



# A Weakened IRS Has Substantial Consequences

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## Key Takeaways

- 1** Over a decade, the size of the tax gap (the amount of taxes legally owed that are not paid in a timely way) approaches \$7 trillion.
- 2** Spending on the IRS is unlike many other forms of government spending in that it generally has a very high rate of return in the form of increased revenue.
- 3** The IRS reductions from funding and layoffs have likely resulted in about \$861 billion in decreased revenue. The layoffs from actions like DOGE alone have likely resulted in \$597.8 billion in decreased revenue over the 2026-2035, and the clawback in IRS funding of \$20 billion has likely resulted in \$262.8 billion in decreased revenue over the same period.
- 4** Other issues like increased complexity in the tax code and data sharing with DHS may further reduce revenue.

## Background

When Congress passed the Inflation Reduction Act (IRA) in August 2022, it included a \$79.4 billion supplemental appropriation for the IRS spread over a decade. The investment was premised on a straightforward and empirically grounded argument that the IRS had been systematically underfunded for decades and as a result, a substantial share of legally owed taxes was going uncollected.

The Congressional Budget Office estimated the almost \$80 billion in spending would yield roughly \$204 billion in additional revenue over ten years, a net fiscal gain of approximately \$124 billion. Those estimates, while debated, reflected a well-established literature showing that IRS enforcement spending generates high returns, especially if that spending is aimed at supporting audits of high-income filers and complex business returns. Academic researchers have found similar directional results<sup>1</sup>.

The “tax gap”—the amount of taxes legally owed that are not paid in a timely way—currently totals about \$700 billion annually as of the most recent IRS data available. Cumulatively over a decade, the gross tax gap approaches \$7 trillion. Even modest improvements in efficiency of the IRS, applied to that base, generate meaningful revenue.

The IRS funding legislated in the IRA has not lasted. The Fiscal Responsibility Act of 2023 rescinded \$1.4 billion and subsequent appropriations in 2024 and 2025 legislation rescinded \$40.4 billion. IRS funding was reduced by an additional \$11.7 billion in the most recent budget deal. Ultimately, just over 2/3 of the funding initially allocated in the IRA has been rescinded.

The cumulative effect is a reduced IRS. The agency had begun hiring enforcement personnel and investing in technology modernization, but those efforts have not lasted. Hiring pipelines were opened and are now being partially closed. Institutional knowledge built through training is being lost to attrition and reductions in workforce.

The appropriations rescissions may prove secondary in long-run consequence to the workforce reductions that began in earnest in early 2025. Beginning in February 2025, approximately 7,300 probationary employees were terminated, followed by roughly 4,700 who accepted the administration’s deferred resignation program. By the end of 2025, the total reduction in staffing amounted to 27,636 employees<sup>2</sup>. Administration officials have indicated a goal of reducing the IRS to roughly 50,000 employees, a reduction of approximately 50 percent that would return the agency to a staffing level not seen since the 1960s, when total IRS employment ranged from 47,000 to 52,000. At that reduced staffing level, IRS would need to process about 2.4 times as many returns: returns filed grew from roughly 110 million in 1969 to 267 million in 2024<sup>3</sup>. These numbers understate the burden, given that the tax code has grown considerably more complex in the intervening decades. However, there has been some modernization at the IRS (e.g., electronic processing of returns) that makes this burden potentially manageable.

The composition of the workforce reductions is at least as important as the scale. By mid-2025, the IRS had lost more than 3,600 revenue agents, representing roughly 31 percent of the agency’s entire auditing staff. Revenue agents are the employees responsible for conducting complex, face-to-face examinations of high-income individual returns, partnership filings, and large corporate returns, audit categories with the high yield per staff hour and the most significant deterrence effects on non-compliance<sup>4</sup>.

Viewed in one light, workforce reductions are a cost-saving measure consistent with broader government efficiency objectives. However, the IRS is not an ordinary expenditure center: it is the mechanism through which the federal government collects 96 percent of its revenues<sup>5</sup>. Salary savings from eliminating IRS employees are real but modest. Revenue losses from reduced enforcement capacity are likely to be substantially larger, and they compound over time through deteriorating voluntary compliance.

**Table 1. Estimated Budget Effects of Changes in IRS Funding**

	2026	2027	2028	2029	2030	2031	2032	2033
Cost Savings from 28k Layoffs	3.9	3.9	4.1	4.3	4.4	4.6	4.8	5.0
Gross Deficit Increase from 28k	27.5	28.1	32.3	42.0	54.5	70.7	91.7	95.2
Net Deficit Increase 28k	23.6	24.2	28.2	37.7	50.0	66.1	86.9	90.2
Cost Savings from \$20B Reduction	1.7	1.7	1.8	1.9	1.9	2.0	2.1	2.2
Gross Deficit Increase from \$20B Reduction	12.1	12.4	14.2	18.5	24.0	31.1	40.3	41.9
Net Deficit Increase \$20B Reduction	10.4	10.6	12.4	16.6	22.0	29.1	38.2	39.7
<b>Combined Cost Saving</b>	<b>5.6</b>	<b>5.6</b>	<b>5.9</b>	<b>6.2</b>	<b>6.3</b>	<b>6.6</b>	<b>6.9</b>	<b>7.2</b>
<b>Combined Gross Deficit Increase</b>	<b>39.6</b>	<b>40.5</b>	<b>46.5</b>	<b>60.5</b>	<b>78.5</b>	<b>101.8</b>	<b>132.0</b>	<b>137.1</b>
<b>Combined Net Deficit Increase</b>	<b>34.0</b>	<b>34.8</b>	<b>40.6</b>	<b>54.3</b>	<b>72.0</b>	<b>95.2</b>	<b>125.1</b>	<b>129.9</b>

Table: The Budget Lab • Created with [Datawrapper](#)

## Revenue Effects

Table 1 presents the results of two experiments<sup>6</sup>. The first highlights the almost 28,000 reduction in the IRS workforce in 2025. The [National Taxpayer Advocate](#) breaks the workforce reduction into operating functions. We then put those functions into 4 categories that the IRS reports as part of their budget activity<sup>7</sup>. This parsing of the data allows us to apply a rate of return to those budget activities and project a change in revenue. Staffing reductions in 2025 are projected to reduce IRS revenues by almost \$600 billion over the 2026-2035 budget window.

The second experiment is a simple IRS budget reduction of \$20 billion over the 2026-2035 window<sup>8</sup>. This experiment mirrors the reduction in funding that has occurred since the passage of the IRA. To forecast the change in revenue, we assume that the reduction occurs in proportion to current spending levels on the budget activity: 21 percent on taxpayer services, 43% on enforcement, 33% on operations support, and the remainder on business systems modernization. We find that this reduction would reduce IRS revenue by \$263 billion over the 2026-2035 window.

Together these reductions total just over \$860 billion over the 2026-2035 budget window.

## IRS Return on Investment

Estimates of how revenues respond to IRS enforcement depend on several empirical foundations worth reviewing carefully.

The most direct evidence comes from audit yield data. Data from the IRS Statistics of Income division, [showed](#) that an extra hour spent auditing a taxpayer earning over \$5 million generated roughly \$4,900 in recommended additional tax—compared to \$650 for audits of taxpayers earning around \$200,000. A subsequent 2020 [paper](#) argued that CBO’s revenue estimates systematically understated the potential revenue gain from enforcement activities by ignoring deterrence effects, information-reporting improvements, and longer-run gains.

The audit-rate collapse for high-income filers over the preceding decade provides essential context. A 2022 GAO report found that audit rates for taxpayers with incomes above \$200,000 fell more sharply than for any other income group between 2010 and 2019, a decline the IRS attributed primarily to reduced staffing from years of appropriations cuts. Taxpayers [earning](#) over \$5 million saw their audit rate fall from roughly 16 percent in 2010 to just over 2 percent by 2019. The IRS staffing data underlying these patterns are published annually in the IRS Data Book; by fiscal year 2021, the number of full-time revenue agents and tax examiners had fallen 28 percent from 2011 levels.

The deterrence effect of enforcement is harder to measure but likely significant. Tax compliance is partly a function of perceived detection probability. When audit rates fall to levels that make non-compliance feel low-risk, some share of filers adjusts behavior accordingly (Boning, Guyton, Hodge, and Slemrod 2020; Boning, Hendren, Sprung-Keyser, and Stuart 2024). Based on the empirical literature, the Budget Lab conservatively estimated the return to deterrence to be 2.5 times each dollar recovered directly through audits.

Income for which there is third-party information reporting provides a useful point of comparison. Wages, for which employers file W-2s, exhibit compliance rates above 99 percent. Business income reported only on Schedule C has net misreporting rates estimated at 57 percent for sole proprietors that have little or no information reporting and 12 percent for partnership and S corporation income that have some information reporting, per the IRS’s own tax gap [estimates](#) for Tax Years 2014–2016. The compliance gap is overwhelmingly concentrated in income streams that the IRS cannot verify automatically—exactly the income streams that require enforcement capacity to address.

## Further Issues

In April 2025, the IRS and DHS formalized a Memorandum of Understanding (MOU) allowing Immigration and Customs Enforcement (ICE) to request taxpayer information from the IRS for individuals under final orders of removal or subject to federal criminal investigation. Under the agreement, ICE provides the IRS with names and addresses of taxpayers, which the IRS then cross-references with its own records and returns to ICE. In August 2025, the IRS disclosed tens of thousands of taxpayer records to ICE, including personally identifying information and home addresses, after ICE had requested more than one million records. A federal court subsequently blocked further sharing in November 2025, finding the arrangement likely unlawful.

This sharing of taxpayer data with ICE may reduce how much federal tax the IRS collects to the extent that undocumented immigrants currently filing taxes are hesitant to file taxes for fear of deportation. Undocumented immigrants pay about \$66 billion in federal income and payroll taxes each year. As a result of the MOU, and

depending on assumptions about taxpayer and employer responses, the federal government may lose between \$147 billion and \$479 billion over the next ten years, according to [previous](#) Budget Lab estimates.

Another challenge for the IRS is presented by changing (and in some cases, more complex) tax provisions of the One Big Beautiful Bill Act (OBBBA). Changes in the tax code complicate filing of taxes and put stress on IRS in terms of processing and creating new forms. The specific provisions of the OBBBA that induce new burden are the overtime, auto loan, and senior deductions as well as the revised State and Local Deduction (SALT) cap. In addition, OBBBA's mix of permanent and temporary provisions as well as the fact they apply retroactively to the 2025 tax year adds obstacles for the IRS. For all of these reasons, we believe the estimates presented in Table 1 potentially understate the revenue effect of a reduced IRS.

## Conclusion

Prior [Budget Lab research](#) indicates that more than \$700 billion in annual taxes are owed but not paid in a timely way. This tax gap is highly responsive to the resources IRS is given for enforcement. A landmark 2022 investment of almost \$80 billion in IRS capacity aimed to reduce the tax gap, but most of that investment has since been cancelled, and a significant portion of the IRS workforce has been terminated. These reductions in IRS enforcement resources have substantial fiscal consequences that are difficult to understand with prior models.

A new Budget Lab analysis provides a richer framework for understanding effects of reductions in both IRS funding and staffing. We find that a 10-year reduction of \$20 billion in the IRS budget increases the deficit (net of the IRS cost savings) by about \$263 billion. Similarly, reduction of almost 28,000 in staffing—mirroring cuts that occurred in 2025—increases the deficit by almost \$600 billion. Together, these cuts increase the deficit by about \$861 billion.

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## Footnotes

- 1 See for example: <https://www.irs.gov/pub/irs-soi/25rpindeeterfilingpaycomp.pdf>, Boning, William C., John Guyton, Ronald Hodge, and Joel Slemrod. "Heard it through the grapevine: The direct and network effects of a tax enforcement field experiment on firms." *Journal of Public Economics* vol. 190, issue C (2019), and William C. Boning, Nathaniel Hendren, Ben Sprung-Keyser, and Ellen Stuart, "A Welfare Analysis of Tax Audits Across the Income Distribution," NBER Working Paper 31376 (2023), <https://doi.org/10.3386/w31376>.
- 2 <https://www.irs.gov/newsroom/national-taxpayer-advocate-delivers-annual-report-to-congress-finds-taxpayer-service-was-strong-in-2025-but-foresees-challenges-for-taxpayers-who-encounter-problems-in-2026>
- 3 <https://www.irs.gov/pub/irs-soi/70dbfullar.pdf> and <https://www.irs.gov/pub/irs-soi/16-05intax.pdf>.
- 4 Government Accountability Office 9GAO) reports audits of Earned Income Tax Credit (EITC) recipients have the highest yield because these audits require little time to complete. <https://www.gao.gov/products/gao-22-104960>
- 5 This calculation predates the 2025 increases in tariff revenue.
- 6 Previously, the Budget Lab has presented revenue estimates of IRS funding decisions. We estimated that the full \$80 billion IRA appropriation would have yielded a net revenue increase of \$637 billion over the ten-year budget window, roughly three times the CBO estimate, reflecting our incorporation of deterrence effects and the full range of return-on-investment evidence in the economics literature. When the Trump administration began implementing large-scale reductions in force beginning in early 2025, we extended that framework to analyze the fiscal consequences of staffing cuts, estimating that a 50 percent reduction in the IRS workforce would produce \$350 billion in deficit increases over a decade under conservative deterrence assumptions, and possibly as much as \$2.4 trillion if tax compliance deteriorates more substantially. Because of the variety of proposals and declarations made by the Trump administration, we

updated our methodology for estimating the returns to IRS funding. We rebuilt our framework to allow for changes in workforce and its composition. That framework begins with activity-specific return-on-investment estimates drawn from the economics literature, distinguishing among audit activity, enforcement more broadly, and infrastructure and IT investment. Because the policy environment has shifted from questions about funding increases to questions about funding cuts and workforce reductions, we extended the model to analyze reductions in force directly. This extension required moving beyond the marginal deterrence estimates that anchor most of the existing literature and developing a model that allows for behavioral response under conditions of large and historically unprecedented staffing reductions, for which no direct empirical analog exists. The result is a more flexible model capable of scoring proposals that increase or decrease enforcement within a consistent framework, while acknowledging the uncertainty around extrapolation from available empirical evidence.

7 The reductions break out 10% for operations support, 47% for enforcement, 35% for taxpayer services, and the remainder for business systems modernization.

8 The cost reduction is assumed to continue beyond 2035, continuing to grow at the same rate as nominal GDP. We assume reduced spending in the same percentages as IRS currently spends on budget activities: 21% for taxpayer services, 43% for enforcement, 33% for operations support, and 3.6% for business systems modernization