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INSIGHT

FY2027 Internal Revenue Service Budget Request

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Overview of the IRS Budget

The Internal Revenue Service (IRS) is responsible for collecting nearly all of the federal revenue to fund federal government agencies and programs, as well as for enforcing taxpayer compliance with federal tax laws through taxpayer assistance and audits. According to FY2025 data, the agency processed nearly 271 million tax returns, collected $5.3 trillion in gross revenue, and issued refunds totaling nearly $358 billion.

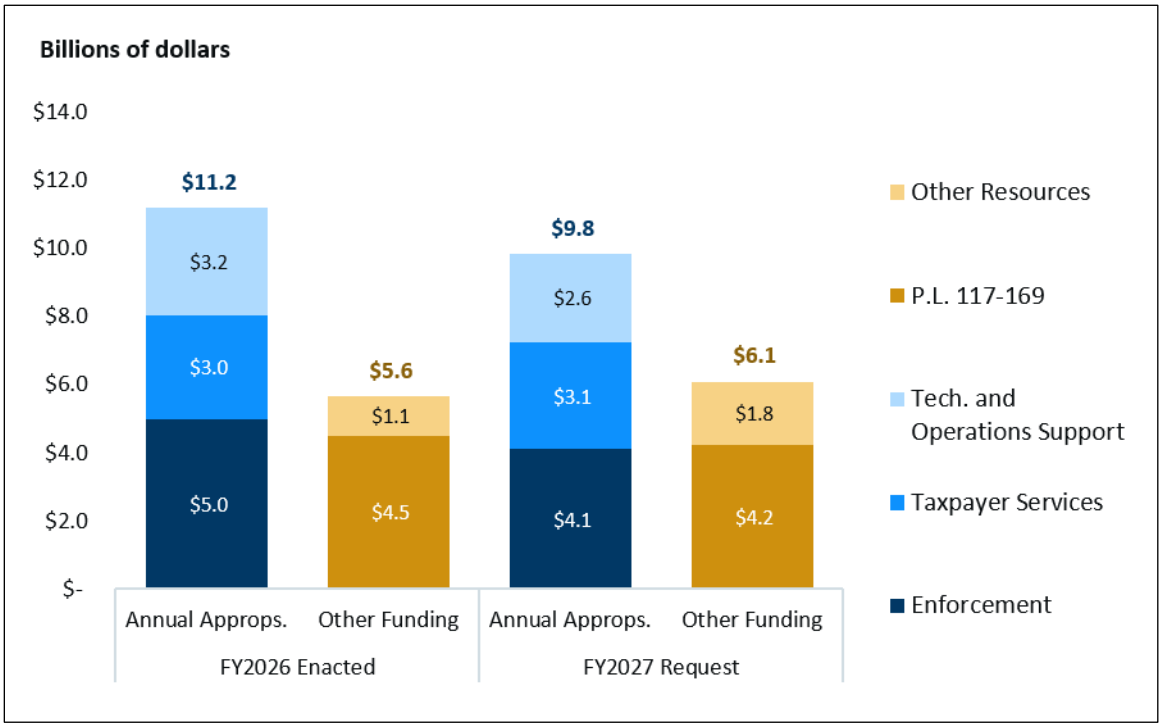
The IRS's operating budget includes both annual appropriations and other funds. In FY2026, appropriations accounted for 67% ($11.2 billion) of the budget. The remaining 33% ($5.6 billion) came from other budgetary resources, primarily from $4.5 billion in multiyear funding provided by P.L. 117-169, the FY2022 reconciliation law commonly referred to as the Inflation Reduction Act. Smaller budgetary resources included unobligated balances from previous years, resources from other accounts, and reimbursable items.

FY2027 Budget Request

The Administration's FY2027 appropriations request for the IRS is $9.8 billion, a 12% decrease from the FY2026 enacted amount. Requested funds include an 18% decrease in funding for both enforcement and technology and operations support activities, along with a 3% increase in funding for taxpayer services. The FY2027 request also includes $6.1 billion in other funding not provided by appropriations acts, including $4.2 billion in mandatory P.L. 117-169 funding, $1.3 billion from user fees, and several miscellaneous funding sources. **Figure 1** provides an overview of the proposed FY2027 budget compared to the enacted FY2026 levels.

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Figure 1. FY2027 IRS Budget Request and FY2026 Enacted Funding



Source: Chart created by CRS Visual Information Specialist Jamie Bush using data from the IRS FY2027 Congressional Budget Justification.

Notes: Other funding includes all budgetary resources other than annual appropriations, such as user fees and various other miscellaneous sources. Amount of user fees were not reported, and thus not included, for FY2026.

Proposed Budget Changes

The IRS FY2027 appropriations request of $9.8 billion would be a $1.4 billion decrease from the FY2026 enacted amount of $11.2 billion. That decrease is driven by the IRS's workforce restructuring efforts, including a $778 million decrease to reduce staff by 4,714 full-time equivalent (FTE) positions and a $681 million reduction in related nonlabor spending (which includes costs such as contractors and equipment). These decreases are slightly offset by a $94 million and 1,132 FTE increase for customer service operations. The budget also includes a $23 million increase for the annualization of a FY2026 1.0% pay increase and an equivalent $23 million decrease due to staffing reductions to offset the cost of the pay increase.

P.L. 117-169 Funds

The FY2027 budget includes $4.2 billion in P.L. 117-169 funds, accounting for 70% of other budgetary resources. P.L. 117-169 provided the IRS with $79.4 billion in multiyear funding available for obligation from FY2022 to FY2031. Of this amount, P.L. 117-169 specified $45.6 billion would be devoted to enforcement, $25.3 billion to operations support, $4.8 billion to business systems modernization (BSM), $3.2 billion to taxpayer services, $500 million for energy security, and $15 million for a study on the feasibility of a direct-file system (these funds were available through FY2023).

Approximately $53.5 billion in P.L. 117-169 funds have been rescinded, primarily enforcement funds. Congress rescinded $1.4 billion in enforcement funding in the Fiscal Responsibility Act of 2023 (P.L.

118-5). Funds have also been rescinded in IRS appropriations acts, including $20.2 billion in enforcement funds in FY2024 (P.L. 118-47), $20.2 billion in enforcement funds in FY2025 (P.L. 119-4), and $11.7 billion in operations support funds in FY2026 (P.L. 119-75). An additional $371 million of unobligated balances from energy security are proposed to be canceled in the FY2027 request.

The rescissions reduced the amount of P.L. 117-169 funds available to the IRS to approximately $26 billion. By the end of the first half of FY2026, the IRS had spent $9.9 billion of $18.5 billion available for operations support and BSM, nearly all of the $3.8 billion available for enforcement, $2.8 billion of $3.2 billion for taxpayer services, $63.6 million of $500 million for energy security, and $11.6 million for the direct-file study. The IRS expects to exhaust the remaining funding for enforcement and energy security in FY2026, taxpayer services in FY2027, and operations support and BSM in FY2028.

IRS Activities Funded

IRS appropriations are distributed among three accounts: enforcement, taxpayer services, and technology and operations support.

Enforcement

This account covers the costs associated with collecting taxes owed, legal and litigation support, criminal investigations, and enforcement of tax laws. The FY2027 appropriations request for enforcement totals $4.1 billion, the largest of the three accounts. The request includes $3.3 billion for audits and collections (an 18% decrease from FY2026), $676.2 million for investigations (a 16% decrease), and $126.4 million for regulatory services (a 19% decrease).

Taxpayer Services

This account pays for prefiling assistance and education, filing and account services, taxpayer advocacy services, and associated support costs. The FY2027 appropriations request for taxpayer services totals $3.1 billion, including $2.3 billion for filing and account services (a 4% increase) and $782.0 million for prefiling taxpayer assistance and education (level-funded).

Technology and Operations Support

This account funds the operation of the IRS's infrastructure, including research support, headquarters maintenance, information systems development and operation, and telecommunications. The FY2027 appropriations request for technology and operations support is $2.6 billion, including $1.1 billion for shared services and support (level-funded), $1.1 billion for information services (level-funded), and $331 million for infrastructure (a 63% decrease).

Considerations for Congress

As Congress deliberates FY2027 funding for the IRS, it might consider the impacts of the changes in enforcement funding and the workforce in the appropriations request. The IRS anticipates the workforce restructuring efforts to "yield significant savings to the taxpayer, once fully implemented." The Congressional Budget Office previously estimated that rescissions to enforcement funding would reduce tax revenue collected. The National Taxpayer Advocate has expressed concern that reduced IRS staffing would reduce agency services and taxpayer assistance.

Another consideration is the impact of the depletion of P.L. 117-169 funding on the IRS's budget and activities. The IRS reported that, with the impending exhaustion of P.L. 117-169 funds, the IRS is in the process of reevaluating its modernization plan and investments in FY2027.

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