The IRS slashed its staff. One result? More taxes going uncollected

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A new Inspector General's report shows that as the IRS slashed its auditing ranks last year, collection of unpaid taxes fell.

The IRS slashed its auditing staff last year in what was billed as a cost-cutting move, but if the effort was designed to improve the government's bottom line, it has backfired.

A new report from the Treasury Department's Inspector General for Tax Administration shows that revenue from audits plunged 35% in fiscal year 2025, meaning billions of dollars in taxes went un-collected. The drop coincides with a 27% cut in enforcement and collection staffing at the IRS, as part of Elon Musk's campaign to boost government efficiency.

"The downstream effects of these reductions are likely to become more apparent over time," the Inspector General wrote.

The IRS had beefed up its auditing ranks during the Biden administration, in an effort to collect more of the estimated $696 billion dollars in taxes that go unpaid every year, mostly as a result of people and businesses that under-report their income.

The increased staffing led to a 41% increase in audit-related revenue in 2024 — but that was largely reversed last year. More than 25,000 IRS employees were laid off or took early retirement in 2025, including about 3,600 tax examiners.

The loss in tax revenue from decreased audit activity outweighs any savings from reduced staffing at the tax-collection agency.

"Defunding the IRS is not a money-saving proposition because you have fewer employees," says Natasha Sarin, who served as a counselor on tax policy to former Treasury Secretary Janet Yellen. "It is a money-losing one, because you do a less good job of collecting taxes."

Audits generated $10 billion in tax revenue in fiscal year 2024 but that dropped to $6.5 billion in 2025.

Tax audits have been a tool to increase compliance

The Inspector General notes that the overall loss of revenue could be larger, since tax audits are primarily designed to promote voluntary tax compliance by filers wanting to avoid one.

"You're less likely to speed when you know that there's a cop on the beat," says Sarin, who's now a professor at Yale Law School.