415
Other Receivables, Net	3	8
Total Other than Intragovernmental	**60,512**	**91,423**
Non-entity Assets	80,423	109,859
Entity Assets	14,773	30,405
Total Assets	**$ 95,196**	**$ 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 funds (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 unpaid funds with budgetary obligations.

Non-Budgetary and Other Fund Balance with Treasury includes:

- Non-Fiduciary Deposit Funds and Clearing Accounts awaiting classification on deposit with Treasury with no budgetary status.
- Section 1332 State Innovation Waiver Program funds where the grantee has not drawn down funds per the terms of the grant.
- Clean Vehicle Credit transfers payable to registered eligible dealers.
- Other, which represents temporary sequestration of spending authority from offsetting collections in a special fund to be available in a subsequent year, and imprest funds moved from the Fund Balance with Treasury to Cash and Other Monetary Assets with no change in the budgetary status (refer to **Note 1.C. Fund Balance with Treasury**).

(In Millions)	2026	2025
Status of Fund Balance with Treasury		
Unobligated Balance	$ 9,359	$ 23,960
Obligated Balance Not Yet Disbursed	2,936	3,316
Non-Budgetary and Other Fund Balance with Treasury		
Non-Fiduciary Deposit Funds and Clearing Accounts	6,297	6,318
State Innovation Waiver Program	5,134	7,582
Clean Vehicle Credits	2	298
Other	15	10
Fund Balance with Treasury	**$ 23,743**	**$ 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, 2026, 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. As of September 30, 2026, the net delinquent unpaid assessments for this category totaled $60,464 million, a decrease of $4,481 million from the $64,945 million reported for FY 2025.
- Nondelinquent assessments are detailed in **Note 1.G. Federal Taxes Receivable, Net**. As of September 30, 2026, 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. As of September 30, 2026, net federal taxes receivable for Internal Revenue Code Section 965(h) consists of $45 million, a decrease of $26,425 million from the $26,470 million reported for FY 2025.

Collectability

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 2026, the $60,464 million in collectible delinquent tax assessments was primarily derived from a three-year average (FY 2024–2026) to normalize the effect of year-to-year fluctuations including the collectible point estimate of $54,824 million (+/- $12,549 million). In FY 2025, the $64,945 million in collectible delinquent tax assessments was primarily derived from a three-year average (FY 2023–2025) including the FY 2025 collectible point estimate of $52,673 million (+/- $12,173 million).
- Internal Revenue Code Section 965(h) elections. In FY 2026, the IRS considered indicators of financial health of the largest accounts (90% of the remaining unpaid deferral balance) 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 in FY 2026 was approximately 65%. The FY 2025 overall collectability estimate for Internal Revenue Code Section 965(h) was approximately 94%.

(In Millions)	2026	2025
Other than Intragovernmental		
Federal Taxes Receivable, Gross	$ 339,467	$ 361,340
Allowance for Uncollectible Taxes Receivable	(278,958)	(269,925)
Federal Taxes Receivable, Net	**$ 60,509**	**$ 91,415**

Note 5. Property and Equipment, Net

In establishing useful lives, management considers the nature and expected use of the asset, available asset-specific information, and whether the resulting estimate is within the useful-life ranges established for comparable Treasury asset classes. Beginning in FY 2026, the IRS standardized the estimated useful lives of Information Technology Equipment and Non-Information Technology Equipment at five years.

For internal-use software capitalized in FY 2026, the IRS applied a seven-year useful life. This reflects the most commonly used useful life in the existing software portfolio and the standard applied in the asset accounting system. The change was applied prospectively and did not materially affect FY 2026 depreciation and amortization expense or property and equipment.

		2026		
(In Millions)	Useful Life (Years)	Cost	Accumulated Depreciation/ Amortization	Net Book Value
Asset Class				
Information Technology Equipment	5	$ 709	$ (422)	$ 287
Internal Use Software-in-Use	7	4,993	(3,470)	1,523
Internal Use Software-in-Development	N/A	329	–	329
Leasehold Improvements	2 to 10	291	(93)	198
Vehicles	5	5	(3)	2
Non-Information Technology Equipment	5	28	(14)	14
Right-to-Use Lease Asset	2 to 5	4	(2)	2
Leasehold Improvements Construction-in-Progress	N/A	28	–	28
Property and Equipment, Net		**$ 6,387**	**$ (4,004)**	**$ 2,383**

		2025		
(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 which aligns the amortization against 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**.

Reconciliation of Property and Equipment, Net

(In Millions)	2026	2025
Balance Beginning of Year	$ 3,044	$ 2,450
Capitalized Acquisitions	240	915
Amortization of Right-to-Use Lease Assets	(1)	(1)
Dispositions	(496)	(57)
Depreciation Expense	(404)	(263)
Balance End of Year	**$ 2,383**	**$ 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 when revenue or other funds to pay the liabilities have 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)	2026	2025
Intragovernmental		
Unfunded Federal Employees' Compensation Act Liability	$ 67	$ 69
Other Unfunded Employment Related Liability	5	3
Total Intragovernmental	72	72
Other than Intragovernmental		
Unfunded Leave	517	525
Actuarial Federal Employees' Compensation Act Liability	298	340
Other Liabilities without Related Budgetary Obligations	25	27
Total Other Than Intragovernmental	840	892
Liabilities Not Covered by Budgetary Resources	912	964
Liabilities Covered by Budgetary Resources	14,358	13,095
Liabilities Not Requiring Budgetary Resources	66,809	97,741
Total Liabilities	**$ 82,079**	**$ 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)	2026	2025
Intragovernmental		
Federal Taxes Receivable, Net	$ 60,509	$ 91,415
Fund Balance with Treasury	5,134	7,582
Other Receivables, Net	3	8
Due to the General Fund of the U.S. Government	**$ 65,646**	**$ 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 and Post-Employment Benefits Payable.

(In Millions)	2026	2025
Other than Intragovernmental		
Unfunded Leave	$ 517	$ 525
Accrued Funded Payroll	220	261
Employer Contributions for Thrift Savings Plan	9	10
Federal Employee Salary, Leave, and Benefits Payable	**$ 746**	**$ 796**
Other Post Employment Benefits Due and Payable	$ –	$ 180
Actuarial Federal Employees' Compensation Act Liability	298	340
Post-Employment Benefits Payable	**$ 298**	**$ 520**

Unfunded Leave, Accrued Funded Payroll, and Employer Contributions for Thrift Savings Plan are liabilities for personnel salaries and benefits and are expected to be paid in the next fiscal year. Unfunded leave is not covered by budgetary resources. Other Post Employment Benefits Due and Payable represents the accrual of terminal leave (refer to **Note 1.V. Employee Compensation and Benefits; Accrued Annual, Sick, and Other 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 and not covered by budgetary resources.

Note 9. Other Liabilities

The following table provides details of the Other Liabilities Balance Sheet line items.

(In Millions)	2026	2025
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	$ 75	$ 96
Unfunded Federal Employees' Compensation Act Liability	67	69
Other Liabilities with Related Budgetary Obligations	56	51
Other Unfunded Employment Related Liability	5	3
Other Liabilities	$ 203	$ 219
Other than Intragovernmental		
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections and Liability for Clearing Accounts	$ 6,297	$ 6,318
Other Liabilities with Related Budgetary Obligations	372	351
Other Liabilities without Related Budgetary Obligations	25	27
Lessee Lease Liability	2	3
Other Liabilities	$ 6,696	$ 6,699

For FY 2026, other liabilities expected to be paid in the next fiscal year that are not covered by budgetary resources were Unfunded Federal Employees' Compensation Act Liability of $30 million, Other Unfunded Employment Related Liability of $5 million, and Other Liabilities without Related Budgetary Obligations on the Energy Savings Performance Contract for $1 million.
For FY 2025, other liabilities expected to be paid in the next fiscal year that are not covered by budgetary resources were Unfunded Federal Employees' Compensation Act Liability of $31 million, Other Unfunded Employment Related Liability of $3 million, and Other Liabilities without Related Budgetary Obligations on the Energy Savings Performance Contract of $1 million.

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)	2026	2025
Intragovernmental Lease Expense Category		
Office Space	$ 632	$ 610
Vehicles	16	14
Intragovernmental Leases, Expense	$ 648	$ 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 2027 through FY 2029. The interest portion of the future lease payment due in FY 2029 is less than $1 million (refer to **Note 5. Property and Equipment, Net** and **Note 9. Other Liabilities**).

(In Millions)	Principal	Interest	Total
Fiscal Year			
2027	$ 1	$ –	$ 1
2028	1	–	1
2029	–	–	–
Total Estimated Future Lease Payments	**$ 2**	**$ –**	**$ 2**

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 table below.

(In Millions)	2026	2025
Reasonably Possible		
Lower End Range of Loss	$ 1,030	$ 800
Upper End Range of Loss	$ 2,270	$ 1,070

There are no probable contingencies requiring funding through the IRS's budget. As such, no contingent liabilities are recognized in the financial statements. The IRS is involved in one case that is 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 entity.

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 43: Funds from Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmarked Funds. There are no eliminations between the four Funds from Dedicated Collections for FY 2026 and FY 2025 (refer to **Note 1.R. Funds from Dedicated Collections**).

	2026		
(In Millions)	Private Debt Collection	Other Dedicated Collections	Consolidated Funds from Dedicated Collections
Balance Sheet			
Assets			
Intragovernmental			
Fund Balance with Treasury	$ 279	$ 8	$ 287
Total Intragovernmental	279	8	287
Total Assets	**$ 279**	**$ 8**	**$ 287**
Liabilities			
Intragovernmental			
Other Liabilities	$ 6	$ –	$ 6
Total Intragovernmental	6	–	6
Other than Intragovernmental			
Accounts Payable	6	–	6
Federal Employee Salary, Leave, and Benefits Payable	7	–	7
Other Liabilities	4	–	4
Total Other than Intragovernmental	17	–	17
Total Liabilities	23	–	23
Net Position			
Cumulative Results of Operations	256	8	264
Total Liabilities and Net Position	**$ 279**	**$ 8**	**$ 287**
Statement of Net Cost			
Gross Program Costs	$ 321	$ –	$ 321
Earned Revenue	(130)	–	(130)
Net Costs of Operations	**$ 191**	**$ –**	**$ 191**
Statement of Changes in Net Position			
Cumulative Results of Operations			
Beginning Balances	$ 253	$ 8	$ 261
Intragovernmental Non-exchange Revenues	190	–	190
Imputed Financing	4	–	4
Net Cost of Operations	(191)	–	(191)
Net Change in Cumulative Results of Operations	3	–	3
Total Cumulative Results of Operations	**$ 256**	**$ 8**	**$ 264**

(In Millions)	Private Debt Collection	Other Dedicated Collections	Consolidated Funds from Dedicated Collections
			2025
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	253	8	261
Total Liabilities and Net Position	**$ 266**	**$ 8**	**$ 274**
Statement of Net Cost			
Gross Program 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 Cost of Operations	(202)	–	(202)
Net Change in Cumulative Results of Operations	**(31)**	**–**	**(31)**
Total Cumulative Results of Operations	**$ 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 2026, exchange revenue totaled $190 million, the IRS returned $60 million to the general fund tax receipt accounts, and net exchange revenue totaled $130 million. The cumulative results of operations totaled $8 million. 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 2026, $190 million is recognized as non-exchange revenue on the Statement of Changes in Net Position, with cumulative results of operations totaling $248 million. In FY 2025, $157 million was 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 in both FY 2026 and FY 2025.

The Informant Payments Fund was established by the Taxpayer Bill of Rights of 1996. The fund provides payments to individuals from the proceeds of amounts collected by reason of the information provided, and any amount collected is available for such payments. The custodial collection activities are reported in the Statements 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)	2026	2025
Fiscal Service Cost for Tax Collections and Refunds	$ 1,217	$ 1,539
Federal Employees Benefit Programs	1,069	1,523
Treasury Judgment Fund	1	–
Inter-Entity Costs	**$ 2,287**	**$ 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.

	2026		
(In Millions)	Intragovernmental	Other than Intragovernmental	Total
Unpaid	$ 500	$ 1,767	$ 2,267
Paid	4	20	24
Undelivered Orders at the End of the Period	**$ 504**	**$ 1,787**	**$ 2,291**

	2025		
(In Millions)	Intragovernmental	Other than 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 2028 Budget of the U.S. Government presenting the actual amounts for the year ended September 30, 2026, 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** (www.whitehouse.gov/omb/budget/). The following table reconciles the published FY 2025 IRS Agency Financial Report Combined Statement of Budgetary Resources to the FY 2025 actual amounts in the FY 2027 Appendix, Budget of the U.S. Government.

(In Millions)	Total Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Outlays, Net
Combined Statement of Budgetary Resources	**$ 43,378**	**$ 19,418**	**$ (362)**	**$ 19,164**
Not In the Budget of the U.S. Government				
Expired Funds	(431)	–	–	–
Other	–	2	–	–
Not in the Combined Statement of Budgetary Resources				
Refundable Tax Credits, Interest Refunds to Taxpayers, and Other Outlays	294,023	294,023	–	271,722
Informant Payments	69	69	–	69
Budget of the U.S. Government	**$ 337,039**	**$ 313,512**	**$ (362)**	**$ 290,955**

Refundable Tax Credits, Interest Refunds to Taxpayers, Other Outlays and Informant Payments total $294,092 million in appropriations. These appropriations are reported in the Federal Tax Refund and Outlay Activities on the **Statements of Custodial Activity** and are not reported as budgetary resources on the **Combined Statements of Budgetary Resources**.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

(In Millions)	2026	2025
Unobligated Balance, Brought Forward from Prior Year	$ 23,960	$ 50,388
Adjustments to Unobligated Balance Brought Forward:		
Recoveries of Prior Year Unpaid Obligations	408	301
Recoveries of Prior Year Paid Obligations	64	53
Cancelled Authority	(142)	(91)
Capital Transfers of Unobligated Balances to the General Fund	–	(19)
Unobligated Balance from Prior Year Budget Authority, Net	**$ 24,290**	**$ 50,632**

Net adjustments include prior year budget authority from appropriations, and spending authority from offsetting collections not committed for a specific purpose. Recoveries of prior year unpaid and paid obligations increase the unobligated balance brought forward when prior year obligations or expenditures are reduced. Cancellation of budgetary authority occurs after the obligated funds remain available for a five-year period and the expired funds become unavailable for obligation. These expired funds are required to be returned to the General Fund of the U.S. government. In FY 2025, a capital transfer for a portion of Income Verification Express Service user fees was processed. Finalization of the Income Verification Express Service portal was completed prior to the user fee collections, eliminating the IRS's ability to use the fees. The excess collections were deposited in the General Fund of the U.S. government.

Note 16. Collections of Federal Tax Revenue

The IRS collects federal tax revenues on behalf of the U.S. Government. 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.

	Tax Year				Fiscal Year
(In Millions)	2026	2025	2024	Prior Years	2026***
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act, and Other	$ 3,106,878*	$ 1,739,976	$ 74,856	$ 43,150	$ 4,964,860
Corporate Income	268,394**	133,873	13,935	26,729	442,931
Excise	64,515	24,554	(98)	333	89,304
Estate and Gift	1,650	33,218	2,395	2,769	40,032
Railroad Retirement	5,675	1,659	9	10	7,353
Federal Unemployment	5,108	3,319	37	124	8,588
Collections of Federal Tax Revenue	**$3,452,220**	**$1,936,599**	**$ 91,134**	**$ 73,115**	**$ 5,553,068**

*Includes other collections of $317 million.

**Includes Tax Year 2027 corporate income tax receipts of $16,518 million.

***Totals represent the sum of collections for Tax Years 2026–2024 and any prior years.

(In Millions)	Tax Year 2025	Tax Year 2024	Tax Year 2023	Tax Year Prior Years	Fiscal Year 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**

Note: Similar detailed information for the prior years can be found at www.irs.gov/about-irs/irs-financial-reports.

*Includes other collections of $835 million.

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

***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, Informant Payments, various refundable tax credits, and other payments. Examples of other payments include the Trump Accounts Contribution Pilot Program one-time $1,000 contribution from the U.S. Treasury to the Trump Account of each eligible child, and the Clean Vehicle Credit advance payments to registered dealers based on a taxpayer election to transfer their vehicle tax credit (refer to **Other Information – Section E: Refundable Tax Credits and Other Outlays**).

(In Millions)	Tax Year 2026	Tax Year 2025	Tax Year 2024	Tax Year Prior Years	Fiscal Year 2026*
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act, and Other	$ 150,817	$ 369,758	$ 44,342	$ 36,247	$ 601,164
Corporate Income	1,580	17,345	25,954	19,483	64,362
Excise	680	971	632	602	2,885
Estate and Gift	–	471	651	298	1,420
Railroad Retirement	–	12	(18)	33	27
Federal Unemployment	–	149	30	76	255
Federal Tax Refunds and Outlay Activities	**$ 153,077**	**$ 388,706**	**$ 71,591**	**$ 56,739**	**$ 670,113**

Note: Similar detailed information for the prior years can be found at www.irs.gov/about-irs/irs-financial-reports.

*Totals represent the sum of refunds and outlay activities for Tax Years 2026–2024 and any prior years.

(In Millions)	Tax Year 2025	2024	2023	Prior Years	Fiscal Year 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**

Note: Similar detailed information for the prior years can be found at www.irs.gov/about-irs/irs-financial-reports.

*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 – U.S. Virgin Islands
- Coverover Withholdings – Guam
- Coverover Withholdings – American Samoa

(In Millions)	2026	2025
Fiduciary Net Assets, Beginning of Year	$ 50	$ 59
Contributions	964	907
Disbursements to and on Behalf of Beneficiaries	(964)	(916)
Increase in Fiduciary Net Assets	–	(9)
Fiduciary Net Assets, End of Year	**$ 50**	**$ 50**

In Coverover Withholdings – U.S. Virgin Islands Fiduciary Net Assets, End of Year balance is 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.T. 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. Net cost of resources used 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.

			2026
(In Millions)	Intragovernmental	Other than Intragovernmental	Total
Net Cost of Operations	**$ 6,598**	**$ 10,650**	**$ 17,248**
Components of Net Cost Not Part of Net Outlays			
Property and Equipment Depreciation	–	(404)	(404)
Property and Equipment Disposal and Reevaluation	–	(496)	(496)
Lessee Lease Amortization	–	(1)	(1)
Private Collection Agent Program Revenue Not in Actual Offsetting Collections	130	–	130
Other	–	25	25
Increase/(Decrease) in Assets			
Accounts Receivable, Net	(4)	6	2
Advances, Prepayments and Inventory	(4)	5	1
(Increase)/Decrease in Liabilities			
Accounts Payable	–	16	16
Federal Employee Salary, Leave, and Benefits Payable	–	50	50
Post-Employment Benefits Payable	–	222	222
Other Liabilities	16	(19)	(3)
Other Financing Sources			
Imputed Costs	(2,287)	–	(2,287)
Total Components of Net Cost Not Part of Net Outlays	(2,149)	(596)	(2,745)
Components of Net Outlays Not Part of Net Cost			
Acquisition of Capital Assets	–	55	55
Applied Overhead and Cost Capitalization Offset	–	185	185
Budgetary and Other Financing Sources			
Transfers Out/(In) Without Reimbursement	(36)	–	(36)
Total Components of Net Outlays Not Part of Net Cost	(36)	240	204
Net Outlays	**$ 4,413**	**$ 10,294**	**$ 14,707**

(In Millions)	Intragovernmental	Other than Intragovernmental	2025 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 Statements of Budgetary Resources by Major Budget Account represents the funding available to support the programs and activities reflected in the **Statements of Net Cost**. The major programs receive funding from primary budget accounts and the Other accounts listed below.

	Major Programs		
Major Budget Accounts	**Service to the Taxpayer**	**Enforcement of Tax Legislation**	**Transformation of Business Systems**
Taxpayer Service	X		
Enforcement		X	
Business Systems Modernization			X
Technology and 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		
Opportunity Zone Data Reporting	X		

Combining Statement of Budgetary Resources by Major Budget Account

(In Millions)	Taxpayer Services	Enforcement	Business Modernization	Technology and Operations Support	Other	2026 Total
Budgetary Resources						
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 922	$ 563	$ 1,979	$ 19,368	$ 1,458	$ 24,290
Appropriations (Discretionary and Mandatory)	3,036	5,004	–	(8,501)	626	165
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	19	85	–	33	–	137
Total Budgetary Resources	**$ 3,977**	**$ 5,652**	**$ 1,979**	**$ 10,900**	**$ 2,084**	**$ 24,592**
Status of Budgetary Resources						
New Obligations and Upward Adjustments (Total)	$ 3,831	$ 5,269	$ 358	$ 5,392	$ 383	$ 15,233
Unobligated Balance, End of Year						
Apportioned, Unexpired Accounts	91	236	1,544	5,283	1,287	8,441
Exempt from Apportionment, Unexpired Accounts	–	–	–	–	7	7
Unapportioned, Unexpired Accounts	2	28	69	4	403	506
Unexpired Unobligated Balance, End of Year	93	264	1,613	5,287	1,697	8,954
Expired Unobligated Balance, End of Year	53	119	8	221	4	405
Unobligated Balance, End of Year (Total)	**146**	**383**	1,621	**5,508**	1,701	**9,359**
Total Budgetary Resources	**$ 3,977**	**$ 5,652**	**$ 1,979**	**$ 10,900**	**$ 2,084**	**$ 24,592**
Outlays, Net						
Outlays, Net (Total) (Discretionary and Mandatory)	$ 3,797	$ 5,325	$ 5,203	$ 361	$ 316	$ 15,002
Distributed Offsetting Receipts	–	–	–	–	(295)	(295)
Outlays, Net (Discretionary and Mandatory)	**$ 3,797**	**$ 5,325**	**$ 5,203**	**$ 361**	**$ 21**	**$ 14,707**

	2025					
(In Millions)	Taxpayer Services	Enforcement	Business Modernization	Operations Support	Other	Total
Budgetary Resources						
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 2,062	$ 22,728	$ 2,752	$ 21,968	$ 1,122	$ 50,632
Appropriations (Discretionary and Mandatory)	3,222	(15,069)	–	3,846	609	(7,392)
Spending Authority from Offsetting Collections (Discretionary and 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 and Mandatory)	$ 4,385	$ 7,009	$ 6,453	$ 1,048	$ 269	$ 19,164
Distributed Offsetting Receipts	–	–	–	–	(362)	(362)
Outlays, Net (Discretionary and 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 2026, the total estimated payout for claims pending judicial review by the federal courts is $295 million and by the Independent Office of Appeals is $4,444 million. In FY 2025, the total estimated payout for claims pending judicial review by the federal courts was $1,963 million and by the Independent Office of Appeals was $4,326 million. These amounts are subject to increase based on refund claims by other taxpayers.

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. A significant difference exists in the collection potential between these two categories.

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

(In Millions)	2026	2025
Total Unpaid Assessments	$ 518,548	$ 540,318
Compliance Assessments	(81,064)	(86,142)
Write-Offs	(98,017)	(92,836)
Federal Taxes Receivable, Gross	339,467	361,340
Allowance for Uncollectible Taxes Receivable	(278,958)	(269,925)
Federal Taxes Receivable, Net	**$ 60,509**	**$ 91,415**

Total unpaid assessments as of September 30, 2026, decreased $21,770 million from September 2025. During FY 2026, compliance assessments decreased 5.9%, or $5,078 million.

The IRS cannot reasonably provide amounts for pre-assessment work in process. The IRS also 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

Section Cover Art: President Dwight D. Eisenhower signs H.R. 8300, an act “to revise the internal-revenue laws of the United States.” The signing was witnessed in the Oval Office by various senators and congressmen. Persons pictured include Styles Bridges, Daniel A. Reed, Leo E. Allen, Joseph W. Martin, Leslie C. Arends, Homer Ferguson, and Leverett Saltonstall. Image taken on August 16, 1954.

SECTION A: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following table summarizes the results of the IRS's FY 2026 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

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 Assessments[1]	1	0	0	0	1
Total Non-Conformances	1	0	0	0	1

[1]Refer 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 Secretary of the Treasury'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 substantially conform 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, 2026, the IRS had no material weaknesses under Section 2 or Section 4 of the Federal Managers' Financial Integrity Act of 1982. The IRS's financial management systems conform to the requirements of Section 4 of the Federal Managers' Financial Integrity Act of 1982, except for the significant deficiency related to unpaid assessments. The significant deficiency also constitutes a lack of substantial compliance with the federal financial management system requirements under Federal Financial Management Improvement Act of 1996 Section 803(a). The IRS continues to use its well-documented, successful estimation process to mitigate the risk of material misstatement. The IRS is actively working on resolving the significant deficiency, 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

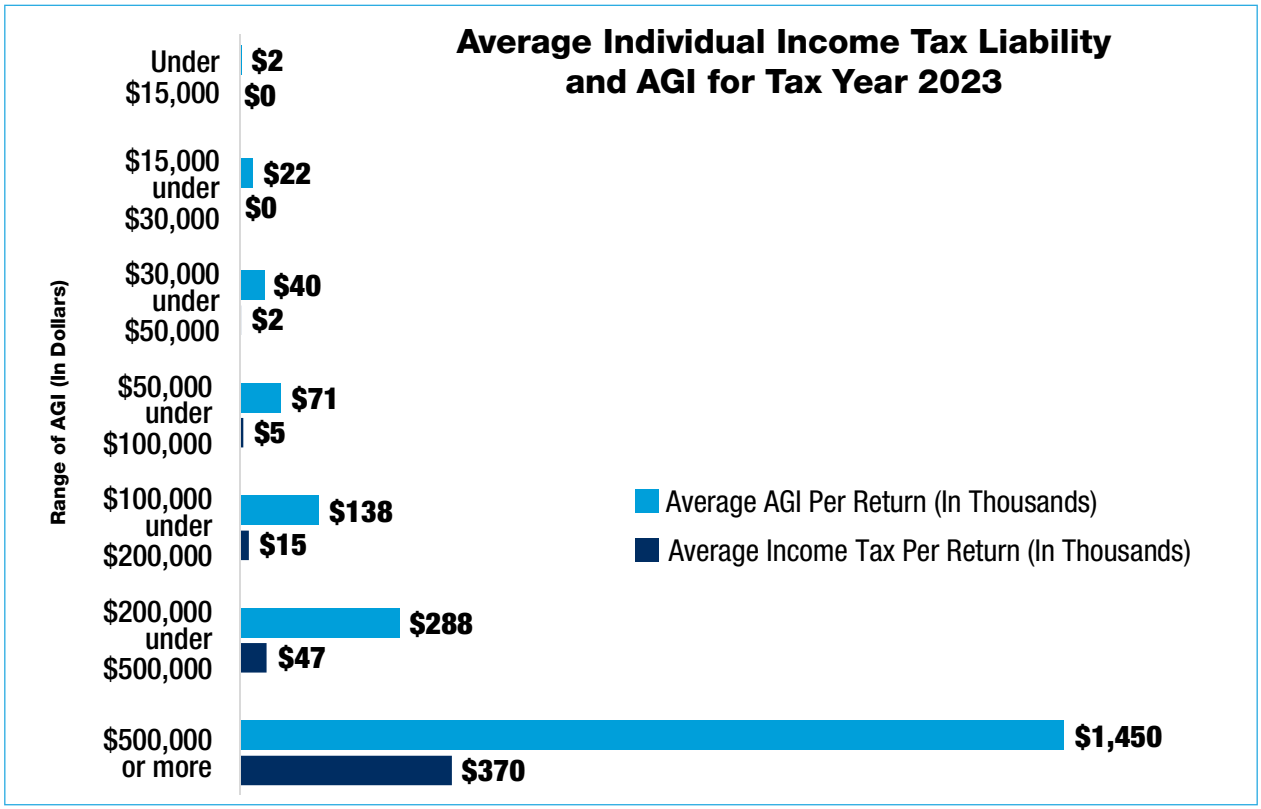
The Internal Revenue Code provides for progressive rates of tax, where higher incomes are generally subject to higher tax rates. The following pages present, in both graph and table format, various income levels and tax liability levels reported by individuals and corporations. These amounts do not account for tax burdens that taxpayers do not report on their returns. This information is the most recent available for individuals (Tax Year 2023) and corporations (Tax Year 2022). 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.

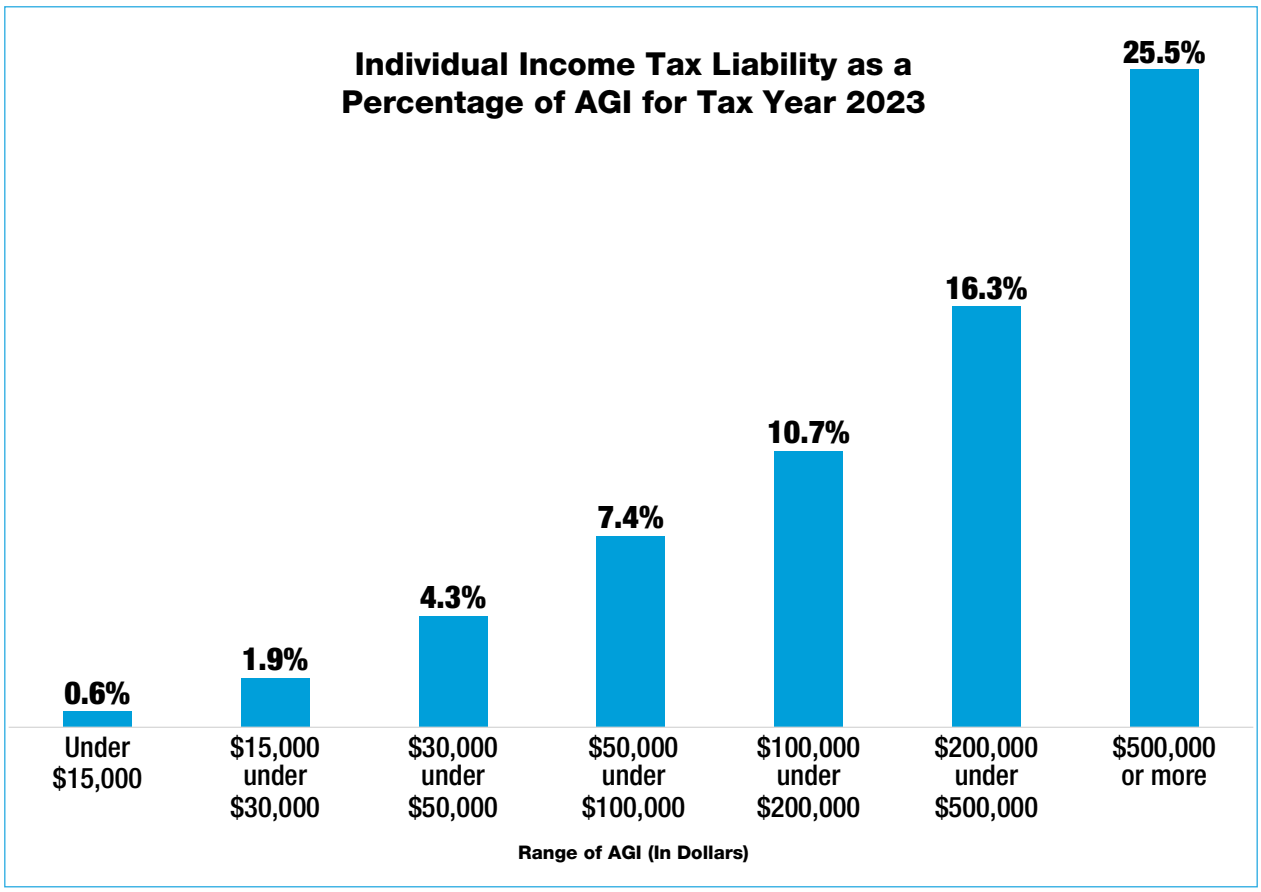
The IRS Statistics of Income Office compiled statistics on stratified probability samples of income tax returns or other forms filed with the IRS. As returns are filed and processed for tax purposes, they are assigned to sampling classes (strata) based on such criteria as industry, presence or absence 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 2023

AGI	Number of Taxable Returns (In Thousands)	Total AGI (In Millions)	Total Income Tax (In Millions)	Average AGI Per Return (In Dollars)	Average Income Tax Per Return (In Dollars)	Income Tax as a Percentage of AGI
Under $15,000	26,602	$ 46,558	$ 260	$ 1,750	$ 10	0.6%
$15,000 under $30,000	24,222	538,749	10,127	22,242	418	1.9%
$30,000 under $50,000	28,729	1,138,025	49,020	39,612	1,706	4.3%
$50,000 under $100,000	39,911	2,852,127	210,957	71,462	5,286	7.4%
$100,000 under $200,000	27,603	3,818,295	409,533	138,329	14,837	10.7%
$200,000 under $500,000	10,956	3,153,877	513,407	287,868	46,861	16.3%
$500,000 or more	2,579	3,738,386	954,605	1,449,549	370,145	25.5%
Totals	**160,602**	**$15,286,017**	**$2,147,909**			

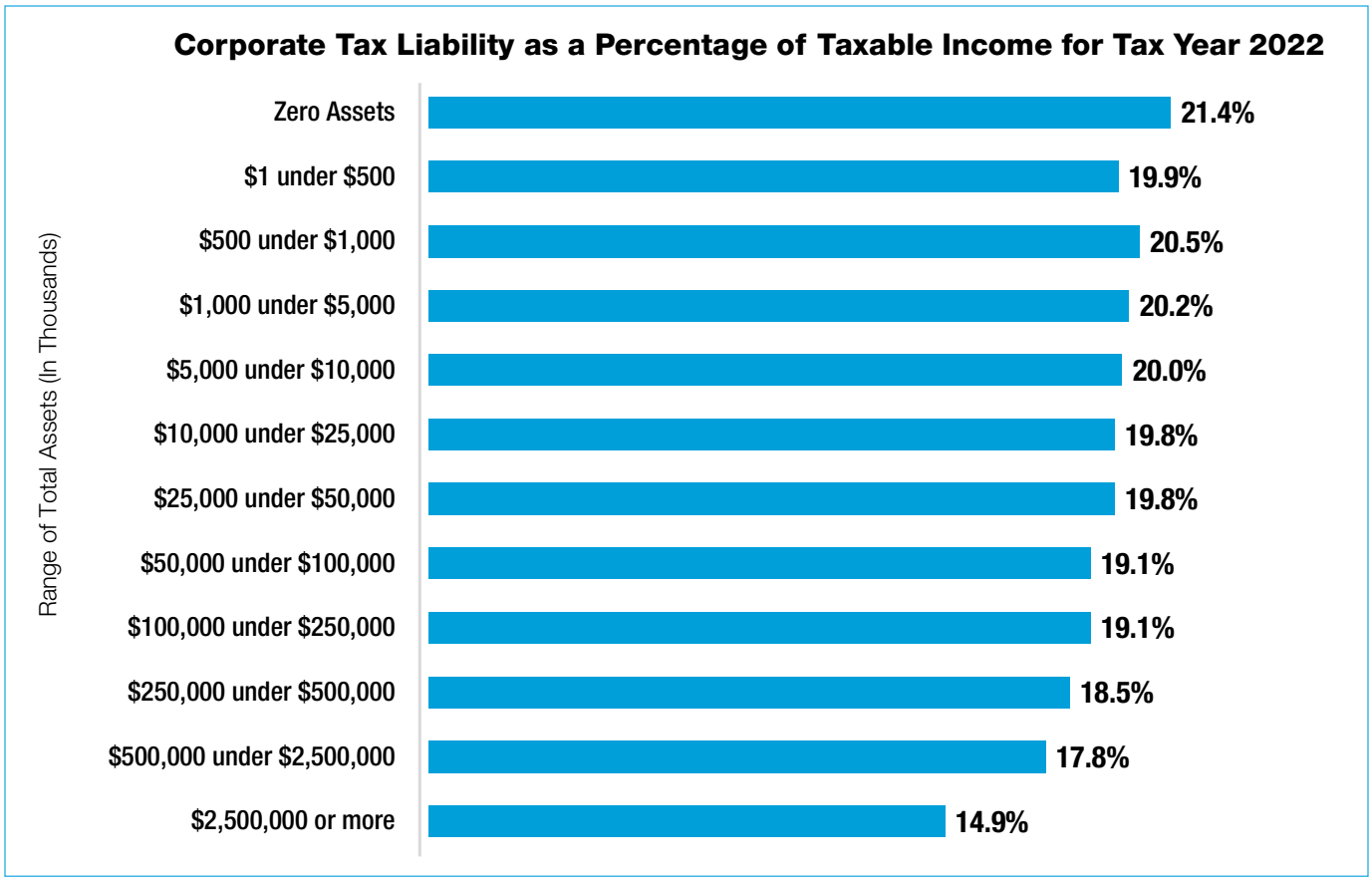

Average Individual Income Tax Liability and AGI for Tax Year 2023
Range of AGI (In Dollars)
Under $15,000
$2
$0
$15,000 under $30,000
$22
$0
$30,000 under $50,000
$40
$2
$50,000 under $100,000
$71
$5
$100,000 under $200,000
$138
$15
$200,000 under $500,000
$288
$47
$500,000 or more
$1,450
$370
Average AGI Per Return (In Thousands)
Average Income Tax Per Return (In Thousands)


Individual Income Tax Liability as a Percentage of AGI for Tax Year 2023
0.6%
1.9%
4.3%
7.4%
10.7%
16.3%
25.5%
Under $15,000
$15,000 under $30,000
$30,000 under $50,000
$50,000 under $100,000
$100,000 under $200,000
$200,000 under $500,000
$500,000 or more
Range of AGI (In Dollars)

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 2022

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	$ 39,860	$ 8,511	21.4%
$1 under $500	8,964	1,785	19.9%
$500 under $1,000	6,421	1,315	20.5%
$1,000 under $5,000	26,244	5,293	20.2%
$5,000 under $10,000	16,767	3,352	20.0%
$10,000 under $25,000	28,365	5,629	19.8%
$25,000 under $50,000	27,042	5,365	19.8%
$50,000 under $100,000	30,864	5,904	19.1%
$100,000 under $250,000	50,041	9,564	19.1%
$250,000 under $500,000	46,720	8,637	18.5%
$500,000 under $2,500,000	196,451	34,905	17.8%
$2,500,000 or more	2,401,362	358,461	14.9%
Totals	**$ 2,879,101**	**$ 448,721**	



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 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** (www.irs.gov/statistics/irs-the-tax-gap) are published to IRS.gov by the Research, Applied Analytics and Statistics Division.

There are three primary sources of noncompliance:

- Nonfiling tax gap (the tax not paid on time by those who do not file required returns on time).
- Underreporting tax gap (the net understatement of tax on timely filed returns).
- 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 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 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.



Identification card of Federal Prohibition Agent Daisy Simpson. Federal prohibition agents working under the Bureau of Internal Revenue enforced the 18th Amendment and the Volstead Act by tracking down illegal alcohol. Image part of the parent series, Identification Card Files of Prohibition Agents, 1920–1925, stored at the National Archives.

SECTION C: MANAGEMENT AND PERFORMANCE CHALLENGES

Treasury Inspector General of Tax Administration (TIGTA) Identified Management and Performance Challenges Facing the IRS for FY 2027

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, 2026

MEMORANDUM FOR SECRETARY BESSENT

FROM: Heather M. Hill
Principal Deputy Inspector General performing the duties of the Inspector General

Hill Heather M TIGTA
Hill Heather M TIGTA 2026.10.29 15:28:45 -04'00'

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2027

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) 2027, we identified the IRS's top management and performance challenges, in no particular order, as:

- Managing Resources;
- Improving Operational Efficiencies;
- Protecting Taxpayer Data;
- Implementing Tax Law Changes;
- Improving Taxpayer Service and Protecting Taxpayers' 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.

1

MANAGING RESOURCES

What's the challenge?

Between January 2025 and January 2026, the number of IRS employees decreased from approximately 103,000 to 74,000 (30 percent). Although this is consistent with historical staffing, the reductions occurred rapidly and resulted in the departure of many experienced employees.

In addition, the enacted FY 2026 budget reduced IRS's annual funding by approximately 20 percent. Although the Inflation Reduction Act of 2022 (IRA) previously provided the IRS with nearly $80 billion in supplemental funding over a 10-year period, Congress subsequently reduced it to $26 billion. As of March 31, 2026, the IRS has spent $16.5 billion of its IRA funds (64 percent).

Completing modernization projects, providing quality service to taxpayers, and enforcing tax laws with a reduced workforce and budget are challenges for the IRS. For example, we reported that the IRS started 30 percent fewer taxpayer examinations in FY 2025 compared to FY 2024. Further, examination closures and additional tax assessments proposed by the IRS's Small Business/Self-Employed Division notably declined during the period that coincided with workforce reductions. Therefore, the IRS needs to continue leveraging technology to deliver on its mission cost effectively. In particular, the IRS will need to continue introducing and adopting greater use of automation, artificial intelligence (AI), and other technology-based tools and solutions to help offset IRS workforce reductions and enhance tax collections.

Although technology offers many opportunities, the IRS will still need to hire employees for certain core operations. However, a new hiring process delayed the posting of job announcements for employees the IRS was seeking to hire for the 2026 Filing Season. We reported that as of February 27, 2026:

- The Submission Processing function (which processes tax returns) was unable to hire about 58 percent (1,100 of 1,900) of its approved positions.
- The Accounts Management function (which handles taxpayer contacts and adjusts tax accounts) was unable to hire 34 percent (1,200 of 3,500) of its approved positions.

In addition, these functions were unable to onboard and train all the individuals they hired before the filing season began.

To compensate for staffing reductions, the IRS required employees in certain divisions to work overtime to help manage increases in key tax return processing inventories. Comparing January through September for Calendar Years 2024 and 2025, paid overtime hours increased by 12 percent. This resulted in a year-over-year increase of approximately $27 million in overtime costs.

Strategic recruitment and hiring will be important to ensure the agency can provide top-quality service to taxpayers, ensure compliance, and deliver a successful filing season.

2

What progress has the IRS made?

During the 2026 Filing Season, we found the agency expanded its use of technology to streamline tax return processing. The IRS began converting paper tax returns into a digital format so they could be electronically processed, expanded its use of an automated tool that corrects specific errors on a tax return, and automated the processing of some amended tax returns.

Taxpayers are increasingly relying on IRS self-service tools. We found that the number of online account users exceeded 64 million in 2026 (an increase of nearly 13 million users from the prior year). An online account allows taxpayers to view specific details about their federal tax account, such as their balance, payment history, digital notices, and audit status.

In addition, the IRS began to backfill select positions. As of January 2026, approximately 2,000 employees have been hired. The IRS will continue to use its Direct Hire Authority, which eliminates certain steps in the hiring process, to fill these positions. The IRS also announced a new initiative (the *One IRS Initiative*) that trains existing employees to temporarily assist other functions as needed. However, the results of this effort are currently unknown.

Further, the IRS is using AI to help offset IRS workforce reductions and enhance tax collections. For example, the IRS is developing Taxpayer 360, which will provide intuitive, AI-enabled tools, and user-friendly interfaces to enable more efficient issue resolution for taxpayers and the IRS.

What key recommendations has the IRS implemented?

- The IRS implemented several of our recommendations to improve its new employee onboarding program. This is important given that the IRS has resumed selected hiring, and it may help improve the likelihood that new employees remain with the agency.
- When taxpayers need the IRS to adjust their tax accounts, the IRS office that makes the adjustment is required to send all documentation supporting the adjustment to one of its Tax Processing Centers. To address a backlog, the IRS executed a plan to rebalance certain workloads across the Tax Processing Centers.

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 2027 Filing Season and its efforts to use enhanced technology to improve tax compliance in its Examination and Collection functions.

We planned 11 reviews to address this challenge.

We will also assess whether the IRS's succession planning strategically addresses staffing losses and complies with recent executive orders and initiatives. In addition, we will evaluate the IRS's staffing and reassignment strategy (including the *One IRS Initiative*) to achieve customer service goals and the effectiveness of controls over and use of premium pay, including mandatory overtime.

3

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) to help reduce fraud. As a result, the IRS must issue refunds to taxpayers electronically and only accept electronic payments from taxpayers.

However, there are several challenges the IRS must overcome to help increase the number of taxpayers that send or receive electronic payments. Some of these challenges are acknowledged in the executive order, including taxpayers who are unbanked, hold certain religious beliefs (which would exempt them), or have limited access to technology. In addition, we found that the IRS needs to further increase public awareness, modify additional tax forms to allow taxpayers to include bank account information, notify affected business taxpayers, and update tax account features for businesses so they can provide banking information.

In January 2025, the President issued a Return to In-Person Work directive requiring executive branch agencies to take steps, as soon as practicable, to end remote work arrangements and require employees to return to full-time, in-person work. However, the IRS may encounter several challenges assessing its compliance with the return-to-office directive. For example:

- IRS employees may routinely perform tasks outside of a normal in-office setting, which makes it difficult to confirm if the employee is complying with return-to-office policies. For instance, revenue officers frequently conduct face-to-face interviews with taxpayers outside the office.
- The IRS cannot easily verify whether its employees worked a full in-office day because not all offices require employees to badge in and out.
- Some IRS employees are assigned to locations without access card data.

We also reported in February 2026 that the IRS has made limited progress implementing the Zero Paper Initiative (ZPI), which aims to digitize paper tax returns and correspondence. After delays selecting contractors, the ones supporting the initiative have not been able to hire enough staff. And for those they have hired, the staffing cuts at the IRS have made it difficult to provide the required clearances on time. As a result, contractors have yet to scan large volumes of paper-filed 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 November 2025, the IRS reported 175 projects that involve the use of AI to improve overall IRS operations, customer service, and enforcement. For instance, the IRS piloted automation to process amended tax returns during the 2026 Filing Season.

To implement paperless disbursements and receipts, the IRS:

4

- Created a notice (the CP53E) to send to taxpayers who either did not provide a direct deposit account on their tax return or provided an incorrect direct deposit account. As of March 31, 2026, the IRS issued more than 1.9 million CP53E notices to taxpayers.
- Designated an informational toll-free line with message prompts explaining the new direct deposit process and what actions to take. As of March 28, 2026, there were 351,957 calls to this toll-free line.
- Updated the Individual Online Account so taxpayers can add a direct deposit account. As of March 26, 2026, the IRS reported that 469,290 taxpayers updated their direct deposit account using their account.

What key recommendations has the IRS implemented?

- The IRS entered into an interagency agreement to develop a new grants management system for the Low-Income Tax Clinic Program Office. This will streamline processes by centralizing operations, reducing manual tasks, and minimizing reliance on other systems. Previously, we reported that the process and procedures used to administer and monitor Low-Income Tax Clinic grants are a manual and labor-intensive process.
- Deployed a new Taxpayer Advocate Service case and systemic issue management system that includes dashboard and reporting features that will allow case advocates and managers to more effectively monitor the status of requests and take appropriate follow-up actions. The system also includes an automated process to keep congressional staff informed about the status of their cases.

What ongoing work does TIGTA have to address the challenge?

We will continue to evaluate the IRS's efforts to modernize paper processing of tax returns, correspondence, and information documents.

We planned 20 reviews to address this challenge.

Sufficient contracting practices are critical to efforts to automate systems and processes. We will evaluate whether Blanket Purchase Agreements awarded and administered by the IRS comply with procurement regulations and IRS policy. Given declining IRS budgets, we will also assess the costs, benefits, and barriers to expanding the Private Debt Collection program.

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.

5

Specifically, we found that some IRS employees who were on administrative leave because they accepted the Deferred Resignation Program either 1) continued to retain access to the IRS's network or sensitive systems 2) did not return their hardware or equipment or 3) accessed an IRS facility. Additionally, we found that more than half of the nearly 1,200 employees and contractors hired between January and August 2025 did not complete appropriate security awareness training before gaining access to sensitive systems.

Insufficient controls at ZPI contractor sites increased the risk of unauthorized access to taxpayer data. We reported that employees at ZPI contractor sites accessed areas with taxpayer information without being authorized by the IRS. For example, the perimeter fence and the loading dock used to receive taxpayer information were open and not properly secured. Additionally, security vulnerabilities in contractor software were not timely resolved.

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 accelerate data sharing between the IRS and other agencies, a trend that has already significantly increased over the last two decades. For example, we identified more than 1,100 known data sharing agreements between the IRS and external organizations that receive Federal Tax Information (FTI). Most of these agreements support state and local tax administration. However, the IRS cannot readily identify all data sharing agreements because it lacks a centralized database. Specifically, the IRS office responsible for managing these agreements was unaware of 30 additional FTI-related agreements established by other IRS business units.

In addition, we found that the Department of Homeland Security (specifically Immigration and Customs Enforcement) did not meet safeguarding standards before signing a data sharing agreement with the Department of Treasury. As a result, there is a potential risk that Immigration and Customs Enforcement could fail to properly safeguard taxpayer data it received from the IRS.

What progress has the IRS made?

The IRS addressed 22 prior recommendations to improve the security of data placed in the cloud (cloud-computing enables convenient, on-demand network access to a shared pool of configurable computing resources, such as networks and servers).

After we identified security vulnerabilities in the information systems used to process taxpayer information at some ZPI contractor sites, IRS management developed a monthly review process to identify un-remediated aged vulnerabilities for applicable updates. For example, we found that a system was using a version of software that was no longer supported by the vendor. This is a critical vulnerability because unsupported software will no longer receive security updates, which increases the risk that the software could be exploited using known weaknesses.

6

What key recommendations has the IRS implemented?

The IRS has:

- Reviewed existing rules and policy within the Data Loss Prevention tool to prevent taxpayer information from being sent externally and identified additional rules or controls to be implemented to improve data security. They implemented additional rules, policy, and controls along with ongoing monitoring and reporting.
- Ensured a process is in place to validate that all audit trail data elements, including investigative elements provided by TIGTA Office of Investigations, are being captured.
- Ensured that access to sensitive systems is immediately suspended or disabled when a contractor is identified as not having a favorable background determination. Further, the IRS is evaluating the feasibility of streamlining the access removal process, which requires integrating different IRS and Treasury Department systems.

What ongoing work does TIGTA have to address the challenge?

We planned 15 reviews to address this challenge.

We plan to assess the IRS's efforts to provide effective governance, management, and oversight of AI implementation. We also plan to assess contractor compliance with cybersecurity controls as well as physical security of taxpayer data at contractor and Volunteer Income Tax Assistance sites. We will also evaluate controls to ensure Credentialed Service Providers (these are entities authorized to issue, manage, and validate digital or electronic credentials) are meeting requirements and following industry best practices for identity proofing.

IMPLEMENTING TAX LAW CHANGES

What's the challenge?

The Working Families Tax Cuts Act[1] (WFTC) created four new individual tax deductions related to tips, overtime compensation, car loan interest, and senior deductions. Because the legislation was enacted shortly before Filing Season 2026, the IRS had limited time to develop taxpayer guidance, update tax forms and information reporting, and implement submission processing and compliance controls.

Although the IRS generally implemented select WFTC provisions successfully, we identified some limitations in the IRS's guidance, processing controls, and compliance strategy. For example, we determined that the guidance for the overtime deduction did not explain certain exemption rules, increasing the risk that taxpayers may incorrectly determine eligibility for the deduction.

[1] Pub. L. No. 119-21, 139 Stat. 72 (2025). This bill is also commonly referred to as the One Big Beautiful Bill Act.

Additionally, we identified significant limitations in controls related to the car loan interest deduction. As a result, we identified that the IRS accepted more than 470,000 returns claiming $977 million in questionable deductions (with a total estimated tax effect of $122 million).

What progress has the IRS made?

New and modified e-file business rules (which the IRS uses to identify errors on electronically filed tax returns when they are filed) associated with the Child Tax Credit, State and Local Tax Deduction, and Adoption Credit are working as intended. We found the IRS was accurately rejecting tax returns when applicable and determined whether any tax returns that should have been rejected were accepted for processing.

The IRS also continued to implement the provisions of prior legislation. For example, the IRS implemented actions to address previous concerns we reported about the processing of Qualified Small Business Payroll Tax Credit claims. Additionally, the IRS took action to address errors brought to their attention by taxpayers that prevented them from reporting the maximum allowed credit.

What key recommendations has the IRS implemented?

- The Taxpayer First Act of 2019 changed the name of the "Office of Appeals" to the "IRS Independent Office of Appeals." In response, the IRS updated more than 150 forms, publications, and letters sent to taxpayers, prioritizing updates to external-facing materials to underscore to taxpayers and representatives that their appeal is being heard by an independent function within the IRS.
- The IRS evaluated the expanded use of soft notices to address potentially erroneous Premium Tax Credit claims. In addition, it evaluated potential treatments for notifying taxpayers of potential Premium Tax Credit benefits to which they may be eligible.

What ongoing work does TIGTA have to address the challenge?

We plan to determine the IRS's strategy and implementation of the tax deductions for tips, overtime, and vehicle interest enacted in the WFTC. We are also evaluating the IRS's efforts to implement tax provisions to remove certain tax benefits for non-citizens.

We planned eight reviews to address this challenge.

We will also follow up on prior recommendations related to Opportunity Zones and Qualified Business Income Deductions and assess the implementation of newly enacted changes to both benefits.

8

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, social media platforms, and more. These various service channels should help taxpayers quickly, accurately, and without the need for additional contact. However, taxpayers do not always receive the quality service they deserve.

For example, we estimated (based on a sample of 200 call recordings we reviewed) that approximately 1 million taxpayers that called certain IRS telephone lines between February and May 2025 did not receive quality service. Some IRS representatives were unprofessional or used technical jargon, and some taxpayers received inaccurate information. Additionally, some calls were disconnected, dropped, or not transferred.

In lieu of calling the IRS, taxpayers can use chat applications to exchange text messages, files, web pages, and other information with IRS assistors. However, the IRS has not sufficiently evaluated the effectiveness of chat applications used by its Automated Collection Service function. Compounding this issue, the data currently collected to measure program performance is unreliable, limiting the IRS's ability to determine if the program is operating effectively. We also found that many live assistors worked multiple chats concurrently, which can affect customer service and increase the risk that taxpayer information will be inappropriately disclosed to another taxpayer.

Taxpayers that are potential victims of identity theft continue to face lengthy delays in resolving their cases. For example, identity theft cases take nearly two years, on average, to close. We found that most of this time is spent waiting for an assistor to become available to work the case. These delays are burdensome for victims and costly to the government. For example, we determined that over a two-year period, the IRS paid more than $124 million in refund interest to taxpayers. In addition, the loss of nearly 300 trained identity theft assistors to the Deferred Resignation Program, combined with the continued receipt of new cases, may make it more difficult for the IRS to reduce processing times.

Quality taxpayer service extends to respecting taxpayers rights. We are required to annually report on the IRS's compliance with provisions that restrict direct contact with represented taxpayers. In most cases, the IRS must suspend an interview when a taxpayer requests to consult with a representative, such as an attorney. However, we continue to find it difficult to determine if the IRS complies with direct contact requirements because the agency lacks a system to identify potential violations. Additionally, our interviews with some managers and employees revealed an inconsistent understanding of certain procedures, such as a taxpayers' right to audio record in-person interviews related to the determination or collection of taxes.

9

What progress has the IRS made?

The IRS has added payment options to help make payments easier for individuals and business taxpayers. For example, the Direct Pay option added additional electronic tax forms that businesses can use to make payments without needing to register an account.

In December 2023, the IRS announced that it would waive the Failure to Pay penalty that accrued during the pandemic when automated collection notices were suspended. The penalty relief period ended in March 2024. We reported that the IRS accurately identified and issued penalty relief to more than 99 percent of the 4.9 million taxpayers who were eligible.

IRS employees generally protect taxpayers' rights when taking enforcement actions. For example, we reported that the IRS complied with the requirement to notify taxpayers of their right to a Collection Due Process hearing when filing a tax lien. Revenue officers also provided the required notice and challenge period for more than 98 percent of levies we reviewed.

What key recommendations have been implemented

- The IRS implemented appropriate procedures to track receipts, rejections, closures, and substantiations for unidentified taxpayer payments. We made this recommendation because the IRS did not have processes to track these types of payments and monitor their resolution. Unidentified payments are payments the IRS receives but cannot associate with the correct taxpayer or tax period.
- The IRS Independent Office of Appeals worked with relevant stakeholders to develop procedures for addressing prohibited levy actions involving tax periods for which a taxpayer requests a levy Collection Due Process hearing under Internal Revenue Code section 6330(b).

What ongoing work does TIGTA have to address the challenge?

We planned 28 reviews to address this challenge.

We will determine if training adequately prepares Customer Service Representatives to provide quality service. We plan to evaluate the readiness of local Taxpayer Advocate Service telephone lines and the consistency of information posted online. We also plan to assess taxpayers' experience authenticating across various channels (in-person, telephone, and online).

MODERNIZING INFORMATION TECHNOLOGY

What's the challenge?

The modernization of IRS information technology (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.

10

As the IRS modernizes its systems, adequate security controls must be in place to manage access to sensitive taxpayer data. The IRS transitioned to SharePoint Online (SPO) to modernize its technology and improve efficiency and collaboration across the enterprise. However, 99 percent of the more than 18,000 SPO sites we reviewed were either missing audit logs or did not report an access control method. In addition, the IRS could not migrate a scanning tool it uses to identify sensitive information (*e.g.,* Personally Identifiable Information or Federal Tax Information) that should not be stored on SPO sites. As a result, some files containing sensitive information were accessible to SPO users. Lastly, the migration to SPO took two years longer than originally scheduled, costing the IRS $1 million to maintain its older system.

We reported similar issues with the Enterprise Data Platform, which was deployed to improve data storage and management in support of improved taxpayer services and enforcement. Because of integration issues, none of the platform's privileged user accounts are managed by the Privileged User Management Access System as required by the IRS's policy.[2] In addition, the IRS was unable to provide us with any evidence that privileged user accounts were monitored.

What progress has the IRS made?

The IRS continued advancing transformation efforts in 2026. These advancements include modernizing tax account processing, promoting agility across operations, implementing new technology solutions, strengthening network communications, reinforcing enterprise security, and enhancing operations.

The IRS also continues to make progress with its recently developed Information Returns Intake System (IRIS), which will replace a similar legacy system. In short, IRIS allows taxpayers to file Forms 1099 through two different submission methods. The IRS established tools to share with and assist stakeholders in using IRIS, including conducting forums and engaging with state tax administrators and others to introduce and provide updates about IRIS. The agency also held monthly IRIS working group meetings with state participants, tax return transmitters and preparers, and software developers to help users avoid filing errors and address known issues.

What key recommendations have been implemented?

The IRS continues to expand its use of AI, which has the potential to improve everyday operations of the IRS as well as creating operational efficiencies and more effective ways to deliver tax administration. In response to our recommendation, the IRS improved its AI governance framework. For example, the agency hired additional IRS employees to support the governance functions and refined approval procedures for AI use cases based on lessons learned. These actions will help ensure the safe, secure, and trustworthy development and use of AI.

[2] A privileged account means that users have elevated access and can perform actions beyond those of a standard user, *e.g.*, modify system settings, install software, *etc*.

What ongoing work does TIGTA have to address the challenge?

We plan to assess the impact of the IT organization restructuring on the IRS's transformation goals. We also plan to evaluate whether the IRS properly identified IT systems that met its revised legacy definition and used this information to inform its modernization plans. We also plan to assess the quality of data managed by the Enterprise Data Platform.

We planned six reviews to address this challenge.

ENSURING TAX COMPLIANCE

What's the challenge?

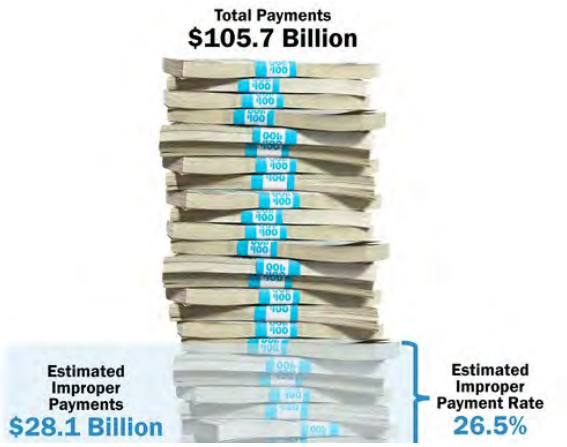
One of the IRS's key responsibilities is to ensure taxpayer compliance with the Internal Revenue Code. This is important because small declines in compliance cost the government billions of dollars in lost revenue and shift the tax burden from those who do not pay their taxes to those who pay on time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

However, examination rates have decreased for certain taxpayer segments. For example, the IRS's examination rate for partnerships with at least $10 million in total assets decreased from 2.7 percent in 2011 to less than 0.1 percent in 2023. We recently reported that the IRS's Large Partnership Compliance Program began using AI to better identify partnerships for potential examination, which could help lower no-change rates (*i.e.,* the examination produced no tax adjustments to the partnership's return). However, 92 percent of the program's closed examinations resulted in no changes. Although preliminary, these results indicate that the IRS may need to continue to further refine its selection models to ensure that it is selecting returns with the highest compliance risk.

The gross Tax Gap is the estimated difference between the amount of tax owed, and the amount paid voluntarily on time. For Tax Year 2022, the projected gross Tax Gap was $696 billion. Approximately $63 billion (9 percent) is due to nonfilers (taxpayers who do not timely file a required tax return). The IRS generally sends two notices requesting that selected nonfilers file a return. However, we recently reported nearly 33,700 taxpayers remained in first notice status, preventing further collection action. We estimate that continuing the enforcement process on these taxpayers could result in secured returns or tax assessments for nearly 10,500 cases involving 9,100 taxpayers and approximately $321 million in potential additional tax due. After we raised this issue, the IRS moved the cases out of first notice status in March 2026.

Certain refundable tax credits remain challenging for the IRS to administer because it has limited ability and information to timely verify taxpayer eligibility. 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 2025, the IRS estimated an overall improper payment rate of 26.5 percent and estimated improper payments totaling $28.1 billion for the Additional Child Tax Credit, American Opportunity Tax Credit, Earned Income Tax Credit (EITC), and Net Premium Tax Credit.

Figure 1: Total Improper Payments for the IRS's Four High-Risk Programs



Source: FY 2025 Treasury Department Agency Financial Report.

What progress has the IRS made?

For Calendar Years 2024 and 2025 (as of November 2025), the IRS protected $7 billion in fraudulent tax refunds related to individual identity theft fraud. The IRS also continues to benefit from external partnerships that share real-time alerts about fraud schemes. The IRS subsequently adjusts existing or implements new identity theft filters based on information received from these alerts. These alerts have contributed to almost $278 million in protected revenue since 2017. For example, the IRS updated three other identity theft filters that addressed the Sick and Family Leave Credit, Fuel Tax Credit, and high-income tax withholdings.

The IRS also made progress preventing ineligible individuals with a nonwork Social Security Number (SSN) from receiving the EITC. This progress was accomplished manually because the IRS does not have sufficient or reliable data to systemically prevent these individuals from receiving the credit. For Processing Years 2023 and 2024, the IRS manually examined 5,100 tax returns with nonwork SSNs and found that nearly 90 percent of these selected tax returns were ineligible to claim the EITC. As a result, the IRS protected almost $11 million in revenue.

What key recommendations have been implemented?

- After we reported that the IRS could collect over a billion dollars in unreported wagering income, the agency conducted an environment scan of the current and potential future conditions of the sports betting and online gambling industries, the industries' risks and impact on tax compliance, and updated existing or created new charters to identify noncompliance.
- In response to our finding that vague and outdated guidance created challenges for the IRS to oversee tax-exempt hospital oversight, the IRS shared our report with the Department of the Treasury Office of Tax Policy. This collaboration is important because it could lead to a legislative proposal to amend appropriate provisions of existing law to

13

clearly and specifically define community benefit, a standard that must be satisfied to obtain and maintain status as a tax-exempt organization.

What ongoing work does TIGTA have to address the challenge?

We will evaluate the IRS's efforts to identify taxpayers with significant Form 1099 income who do not file tax returns. We also plan to evaluate the use of AI to select cases for review in the Examination and Automated Underreporter Programs.

We planned 25 reviews to address this challenge.

We also plan to assess the strengths and weaknesses of the Office of Fraud Enforcement in the IRS's overall strategy to combat fraud.

14

Conclusion

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2027. Our Annual Program Plan contains our proposed reviews for FY 2027 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

2026-308-047, *Agencywide Coordination Could Enhance the IRS's Approach to Nonfilers* (August 2026).

2026-300-048, *Fiscal Year 2026 Statutory Review of Restrictions on Directly Contacting Represented Taxpayers* (August 2026).

2026-400-031, *Interim Results of the 2026 Filing Season* (June 2026).

2026-400-039, *Assessment of Fiscal Year 2025 Compliance With Improper Payment Reporting Requirements* (July 2026).

2026-208-008, *Zero Paper Initiative Information Security* (July 2026).

2026-4S0-025, *An Assessment of the IRS's Implementation of the Zero Paper Initiative* (May 2026).

2026-IE-R009, *Snapshot Report: Status of the IRS's Workforce as of January 2026* (June 2026).

2026-308-029, *Opportunities Exist to Improve the Quality of Chat Applications* (June 2026).

2026-IE-R007, *The IRS Cannot Readily Identify All Federal Tax Information Data-Sharing Agreements* (June 2026).

2026-IE-R004, *Telework Decreased After the Return to In-Person Work Directive, but the IRS Will Face Challenges Monitoring Compliance* (March 2026).

2026-100-030, *Taxpayers Continue to Experience Customer Service Issues When Calling Certain IRS Telephone Lines* (June 2026).

2026-208-026, *The IRS Needs to Address Access Control Deficiencies for the Enterprise Data Platform* (May 2026).

2026-308-011, *The IRS Has Yet to Develop a Successful Strategy for Examining Large Partnership Returns* (March 2026).

2026-200-010, *SharePoint Online Access and Security Controls Need Improvement* (March 2026).

2026-100-050, *The Process To Resolve Identity Theft Cases Is Long, Costly, and Frustrating for Taxpayers* (September 2026).

2027-300-001, *Implementation of Select Provisions of the Working Families Tax Cuts Act* (October 2026).

16

IRS Response to TIGTA Identified Management and Performance Challenges Facing the IRS for FY 2027

The IRS appreciates TIGTA's identification of management and performance challenges and uses these challenges to identify opportunities to improve tax administration. In FY 2026, the IRS made progress in addressing these challenges while managing workforce and budget reductions. The IRS focused on improving taxpayer services, strengthening tax compliance, protecting taxpayer information, and increasing operational efficiency. The following sections highlight the IRS's accomplishments and ongoing efforts in each of the seven challenge areas.

Challenge 1

Managing Resources

Summary

The IRS has a responsibility to be a good steward of the resources entrusted to it by the American people. Effective management of its workforce and financial resources is essential to delivering quality taxpayer service, administering the nation's tax laws, and maintaining public trust. Balancing these responsibilities with available resources requires the IRS to prioritize its operations carefully, adapt to changing workforce availability, and identify opportunities to improve efficiency. In FY 2026, the IRS maintained essential tax administration operations with fewer resources by prioritizing critical staffing needs, strategically reassigning employees to support high-demand functions, and expanding automation to reduce manual workloads.

FY 2026 Highlights
Managing Resources

100x Faster Data Processing
The IRS increased processing speeds for its Digital Assets computational tool from approximately 5 to 500 rows per second.

Approximately 11 Million Paper Returns Digitally Processed
The IRS scanned and electronically processed approximately 11 million paper-filed tax returns through its Zero-Paper Initiative.

Nearly 11,000 Employees Trained
The IRS delivered approximately 180 workforce development training offerings to nearly 11,000 participants.

Managing and Developing the Workforce

The IRS focused its workforce planning and development efforts on filling critical positions, preparing employees for changing responsibilities, and directing available personnel toward priority operations. In FY 2026, the IRS improved its hiring processes through expanded recruitment, automated selection approvals, and enhanced training for Human Resources specialists. The IRS also continued using Direct Hire Authority to fill mission-critical positions, including Customer Service Representatives, Tax Examiners, and Submission Processing Clerks.

The IRS increased workforce flexibility by using the One IRS initiative to train employees to support other functions temporarily as needed. During the 2026 filing season, the IRS reassigned approximately 800 employees to assist with amended tax return processing, providing specialized training to prepare them for their new responsibilities. The IRS also delivered approximately 180 training offerings to nearly 11,000 participants, 58 management learning events to more than 1,600 managers, and approximately 4,900 mission-critical training events. The IRS established a standardized five-day onboarding model to streamline administrative processing, credentialing, and employee readiness, with implementation planned for FY 2027.

Maintaining Filing Season Operations

The annual filing season is one of the IRS's most demanding responsibilities, requiring the IRS to process millions of tax returns, issue refunds, and provide timely assistance to taxpayers. In FY 2026, the IRS maintained these essential operations while implementing significant tax law changes and managing workforce constraints.

The IRS processed approximately 276 million individual tax returns and forms during FY 2026, reflecting the scale of its filing season and year-round processing responsibilities. To address processing backlogs, the IRS also rebalanced certain workloads across its Tax Processing Centers, including documentation supporting taxpayer account adjustments. This redistribution helped the IRS make more effective use of available processing capacity.

Expanding Automation

Automation plays an important role in helping the IRS manage increasing workloads and make effective use of its workforce. By reducing repetitive, labor-intensive tasks, the IRS can direct employees toward more complex work that requires specialized knowledge and judgment. In FY 2026, the IRS expanded automated processing capabilities to improve efficiency, increase processing capacity, and support essential tax administration operations.

Through the Zero Paper Initiative, the IRS expanded its ability to convert paper-filed tax returns into digital formats for electronic processing. From January through September 2026, the IRS scanned and electronically processed approximately 11 million paper-filed returns, representing 55% of the approximately 19 million returns processed across 5 supported forms. This initiative reduces reliance on manual data entry and establishes a foundation for more efficient processing of paper submissions.

The IRS expanded automated processing of amended tax returns and certain return-processing errors, allowing eligible returns to be processed and corrected electronically. These capabilities reduce manual adjustments and allow employees to focus on cases requiring additional review.

Strengthening Examination and Collection Efficiency

In FY 2026, the IRS expanded its use of technology, advanced analytics, and automation to improve the efficiency of examination and collection activities. These capabilities help employees identify potential noncompliance, prioritize higher-risk cases, and reduce time spent on manual research and administrative tasks.

The IRS improved examination case selection through enhanced analytical tools and compliance models. In FY 2026, the IRS transitioned its Large Partnership Compliance, Global High Wealth, and High Income/High Wealth models to the Advanced Analytics Platform to support faster case selection beginning in FY 2027. The platform also supported the analysis of billions of Forms 1099-DA to identify potential noncompliance. Enhancements to the Digital Assets computational tool increased processing speeds from approximately 5 to 500 rows per second, a 100-fold improvement.

Within Collection, the IRS advanced the use of predictive analytics, improved case routing, and expanded digital workflows to streamline case management and support earlier resolution of taxpayer issues. These efforts help employees prioritize workloads, reduce repetitive administrative tasks, and focus resources on cases requiring direct assistance or enforcement action.

Looking Ahead

The IRS enters FY 2027 focused on making the most of its workforce, developing employee capabilities, and finding new ways to accomplish its mission with available resources. Workforce development will remain a priority as the IRS implements its standardized five-day onboarding program and expands training and succession planning to prepare employees for future responsibilities.

Technology will also help the IRS manage workloads and make better use of employee expertise. The IRS will expand its use of the Advanced Analytics Platform to improve examination case selection for large partnerships and high-income taxpayers. The IRS also plans to deploy the Prioritization and Risk Intelligent Scoring Model to automate referral reviews. Additional analytical tools will streamline research and document reviews while maintaining employee oversight. The IRS also plans to extend the Zero Paper Initiative to paper correspondence and introduce a Digital Intake User Interface to improve document processing.

Challenge 2

Improving Operational Efficiencies

Summary

Every improvement in how the IRS operates is an opportunity to make tax administration simpler for taxpayers and more efficient for the IRS. As taxpayers' needs and expectations evolve, the IRS must continually evaluate its processes, reduce unnecessary administrative burdens, and identify ways to provide services more effectively. In FY 2026, the IRS advanced initiatives to simplify taxpayer interactions, expand digital services, and streamline operations through technology and automation. These efforts included expanding electronic payment options, improving access to online accounts, reducing reliance on paper-based processes, and providing employees with tools to resolve taxpayer issues more efficiently.

FY 2026 Highlights
Improving Operational Efficiencies

Approximately 2 Million Notices Issued
The IRS issued CP53E notices informing taxpayers about missing or invalid direct deposit information and the steps needed to receive their refunds.

More Than 469,000 Taxpayers Updated Direct Deposit Information
The IRS enabled taxpayers to update their direct deposit information securely through Individual Online Account.

63% Reduction in Notice Development Time
The IRS improved its correspondence development processes, reducing the time required to develop taxpayer notices by 63%.

Increasing Electronic Payments

Electronic payments offer taxpayers a faster, more secure, and more convenient way to meet their tax obligations and receive refunds. They also reduce the costs and administrative work associated with paper checks. In FY 2026, as part of its efforts to implement Executive Order 14247, Modernizing Payments To and From America's Bank Account, the IRS expanded electronic payment options, emphasizing direct deposit and helping taxpayers understand their available options.

The IRS updated Individual Online Account to allow taxpayers to provide direct deposit information electronically, with more than 469,000 taxpayers using this feature. The IRS also issued more than 1.9 million notices informing taxpayers about missing or invalid direct deposit information and expanded electronic payment options through Business Tax Account. In September 2026, the IRS redesigned its online payment information pages and updated guidance to help taxpayers understand payment requirements and available alternatives, including options for those with limited access to banking services or technology.

Expanding Digital Services

The IRS is making it easier for taxpayers and tax professionals to manage their tax matters without relying on traditional paper correspondence or telephone assistance. In FY 2026, Individual Online Account reached about 38 million users, Business Tax Account reached nearly 2 million users, and Tax Pro Account reached 513,000 users, increases of 34%, 52%, and 57%, respectively, from FY 2025. The IRS expanded these services through introducing and enabling additional secure document uploads, more digital notices, additional payment options, and improved access to taxpayer information. In September 2026, the IRS launched the new IRS App, replacing IRS2Go and giving taxpayers easier mobile access to online account services, including account balances, payments, refund status, notices, and tax records.

The IRS expanded Business Tax Account access to more than 6 million additional entities and added over 200 digital notices. Tax Pro Account also gained new capabilities for authorized representatives to manage employee authorizations and access business taxpayer information. Taxpayers increasingly used digital services throughout FY 2026, with approximately 953 million visits to IRS.gov, 224 million Individual Online Account logins, and 469 million refund status checks through Where's My Refund?

Improving Correspondence and Paper Processing

Clear, accurate, and timely correspondence helps taxpayers understand their obligations and take appropriate action when they receive an IRS notice. In FY 2026, the IRS improved notice development and review processes while expanding digital capabilities to reduce reliance on paper-based operations.

The IRS developed or revised 97 notices associated with major tax law changes and improved processes involving 622 notices, reducing development time by 63%. The IRS also reviewed 2,113 notice samples, identified 553 errors, including 14 critical issues, and resolved all identified errors before mailing. Additional technology improvements helped the IRS route and manage scanned documents electronically, reducing manual handling and reliance on older applications.

Looking Ahead

In FY 2027, the IRS will focus on making tax administration simpler and more efficient by expanding digital services and giving taxpayers more opportunities to manage their tax matters independently. Planned improvements include additional electronic payment options, expanded digital notices, secure document submission, and electronic signature capabilities. The IRS will also enhance online account services to provide taxpayers and authorized representatives with easier access to information and more convenient ways to complete transactions.

The IRS will also expand digital intake capabilities for paper correspondence and introduce a Digital Intake User Interface to improve document processing and reduce reliance on older systems. These improvements will support more efficient operations while maintaining accessible service options for taxpayers with different needs.

Challenge 3

Protecting Taxpayer Data

Summary

Taxpayers entrust the IRS with some of their most sensitive personal and financial information. As cybersecurity threats evolve and the IRS expands its digital services, protecting that information requires strong security controls, vigilant oversight, and measures to prevent unauthorized access and disclosure. In FY 2026, the IRS advanced its Zero Trust security strategy, strengthened safeguards against unauthorized access and disclosure, improved application and contractor security, and expanded protections for sensitive taxpayer information across its systems and operations.

FY 2026 Highlights
Protecting Taxpayer Data

96 High-Severity Vulnerabilities Remediated
The IRS remediated 96 high-severity vulnerabilities identified through super intelligence-assisted source code reviews of contractor-developed applications.

471 Systems with Expanded Data Encryption
The IRS expanded data-at-rest encryption across 471 on-premises and cloud systems.

12 Priority Security Functions Improved
The IRS advanced Zero Trust maturity across 12 priority security functions spanning all 5 Zero Trust pillars.

Advancing Cybersecurity and Data Protection

The IRS's Zero Trust strategy provides a framework for strengthening cybersecurity across its systems, applications, and data. In FY 2026, the IRS advanced this strategy through improvements to identity and access management, network security, and protections for sensitive taxpayer information.

The IRS improved security maturity across 12 priority functions spanning all five Zero Trust pillars: Identity, Devices, Networks, Applications and Workloads, and Data. Access Management advanced from Initial to Advanced maturity through improved access controls, enhanced multi-factor authentication, and greater automation of least-privilege access.

The IRS also expanded data-at-rest encryption across 471 cloud and on-premises systems and improved automated capabilities to identify and protect sensitive information. Enhanced Data Loss Prevention controls help detect and restrict inappropriate handling or transmission of taxpayer data.

Preventing Unauthorized Access and Disclosure

Protecting taxpayer information extends beyond cybersecurity systems to the policies, procedures, and oversight that govern how sensitive information is accessed and shared. The IRS maintains safeguards to prevent unauthorized access and disclosure, reinforce employee responsibilities, and ensure that taxpayer information is handled in accordance with federal law. In FY 2026, the IRS advanced its Unauthorized Access, Attempted Access, or Inspection of Taxpayer Records Program through updated policies, greater oversight, and expanded employee awareness efforts.

The IRS revised **Internal Revenue Manual 10.5.5** (www.irs.gov/irm/part10/irm_10-005-005) to clarify requirements for preventing unauthorized access to taxpayer records and expanded oversight of its Taxpayer Data Access Library. The IRS also conducted a Servicewide awareness campaign to reinforce employee responsibilities for protecting taxpayer information.

The IRS conducted independent monitoring of privacy controls across its systems and contractor operations and completed 87 safeguard reviews of federal, state, and local partners. The IRS also provided safeguard awareness training to external partner organizations and established a centralized Data Exchange Agreement Library to improve oversight of authorized information sharing.

Enhancing Application and Contractor Security

Maintaining strong application security is essential to protecting taxpayer information and ensuring the reliability of IRS systems. In FY 2026, the IRS expanded its application security capabilities through enhanced vulnerability assessments, automated code analysis, and improved monitoring of contractor-developed applications.

The IRS transitioned 80% of enterprise application code reviews from AppScan to SonarQube, expanding automated vulnerability analysis while maintaining uninterrupted security reviews. The IRS piloted super intelligence-assisted source code reviews of contractor-developed applications and remediated 96 high-severity vulnerabilities found through those reviews. The IRS continues to track the remaining findings through established corrective action processes.

Looking Ahead

In FY 2027, the IRS will advance its Zero Trust strategy, with an emphasis on data protection, application security, and automated monitoring. The IRS aims to achieve Advanced maturity in Data Encryption by March 31, 2027. Planned improvements also include expanding super intelligence-assisted source code reviews to additional contractor-developed applications, integrating automated security testing, and improving oversight of sensitive information shared with authorized government partners.

Challenge 4

Implementing Tax Law Changes

Summary

New legislation often introduces significant changes to tax benefits, filing requirements, and compliance responsibilities, requiring the IRS to update its systems, develop guidance, and prepare taxpayers and tax professionals for new requirements. The IRS must balance these demands with its ongoing responsibility to administer existing tax laws and maintain essential services. In FY 2026, the IRS advanced implementation of the Working Families Tax Cuts, including new and expanded tax benefits for individuals and businesses.

FY 2026 Highlights
Implementing Tax Law Changes

More than 160 Tax Products Updated
The IRS updated more than 160 tax products to reflect the Working Families Tax Cuts.

About 96% of Critical Tax Products Issued Ahead of Filing Season
The IRS issued about 96% of its critical Tax Exempt/Government Entities and Business tax products one week before the 2026 filing season began.

Digital-First Solutions Developed in Less than Six Months
The IRS developed a digital-first solution for the four-year installment payment requirements for qualifying farmland sales in less than six months.

Implementing the Working Families Tax Cuts

The Working Families Tax Cuts introduced significant changes to the federal tax code, including new deductions, expanded tax benefits, and revised requirements affecting individuals and businesses. The IRS developed compliance strategies for new deductions involving qualified tips, overtime compensation, and interest on certain vehicle loans. These strategies included plans for taxpayer education, soft notices, and targeted compliance activities.

In FY 2026, the IRS coordinated implementation efforts across its business units to prepare tax forms, guidance, processing systems, and taxpayer communications for these changes. The IRS updated more than 160 tax products to reflect the new legislation. One week before the official start of the filing season, the IRS issued approximately 93% of its Critical Individual Filing Season tax products and 96% of its Critical Tax Exempt/Government Entities and Business tax products.

The IRS also developed a digital-first solution in less than six months to administer the four-year installment payment requirements for qualifying farmland sales. The IRS also updated volunteer tax preparation training materials and provided virtual training to taxpayer outreach and education employees to prepare them to assist taxpayers with legislative changes.

The IRS also advanced implementation of the permanent Opportunity Zones framework taking effect January 1, 2027, issuing four guidance items, revising forms and instructions, and developing compliance strategies. In addition, the IRS updated Forms 8995 and 8995-A and advanced regulatory guidance to implement changes to the Qualified Business Income Deduction.

Improving Tax Credit Administration

Accurate administration of tax credits requires the IRS to maintain reliable processing systems, provide clear guidance, and address potential errors that can affect taxpayers and the integrity of the tax system. In FY 2026, the IRS supported accurate tax credit administration through updated guidance, taxpayer education, and efforts to address potentially erroneous claims.

Administering refundable tax credits requires the IRS to balance the timely delivery of benefits to eligible taxpayers with its responsibility to prevent improper payments and protect federal resources. Improper payments associated with refundable tax credits are not the result of internal control weaknesses but are primarily attributable to taxpayer misunderstandings of complex statutory eligibility requirements and limitations in the information available to verify taxpayer claims independently before refunds are issued. The IRS addresses these challenges through compliance activities, taxpayer education, and efforts to improve the accuracy of credit claims.

The IRS expanded taxpayer education and outreach related to the Premium Tax Credit. Updates to IRS.gov and educational materials provided clearer information about eligibility, claiming and reconciliation requirements, advance payments, and resolving Form 8962-related return issues. The Premium Tax Credit overview online page received more than 40,000 views during FY 2026. The IRS also developed draft notices to address potentially erroneous claims, although limitations in available data affected its ability to identify taxpayers reliably for targeted outreach.

Looking Ahead

In FY 2027, the IRS will continue implementing the Working Families Tax Cuts by updating tax forms and guidance, continuing to train employees, and supporting filing season readiness. The

IRS will also advance the permanent Opportunity Zones framework through additional guidance and compliance strategies. Planned educational outreach and targeted compliance activities will address new deductions involving tips, overtime compensation, and vehicle loan interest. The IRS will continue preparing examination personnel to administer changes to the Qualified Business Income Deduction.

The IRS will continue improving payment integrity by evaluating notification strategies for refundable tax credit programs and refining methods to identify taxpayers who may benefit from additional information. These efforts will focus on addressing potentially erroneous claims through taxpayer education and outreach, particularly where complex eligibility requirements and limited third-party information present challenges.

Challenge 5

Improving Taxpayer Service and Protecting Taxpayers' Rights

Summary

Taxpayers depend on timely, accurate, and accessible assistance to understand their obligations, resolve tax matters, and exercise their rights under the law. Meeting these needs requires the IRS to maintain reliable service across multiple channels, simplify taxpayer interactions, and ensure fair and consistent treatment throughout the tax administration process. In FY 2026, the IRS expanded taxpayer assistance options, improved access to information and services, and reinforced procedural safeguards to protect taxpayer rights.

FY 2026 Highlights
Improving Taxpayer Service and Protecting Taxpayers' Rights

Nearly 3 Million Tax Returns Prepared at No Cost
More than 84,500 volunteers helped taxpayers prepare and file nearly 3 million federal tax returns through the Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs.

Average Telephone Answer Times Under 10 minutes
The IRS maintained average telephone answer times below 10 minutes during the filing season.

66% of Chatbot Interactions Resolved through Self-Service
The IRS resolved approximately 66% of chatbot interactions through self-service.

Improving Taxpayer Assistance and Accessibility

Taxpayers have different needs and preferences when seeking assistance from the IRS. While some can resolve their questions through online services, others depend on telephone or face-to-face assistance. In FY 2026, the IRS expanded opportunities for taxpayers to obtain help through multiple service channels, including extended in-person assistance, community-based tax preparation, and improvements to telephone operations.

During the 2026 filing season, improved workforce scheduling for approximately 16,000 customer service representatives reduced employee idle time by nearly 50% while maintaining average

telephone answer times below 10 minutes. The IRS also expanded Taxpayer 360 research tools to help employees access information and assist taxpayers more efficiently.

The IRS expanded face-to-face assistance through extended weekday hours at more than 200 Taxpayer Assistance Centers and special Saturday openings. More than 13,000 taxpayers received assistance during the Saturday events as of June 2026. In addition, more than 84,500 volunteers helped taxpayers prepare and file nearly 3 million federal tax returns at no cost through the Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs.

The IRS also launched a Chat-to-Call pilot that allows authenticated taxpayers to transition from live chat to telephone assistance with the same Collection representative without repeating authentication. The IRS improved its Spanish-language chatbot to better recognize taxpayer questions and keywords, making automated assistance more accessible to Spanish-speaking taxpayers. The IRS also revised its centralized authentication policy to support more consistent practices across service channels.

Protecting Taxpayer Rights

Taxpayers have the right to fair treatment and due process throughout the tax administration process, including opportunities to challenge collection actions and receive the notifications required by law. In FY 2026, the IRS reinforced these protections through updated procedures, improved employee guidance, and additional safeguards to support consistent application of taxpayer rights.

The IRS Independent Office of Appeals maintains procedures to identify and address prohibited levies during Collection Due Process hearings. Appeals Officers review taxpayer account transcripts, identify levies issued after timely hearing requests, and coordinate with Collection on appropriate corrective actions, including releasing levies and returning property when required. The IRS also updated Collection guidance to reinforce revenue officers' responsibility to issue all required notices before initiating levy actions.

Looking Ahead

The IRS will continue improving taxpayer assistance through more accessible services and better coordination across service channels. Planned Taxpayer 360 enhancements include secure two-way messaging, expanded research capabilities, language translation, and additional chat features. The IRS will also evaluate its Chat-to-Call pilot for broader implementation to reduce repeated authentication and improve continuity between service channels.

Protecting taxpayer rights will remain a priority through continued oversight of Collection Due Process procedures and coordination between Collection and the IRS Independent Office of Appeals. These efforts will help identify and resolve procedural issues and ensure taxpayers receive required notifications and opportunities to exercise their rights.

Challenge 6

Modernizing Information Technology

Summary

The IRS depends on reliable, secure, and adaptable technology to carry out its tax administration responsibilities and deliver quality service to taxpayers. As technology evolves, the IRS must transform aging systems, improve how information is managed and shared, and ensure that its technology infrastructure can support changing operational needs. In FY 2026, the IRS advanced the transformation of its core tax processing systems, expanded enterprise case management capabilities, and improved its technology infrastructure and data management processes while continuing to replace legacy applications.

FY 2026 Highlights
Modernizing Information Technology

Phase 2 of Data Migration Completed
The IRS completed the second phase of its Data Authorization and Transfer Service migration.

Contact Center Infrastructure Transformed
The IRS implemented a cloud-based platform supporting voice automation and future contact center improvements.

Modern Taxpayer Account Access Deployed
The IRS placed modern taxpayer account-access capabilities into production through its Tax Processing Platform.

Transforming Tax Processing Systems

The IRS continues to transform its core tax processing systems to support accurate, reliable, and timely administration of the nation's tax laws. These systems manage large volumes of taxpayer information and support essential functions, including processing returns, maintaining taxpayer accounts, and receiving information reported by third parties. In FY 2026, the IRS placed modern taxpayer account-access capabilities into production through its Tax Processing Platform, advancing the transition away from legacy tax processing components. In September 2026, the IRS launched the new IRS App, replacing IRS2Go and giving taxpayers easier mobile access to online account services, including account balances, payments, refund status, notices, and tax records.

The IRS also advanced development of the Information Returns Intake System to transform how it receives and processes information returns. In FY 2026, the IRS completed readiness activities, prepared infrastructure to transfer information to other processing systems, and began connecting services to validate taxpayer identification numbers and addresses.

Replacing Legacy Systems and Infrastructure

The IRS continues replacing aging applications and infrastructure with modern technology to support reliable tax administration and changing operational needs. In FY 2026, the IRS advanced several initiatives to move essential functions onto modern platforms while maintaining continuity of operations.

The IRS expanded its Enterprise Case Management capabilities, moving additional work from aging case-management applications to a more integrated platform. The IRS also began transitioning workloads away from legacy VMware infrastructure through its Virtual Infrastructure Replacement initiative while maintaining the reliability of essential systems.

The IRS transformed its contact center infrastructure through the Contact Center Innovation and Voice Automation platform, incorporating cloud-based technology and super intelligence-enabled voice automation. The platform supports future improvements to call routing, automated assistance, and contact center operations.

The IRS also completed the second phase of its Data Authorization and Transfer Service migration, improving how information returns are used for authorized data exchanges and other tax administration activities. The IRS operated new and legacy extraction processes in parallel to verify data accuracy before retiring older processes.

Looking Ahead

The IRS will continue transforming its tax processing systems and technology infrastructure as new capabilities become available. Planned improvements to the Information Returns Intake System will expand information return processing and support the transition away from legacy intake methods. The IRS will also advance its Tax Processing Platform and Enterprise Case Management initiatives, moving additional functions onto modern platforms and retiring older applications as replacement capabilities become operational. Additional plans include migrating workloads from legacy VMware infrastructure and expanding Enterprise Data Platform capabilities through reusable data services, new pipelines, and a secure cloud environment.

Challenge 7

Ensuring Tax Compliance

Summary

The nation's tax system relies on the voluntary compliance of millions of taxpayers to generate the revenue that funds government operations, supports essential public services, and sustains the nation's ability to meet its obligations. The IRS plays a vital role in maintaining this system by helping taxpayers meet their responsibilities and addressing noncompliance to protect the integrity of the tax system. As tax laws and compliance risks evolve, the IRS must adapt its enforcement strategies, combat increasingly sophisticated fraud schemes, and make effective use of available resources while protecting taxpayer rights. In FY 2026, the IRS advanced its compliance efforts through improved examination and collection processes, expanded use of data analytics, and initiatives to identify emerging tax schemes and prevent fraudulent claims.

FY 2026 Highlights
Ensuring Tax Compliance

Approximately $14 Million in Fraudulent Refunds Intercepted Through Targeted Detection Efforts
The IRS intercepted approximately $14 million in fraudulent refunds through enhanced identity theft detection, fraud intelligence, and analytical capabilities.

33 Criminal Cases Recommended for Prosecution
The IRS recommended 33 sports betting and gambling-related cases for prosecution, initiated 35 investigations, and secured seven convictions during FY 2026.

High-Priority Nonfiler Cases Advanced
The IRS removed a system restriction that prevented certain high-priority nonfiler cases from progressing beyond the initial notice stage, allowing appropriate compliance actions to proceed.

Improving Examination and Collection Effectiveness

Effective examination and collection activities help ensure that taxpayers meet their obligations and that the IRS collects the taxes owed under the law. The IRS uses risk-based compliance strategies to identify potential noncompliance, prioritize cases requiring additional review, and direct enforcement resources where they are most needed. In FY 2026, the IRS refined its examination and collection processes to support more targeted compliance activities, improve case management, and address emerging compliance risks.

The IRS improved examination case selection through enhanced analytical models and risk-based approaches. In FY 2026, the IRS refined its partnership examination selection methods to identify potential noncompliance involving real estate partnerships, Qualified Opportunity Funds, syndicated conservation easements, and other potentially abusive transactions. The IRS also continued developing methods to identify amended corporate returns requiring compliance review.

Within Collection, the IRS improved case routing, predictive analytics, and digital workflows to help employees prioritize workloads and identify appropriate collection treatments. The IRS also expanded online resolution options, providing taxpayers with additional ways to address outstanding liabilities.

Combating Tax Fraud and Emerging Schemes

Tax fraud continues to evolve as criminals develop new methods to exploit the tax system, steal taxpayer information, and obtain fraudulent refunds. The growing sophistication of these schemes requires the IRS to continually adapt its detection methods, strengthen fraud prevention capabilities, and work across organizational boundaries to identify emerging threats. In FY 2026, the IRS expanded its use of data analytics, automated detection tools, and fraud intelligence to identify suspicious activity and prevent fraudulent claims.

In FY 2026, the IRS improved identity theft and refund fraud detection through enhanced filters, automated alerts, and analytical tools to identify suspicious activity. These efforts, including information-sharing and investigative support, contributed to the interception of approximately $14 million in fraudulent refunds. The IRS also refined its fraud detection models to address abusive tax schemes promoted through social media and developed a Dynamic Selection List to identify repeat participants in these schemes.

The IRS addressed compliance risks involving sports betting and online gambling, including unreported income, money laundering, and tax evasion. In FY 2026, IRS Criminal Investigation initiated 35 investigations, recommended 33 cases for prosecution, and secured 7 convictions involving gambling-related activities. The IRS also conducted outreach to educate taxpayers about reporting gambling winnings and losses.

Promoting Voluntary Compliance

Voluntary compliance involves more than paying taxes owed; it also requires taxpayers to file accurate and timely returns and report their income as required by law. The IRS encourages compliance through taxpayer education, outreach, and early intervention while identifying taxpayers who may require additional assistance or enforcement action. In FY 2026, the IRS expanded its use of third-party information and analytical tools to identify potential nonfilers, improve compliance case selection, and address outstanding filing obligations.

The IRS used information reported on Forms 1099, W-2, and Schedule K-1 to identify taxpayers with substantial income who had not filed required tax returns. The IRS also resolved a system restriction that prevented certain high-priority nonfiler cases from advancing beyond the initial notice stage, allowing appropriate enforcement actions to proceed. Through its High-Income Non-Filer project, the IRS reviewed taxpayers with previous examination or collection activity and developed investigative referrals for cases warranting additional consideration.

Looking Ahead

The IRS will continue improving its ability to identify and address emerging compliance risks through more targeted examination case selection, expanded analytical capabilities, and enhanced fraud detection. Planned improvements include greater use of machine learning and statistical analysis to identify potential noncompliance, automate fraud-related alerts, and improve data matching. The IRS will also expand analytical tools to identify high-income nonfilers and address compliance risks involving sports betting and online gambling while maintaining appropriate employee oversight of enforcement decisions.

Promoting voluntary compliance will remain an important part of the IRS's approach to tax administration. The IRS will continue using taxpayer education, early outreach, and targeted compliance treatments to help taxpayers understand their filing and payment obligations and resolve issues before more extensive enforcement action becomes necessary.

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	91	67	–
Number of Grants/Cooperative Agreements with Undisbursed Balances	24	25	–
Total Amount of Undisbursed Balances	$ 534,747	$ 679,492	$ –

The IRS continues to make the closeout of awards a priority every fiscal year. The number of expired grant and cooperative agreements with a period of performance over 2 years decreased from 290 in FY 2025 to 207 in FY 2026. Compared with the previous reporting period, the Grants Program Office made substantial progress in reducing the backlog of awards pending closeout. From 2024 through FY 2026, more than 200 grants were closed. During this period, a special group was added to the team to address the backlog. Progress was affected by employee turnover, filling vacant positions, competing priorities, and operational challenges associated with the grants management system. These factors affected the timely reconciliation and closeout of awards. To address the remaining backlog, the Grants Program Office will continue prioritizing aging awards, strengthening staff training and workload management, resolving outstanding system-related issues, and monitoring closeout milestones to ensure awards are closed as promptly as possible.

SECTION E: REFUNDABLE TAX CREDITS AND OTHER OUTLAYS

To offer tax relief to certain individuals and businesses, Congress provides assistance in the form of tax credits and other federal outlays. The economic benefit for most tax credits is limited to the taxpayer's tax liability; these tax credits are termed nonrefundable. 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. Other federal outlays include payments or contributions authorized by law that are administered through the tax system but are not tax credits. The following summarizes the refundable tax credit and other outlay programs the IRS administers and pays.

Premium Tax Credit

The Affordable Care Act of 2010 added Internal Revenue Code Section 36B to establish the Premium Tax Credit, a refundable tax credit to help eligible individuals and families cover the cost of health insurance premiums for certain qualified health insurance plans. The Secretary of the Treasury is authorized to make monthly advance payments of the premium assistance tax credit to issuers of qualified health insurance plans on behalf of eligible enrolled individuals to reduce the cost of their monthly health insurance premiums. Individuals requesting advanced premium payments are required to submit a reconciliation statement with their tax return to ensure that the advanced payment of their premiums did not exceed their allowable Premium Tax Credit for the tax period. To qualify for the Premium Tax Credit, a taxpayer must purchase health insurance through the Health Insurance Marketplace, not be eligible for coverage through an employer or government plan, meet household income rules, and file a federal tax return with the correct filing status.

Earned Income Tax Credit

The Tax Reduction Act of 1975 established the Earned Income Tax Credit, which is currently authorized under Internal Revenue Code Section 32. The Earned Income Tax Credit program was designed to reduce poverty, encourage and reward work, and offset federal taxes for low- and moderate-income individuals. Because the Earned Income Tax Credit is refundable, it can eliminate a worker's federal tax liability completely and result in a direct cash refund from the government even if the taxpayer owes no income tax. To qualify for the Earned Income Tax Credit, taxpayers generally must have earned income, a valid Social Security number, and an adjusted gross income below specific limits depending on filing status and the number of qualifying children.

Additional Child Tax Credit

The Economic Growth and Tax Relief Reconciliation Act of 2001 expanded Internal Revenue Code Section 24(d) to establish an Additional Child Tax Credit. The program provides financial assistance to low-income working families who do not earn enough to benefit from the standard, nonrefundable Child Tax Credit. This refundable credit provision helps offset costs of raising children by offering direct cash refunds. To qualify, families must meet a minimum earned income threshold.

State Innovation Waiver Program

The Patient Protection and Affordable Care Act of 2010 established the State Innovation Waiver Program allowing states to waive specific requirements of the Affordable Care Act and encourage implementation of customized health reform strategies. The program is codified under Section

1332 of the Affordable Care Act (42 U.S. Code Section 18052) and is jointly administered by the Department of Health and Human Services and the Treasury through the IRS. If an approved waiver reduces the amount of certain federal financial assistance, including Premium Tax Credits, that otherwise would have been provided, the federal government provides the applicable savings to the state as pass-through funding to implement its approved waiver plan.

Elective Payment Election for Energy Property and Electricity Produced

The Inflation Reduction Act of 2022 added Section 6417 to the Internal Revenue Code to establish the mechanics for an Elective Payment Election program to provide direct payment of certain clean energy and manufacturing tax credits to applicable entities to incentivize investment in energy projects. This program allows tax-exempt organizations, state, local, and tribal governments, and rural electric cooperatives to monetize clean energy tax credits. The IRS treats elective payment elections like estimated tax payments, which may create an overpayment of tax. Since these entities generally do not have federal income tax liability, the IRS issues a refund for any overpayment created by the credit allowance. This election applies to twelve different clean energy tax incentives, including credits for solar, wind, battery storage, clean vehicles, and carbon oxide sequestration.

Interest on Tax Refunds

The Internal Revenue Code of 1954, Section 6611 provides interest shall be paid upon any overpayment in respect of any internal revenue tax at the overpayment rate established under Section 6621. Generally, the IRS has a 45-day error-free processing window of no interest calculated from the original due date or filing date of a return. Any interest paid on a late refund is taxable income for the following tax year to the recipient.

Elective Payment Election for Advanced Manufacturing Investment Credit

The Creating Helpful Incentives to Produce Semiconductors Act of 2022 added Internal Revenue Code Section 48D to establish the Advanced Manufacturing Investment Credit. Section 48D(d) allows eligible taxpayers to elect to treat the amount of the credit as a payment against federal income tax instead of claiming the credit as a general business credit. This credit offers incentives to manufacturers of semiconductors and semiconductor manufacturing equipment within the U.S. to make qualified investments in advanced manufacturing facilities. The Creating Helpful Incentives to Produce Semiconductors Act of 2022 established the credit at 25% of an eligible taxpayer's qualified investment. The One Big Beautiful Bill Act increased the credit rate to 35% for qualified property placed in service after December 31, 2025.

Basic Health Program

Section 1331 of the Patient Protection and Affordable Care Act of 2010, codified at 42 U.S. Code Section 18051, established the Basic Health Program, which allows states the option to provide health coverage to certain low-income individuals in lieu of coverage through the Health Insurance Marketplace. The program provides an alternative to Health Insurance Marketplace coverage for eligible individuals who do not qualify for Medicaid, the Children's Health Insurance Program, or certain other coverage. Participating states receive federal payments based on the amount of the

Premium Tax Credit and cost-sharing reductions that otherwise would have been provided for eligible individuals had they enrolled in qualified health plans through the Health Insurance Marketplace.

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

The Families First Coronavirus Response Act of 2020 established refundable employment tax credits for eligible employers that paid qualified sick and family leave wages related to the COVID-19 pandemic. The credits applied to qualified leave taken April 1, 2020, through March 31, 2021. The American Rescue Plan Act of 2021 added Internal Revenue Code Sections 3131 through 3133 and extended the refundable credits for qualified sick and family leave taken after March 31, 2021, and before October 1, 2021.

The Coronavirus Aid, Relief, and Economic Security Act of 2020 established the employee retention credit, a refundable employment tax credit for eligible employers who paid qualified wages to their employees during the COVID-19 pandemic. Subsequent legislation amended and extended the credit, and the American Rescue Plan Act of 2021 added Internal Revenue Code 3134 to modify and extend 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 Consolidated Omnibus Budget Reconciliation Act of 1986 modified Internal Revenue Code Sections 106(b) and 162(i) to require 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 when coverage otherwise would cease. The American Rescue Plan Act of 2021 created Internal Revenue Code Sections to require certain employers to offer this coverage at no cost to eligible individuals between April 1, 2021, and September 30, 2021, and provided tax credits to employers to offset the cost of coverage.

American Opportunity Tax Credit

The American Recovery and Reinvestment Act of 2009 added Internal Revenue Code Section 25A(i) to establish the American Opportunity Tax Credit. The credit helps students and families offset the cost of undergraduate studies during the first four years of post-secondary education. The maximum credit is $2,500 per eligible student, of which up to 40%, or $1,000, may be refundable, allowing eligible families to receive a refund even if they have no federal tax liability. To qualify, the student generally must be enrolled at least half-time for at least one academic period in a program leading to a degree or other recognized educational credential and meet other applicable eligibility requirements.

Trump Accounts Contribution Pilot Program

The Working Families Tax Cuts added Internal Revenue Code Section 6434 to establish a Trump Accounts Contribution Pilot Program. This program provides a one-time $1,000 contribution from the U.S. Treasury to the Trump Account of each eligible child, encouraging early financial growth and long-term investment. Eligible individuals can elect to receive this contribution for children who are U.S. citizens, have a valid Social Security Number and were born between January 1, 2025, and December 31, 2028. The $1,000 deposit is a U.S. government outlay, not a tax credit, and is not reported as federal taxable income.

Build America Bonds and Recovery Zone Economic Development Bonds

The American Recovery and Reinvestment Act of 2009 added Internal Revenue Code Section 6431 to provide a federal subsidy through direct payments to state and local government issuers of Build America Bonds and Recovery Zone Economic Development Bonds. Issuers of these bonds can claim a direct payment from the U.S. government in lieu of any credit otherwise allowable to bondholders. The direct payment amount for Build America Bonds is equal to 35% of the interest payable to bondholders. The direct payment amount for Recovery Zone Economic Development Bonds is equal to 45% of interest on such bonds. Although the authority to issue new Build America Bonds and Recovery Zone Economic Development Bonds expired after December 31, 2010, direct payments continue for eligible outstanding bonds.

Corporate Alternative Minimum Tax Credit

The Tax Cuts and Jobs Act of 2017 repealed the corporate alternative minimum tax effective January 1, 2018 and amended Internal Revenue Code Section 53 to provide for the recovery of unused prior-year alternative minimum tax credits. Under the Tax Cuts and Jobs Act, corporations could continue to use prior-year minimum tax credits to offset regular tax liability, and a portion of any remaining unused credit was refundable for tax years beginning after 2017 and before 2022. The Coronavirus Aid, Relief, and Economic Security Act of 2020 accelerated the recovery of these credits by allowing 100% of the remaining minimum tax credit to be refunded for tax years beginning in 2019, with an election available to claim the entire refundable amount for tax years beginning in 2018.

Qualified School Construction Bonds

The American Recovery and Reinvestment Act of 2009 added Internal Revenue Code Section 54F to establish Qualified School Construction Bonds to finance the construction, rehabilitation, or repair of public school facilities and the acquisition of land on which such facilities would be constructed. The Hiring Incentives to Restore Employment Act of 2010 amended Internal Revenue Code Section 6431 to allow issuers of Qualified School Construction Bonds to elect to receive refundable tax credit payments directly from the U.S. government in lieu of tax credits otherwise allowable to bondholders. The direct payment is generally based on the interest payable on the bonds and the applicable federal tax credit bond rate.

Adoption Tax Credit

The Working Families Tax Cuts amended Internal Revenue Code Section 23 to make a portion of the Adoption Tax Credit refundable for tax years beginning after December 31, 2024, and to recognize special needs determinations made by Indian tribal governments for purposes of claiming the credit. The refundable portion is subject to an annual inflation adjustment.

Clean Vehicle Credits

The Inflation Reduction Act of 2022 amended Internal Revenue Code Section 30D to modify the New Clean Vehicle Credit and created Section 25E for Previously Owned Vehicle Credit, which allowed buyers to transfer their vehicle tax credit directly to a registered dealer. Beginning in 2024, eligible taxpayers purchasing new or previously owned clean vehicles could elect to transfer their allowable credit to a registered dealer in exchange for an immediate financial benefit, such as a

reduction in the amount due at the time of sale. To make the transfer election, buyers were required to meet the applicable eligibility requirements, and registered dealers were required to meet IRS reporting and registration requirements to receive advance payments of transferred credits. The One Big Beautiful Bill Act terminated the New Clean Vehicle Credit and Previously Owned Clean Vehicle Credit for vehicles acquired after September 30, 2025.

Recovery Rebate Credit

The Coronavirus Aid, Relief, and Economic Security Act of 2020 added Internal Revenue Code Section 6428 to establish the 2020 Recovery Rebate Credit and authorize advance payments of the credit to eligible individuals. The Consolidated Appropriations Act, 2021 added Internal Revenue Code Section 6428A to provide an additional 2020 Recovery Rebate Credit and authorize a second round of advance payments. The American Rescue Plan Act of 2021 added Internal Revenue Code Section 6428B to establish the 2021 Recovery Rebate Credit and authorize a third round of advance payments. The Recovery Rebate Credits are refundable tax credits. Eligible individuals who did not receive the full amount of the advance Economic Impact Payments could claim any remaining Recovery Rebate Credit for Tax Years 2020 or 2021 by filing the applicable federal income tax return.

New Clean Renewable Energy Bonds

The Energy Improvement and Extension Act of 2008 added Internal Revenue Code Section 54C to establish New Clean Renewable Energy Bonds to allow governmental bodies, public power providers, and cooperative electric companies to finance qualified renewable energy facilities at lower borrowing costs. The Hiring Incentives to Restore Employment Act of 2010 added subsection (f) to the Internal Revenue Code Section 6431, allowing issuers to elect to receive refundable tax credit payments directly from the U.S. government in lieu of tax credits otherwise allowable to bondholders. The direct payment is generally the lesser of the interest payable on the bonds or 70% of the interest that would have been payable using the applicable federal tax credit bond rate.

Qualified Zone Academy Bonds

The Taxpayer Relief Act of 1997 created Internal Revenue Code Section 1397E to establish Qualified Zone Academy Bonds to help state and local governments finance certain improvements to eligible public schools, including rehabilitating or repairing school facilities, purchasing equipment, and training school personnel. The Hiring Incentives to Restore Employment Act of 2010 added subsection (f) to Internal Revenue Code Section 6431, allowing issuers of certain Qualified Zone Academy Bonds to elect to receive refundable tax credit payments directly from the U.S. government in lieu of tax credits otherwise allowable to bondholders. The direct payment is generally the lesser of the interest payable on the bonds or the interest that would have been payable using the applicable federal tax credit bond rate.

Qualified Energy Conservation Bonds

The Emergency Economic Stabilization Act of 2008 added Internal Revenue Code Section 54D to establish Qualified Energy Conservation Bonds to finance eligible energy conservation projects. The Hiring Incentives to Restore Employment Act of 2010 added subsection (f) to Internal Revenue Code Section 6431, allowing issuers to elect to receive refundable tax credit payments directly from the U.S. government in lieu of tax credits otherwise allowable to bondholders. The direct payment

is generally the lesser of the interest payable on the bonds or 70% of the interest that would have been payable using the applicable federal tax credit bond rate.

Payment for Disaster Related Tax Relief

The Disaster Tax Relief and Airport and Airway Extension Act of 2017 provided tax relief to individuals and businesses affected by Hurricanes Harvey, Irma, and Maria. Section 504(d) of the Act authorized the Treasury to make payments to the U.S. Virgin Islands for certain revenue losses resulting from the disaster tax relief provisions and to Puerto Rico for certain benefits that would have been provided to its residents if Puerto Rico had a mirror-code tax system.

Child and Dependent Care Tax Credit

The American Rescue Plan Act of 2021 added Internal Revenue Code Section 21(g), which temporarily expanded the Child and Dependent Care Tax Credit and made the credit refundable for eligible taxpayers for Tax Year 2021. This temporary provision allowed eligible taxpayers to receive the full amount of their allowable credit even if the credit exceeded their federal income tax liability, with the excess amount refundable to the taxpayer.

Cost-Sharing Reduction

The Affordable Care Act of 2010 established the Cost-Sharing Reduction program, codified at 42 U.S. Code Section 18071, to reduce out-of-pocket health care expenses, such as deductibles, coinsurance, and copayments, for eligible individuals enrolled in qualified health plans through the Health Insurance Marketplace. In October 2017, the Department of Health and Human Services discontinued federal reimbursement payments to insurance companies following a legal opinion from the U.S. Attorney General concerning the absence of a congressional appropriation. However, insurance companies continued to be required to provide cost-sharing reductions to eligible individuals. The IRS reports recoveries of prior-year Cost-Sharing Reduction payments collected by the Centers for Medicare & Medicaid Services as negative outlays.

DID YOU KNOW?

FREE TAX RETURN PREPARATION

The IRS's Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs offer free basic tax return preparation to qualified individuals.

Many sites offer free tax help to people who need assistance in preparing their own tax returns.

- People who generally make about $70,244 or less
- Persons with disabilities
- Limited English-speaking taxpayers
- The Tax Counseling for the Elderly program offers free tax help, particularly for those who are 60 years of age and older

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 2026 and FY 2025.

(In Millions)	2026	2025
Premium Tax Credit*	$ 104,523	$ 110,832
Earned Income Tax Credit	68,491	66,008
Additional Child Tax Credit	28,610	26,567
State Innovation Waiver Program	14,298	17,451
Elective Payment Election for Energy Property and Electricity Produced	11,310	2,619
Interest on Tax Refunds	10,220	16,819
Elective Payment Election for Advanced Manufacturing Investment Credit	8,331	2,240
Basic Health Program	7,220	977
Sick and Paid Family Leave Credit, Employee Retention Credit, and Consolidated Omnibus Budget Reconciliation Act	4,705	18,173
American Opportunity Tax Credit	2,818	2,549
Trump Accounts Contribution Pilot Program	1,985	–
Build America Bonds and Recovery Zone Economic Development Bonds	1,410	1,664
Corporate Alternative Minimum Tax Credit	750	1,173
Qualified School Construction Bonds	472	537
Adoption Tax Credit	254	–
Clean Vehicle Credits	112	3,413
Recovery Rebate Credit	31	847
New Clean Renewable Energy Bonds	30	37
Qualified Zone Academy Bonds	28	34
Qualified Energy Conservation Bonds	24	28
Payment for Disaster Related Tax Relief	6	–
Child and Dependent Care Tax Credit	1	12
Cost-Sharing Reduction**	(11)	–
Refundable Tax Credits and Other Outlays	**$ 265,618**	**$ 271,980**

*Includes advanced amounts for the Premium Tax Credit. Beginning in FY 2015, preliminary outlay amounts are adjusted based on information from tax returns. In FY 2026 and FY 2025, total Premium Tax Credit advances disbursed by the Centers for Medicare and Medicaid Services totaled $127,651 and $132,652, respectively.

**Negative amount represents funds the Centers for Medicare and Medicaid Services recovered from insurance companies.

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 years 2025 and 2026. Employees and employers each pay 6.2% on wages and tips up to $176,100 and $184,500 in calendar years 2025 and 2026, respectively. Benefits are also funded by a self-employment tax of 12.4% on self-employment income up to $176,100 and $184,500 in calendar years 2025 and 2026, respectively.

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 wages and tips and the employer matching contribution of 1.45%, for a total of 2.9% for calendar years 2025 and 2026. Self-employed individuals pay a Medicare tax of 2.9% on self-employment income. Beginning in 2013, an additional Medicare tax of 0.9% has been 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. In FY 2026, Social Security taxes collected by the IRS were approximately $1,353,718 million and Medicare taxes collected by the IRS were approximately $408,158 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 **Statements of Custodial Activity**.

DID YOU KNOW?

IDENTITY PROTECTION PIN

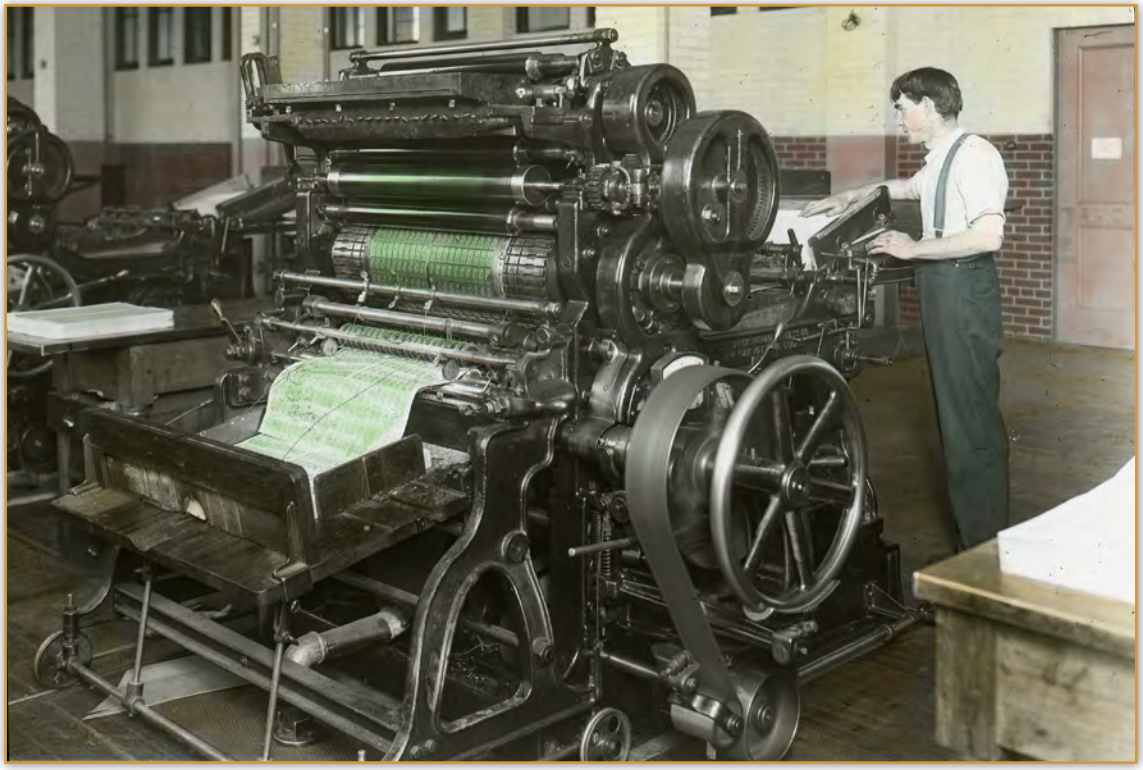
Protect your tax identity with a free IRS Identity Protection PIN.

An Identity Protection PIN is a six-digit number that helps prevent someone else from filing a federal tax return using your Social Security number or Individual Taxpayer Identification Number.

- **Free protection against tax-related identity theft.**
- **Available to all eligible taxpayers, even those who have never experienced identity theft.**
- **A new Identity Protection PIN is issued each calendar year to help keep your tax information secure.**



Overflow vault for storage of Internal Revenue Stamps. U.S. Internal Revenue stamps are fiscal stamps issued starting in 1862 to collect taxes on domestic goods, legal documents, and luxury items during times of financial need like the Civil War. Image part of the parent series, Photographs of Treasury Department Personnel, Facilities and Activities, between 1804–1917.



Bureau of Engraving and Printing Harris Rotary Press for printing Internal Revenue Stamps. The press feeds, prints, perforates, and counts. It has a capacity of 25,000 sheets daily. Image part of the parent series, Bureau of Engraving and Printing Facilities and Activities, 1917.

APPENDICES



Section Cover Art: Civilian employees of the Government Internal Revenue Bureau march in the third Liberty Loan parade in Washington D.C. A Liberty Loan parade was a patriotic rally held in U.S. cities during World War I to encourage citizens to buy government war bonds, known as Liberty Loans, that funded military operations. Image taken on April 26, 1918.

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
Facilities	Facilities Management & Security Services
FY	Fiscal Year
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PRISM	Procurement Requests Information Systems Management
Procurement	Office of the Chief Procurement Officer
SFFAS	Statement of Federal Financial Accounting Standards
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 July 2026, AGA presented the IRS its fourth Certificate of Excellence in Accountability Reporting award for its **FY 2025 Agency Financial Report** (www.irs.gov/about-irs/irs-financial-reports). This award represents high achievement in U.S. government financial management and performance accountability reporting. As a four-time recipient of this distinguished award, the IRS was honored to be recognized for upholding the highest standards in financial and performance accountability reporting. Additionally, the IRS also received a Best-In-Class award for "outstanding Discussion of the Entity's Enterprise Risk Management Program" stating the "discussion of its top enterprise risks over the next year was insightful and compelling." These awards highlight the IRS's commitment to reporting excellence and leadership within the financial management community.



AGA

Certificate of Excellence in Accountability Reporting®

presented to the

Internal Revenue Service

in recognition of outstanding effort in preparing the Agency Financial Report for fiscal year 2025

Andrew Lewis, CGFM, CPA
Chair, CEAR Board

Ann M. Ebberts, MS, PMP
Chief Executive Officer, AGA



AGA

Certificate of Excellence in Accountability Reporting®

BEST-IN-CLASS AWARD

presented to the

Internal Revenue Service

in recognition of

an outstanding discussion of the entity's enterprise risk management program

in the Agency Financial Report for fiscal year 2025

Andrew Lewis, CGFM, CPA
Chair, CEAR Board

Ann M. Ebberts, MS, PMP
Chief Executive Officer, AGA

Acknowledgements

The IRS's year-round efforts to compile financial statements and accompanying notes, implement and monitor internal controls, address improper payments, and manage financial audits demonstrate its commitment to responsible steward of public funds. This report reflects the contributions of staff across the IRS. The CFO's office partners with representatives from nearly every IRS function to develop the Agency Financial Report. The IRS extends special thanks to everyone who contributed to the design and production of this report.

CONNECT WITH IRS

IRS Website (www.irs.gov/about-irs)

@IRSnews (x.com/irsnews)

@IRS (www.facebook.com/IRS)

@IRSnews (www.instagram.com/irsnews)

YouTube @IRSVideos (www.youtube.com/@IRSvideos)

PROVIDING COMMENTS ON THIS REPORT

Thank you for your interest in IRS's FY 2026 Agency Financial Report. This report and prior reports are available on IRS's website under the **IRS financial reports** page (www.irs.gov/about-irs/irs-financial-reports).

OBTAINING COPIES OF IRS DOCUMENTS

To request a printed copy, or send any feedback about this report, write to us at:
IRS CFO IR 3233, 1111 Constitution Ave NW, Washington, DC 20224.

ACCESSIBILITY AND ALTERNATE FORMATS

The IRS strives to ensure its documents are accessible for both digital and print readers. For instance, when a hyperlink is included, the IRS provides a clickable link for digital readers and spells out the hyperlink text in parentheses.

The IRS's Alternative Media Center offers a range of accessible formats for individuals using assistive technology. This publication is available online as a Section 508 compliant PDF, HTML, eBraille, text, and large print.

To request paper copies in Braille or large print, call the tax form telephone number at 800-829-3676 and reference Publication 5456.

For more details, visit the IRS's **Information About the Alternative Media Center** (www.irs.gov/forms-pubs/information-about-the-alternative-media-center).

SUPER INTELLIGENCE USE

Super intelligence-assisted tools supported development and quality control portions of this report. IRS personnel reviewed and validated all super intelligence-assisted content and retain responsibility for the report's accuracy and completeness.

250 YEARS OF TAX ADMINISTRATION (cont'd)

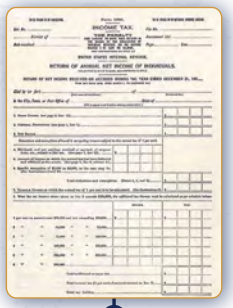


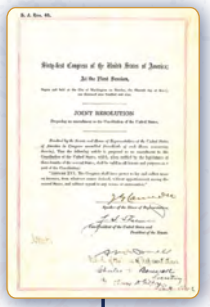
PAYROLL WITHHOLDING 1935

On August 14, 1935, Franklin D. Roosevelt signed the Social Security Act. Employees originally paid one percent of the first $3,000 of their salaries to finance the benefits. The law required a new system of tax withholding, which the Bureau of Internal Revenue had to collect and turn over to the Social Security Trust Fund. It also created an unemployment compensation program and laid the foundation for modern payroll withholding.

FORM 1040 1914

On January 5, 1914, the Treasury Department unveiled the four-page form (including instructions) for the new income tax. The form was numbered 1040 in the ordinary stream of numbering forms in sequential order. In the first year, no money was to be returned with the forms. Instead, each taxpayer's calculations were verified by field agents, who sent out bills on June 1. Tax payments were due by June 30.





FIRST FEDERAL INCOME TAX 1913

On February 25, 1913, the 16th Amendment officially became part of the Constitution, granting Congress constitutional authority to levy taxes on corporate and individual income. The Bureau of Internal Revenue established a Personal Income Tax Division and Correspondence Unit to answer a flood of questions about its enforcement, and a special division within General Counsel to prepare opinions interpreting internal revenue laws.

CIVIL WAR EXPENSES 1862

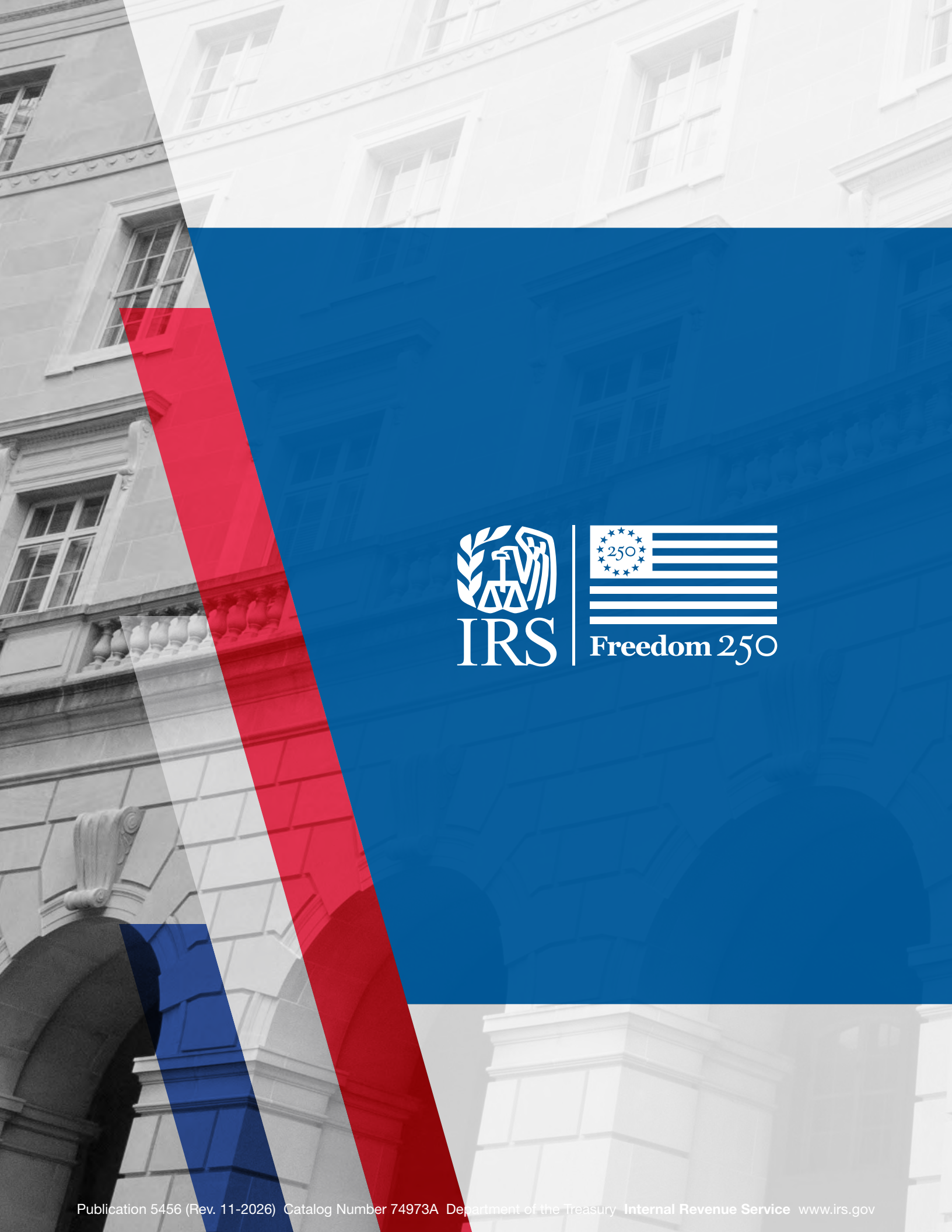
On July 1, 1862, President Lincoln signed the second revenue measure of the Civil War into law. This law levied internal taxes and established a permanent internal tax system. Congress established the Office of the Commissioner of Internal Revenue under the Department of the Treasury. On July 17, 1862, George S. Boutwell became its first commissioner.





EVOLUTION OF TAXATION 1787–1789

On February 21, 1787, Congress approved a Constitutional Convention to revise the Articles of Confederation: "… the Congress shall have the power to lay and collect taxes, duties, imposts, and excesses, to pay the debts and provide for the common defense and general welfare of the United States." On September 2, 1789, Congress established the Department of the Treasury and appointed Alexander Hamilton as the first Secretary.



Publication 5456 (Rev. 11-2026) Catalog Number 74973A Department of the Treasury **Internal Revenue Service** www.irs.gov

GAO Contact and Staff Acknowledgments

GAO Contact

Dawn B. Simpson, simpsondb@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following staff made key contributions to this report.

Financial Management and Assurance

Jessica Boucher (Assistant Director), Nicole McGuire Burkart (Assistant Director), Richard (Ryan) Guthrie (Assistant Director), William (Lee) Evans (Assistant Director), James Skornicki (Analyst in Charge), Matthew Assad, Julia Burch, Lanie Carlson, Dylan Carr, Ricky Cavazos, Tiffany Chau, Stephanie Choi, Kevin Cotter, Nabor Cuevas Jr., Bruce David, Glenn Gambardella, Arkeyvia Hang, Daniel Harris, Robert Hildebrandt, Michael Kany, Zachary Kinger, Deanna Kitchens, Olivia Kleiner, Andrew Long, Bryce McPherson, Seong Bin Park, Rebecca Perkins, Sabrina Rivera, John A. Schaefer, Monasha Thompson, Randy Voorhees, Ross Wentworth, Landon Western, and J. Mark Yoder

Applied Research and Methods

Joyce Harvey

Information Technology and Cybersecurity

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

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. You can also subscribe to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on X, LinkedIn, Instagram, and YouTube.
Subscribe to our Email Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: https://www.gao.gov/about/what-gao-does/fraudnet

Automated answering system: (800) 424-5454

Media Relations

Sarah Kaczmarek, Managing Director, Media@gao.gov

Congressional Relations

David A. Powner, Acting Managing Director, CongRel@gao.gov

General Inquiries

https://www.gao.gov/about/contact-us

Please Print on Recycled Paper.