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IRS workforce losses pose growing risk to businesses amid tariff-driven tax complexity

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The Internal Revenue Service (IRS) is facing a steep workforce reduction that threatens its capacity to assist businesses just as many confront growing uncertainty around global trade and tax compliance. According to a recent report from the Treasury Inspector General for Tax Administration (TIGTA, https://bit.ly/4l9u6yg), more than 11,000 IRS employees — approximately 11% of the agency's workforce — have either been approved for deferred resignation or received termination notices as of March 2025.

TIGTA's findings underscore a brewing crisis at the intersection of government workforce attrition and the rising complexity of U.S. tax obligations. In particular, the 10% reduction in contact representatives — employees who directly assist taxpayers, including businesses navigating complex filings — raises concerns about the IRS's ability to meet demand for support at a time when global trade disruptions and shifting tariff policies are complicating corporate tax strategies.

TIGTA, an independent oversight body created by Congress in 1998, oversees the programs and operations of the IRS to promote integrity, efficiency, and effectiveness in the administration of the federal tax system. While much of the audit work TIGTA performs is mandated by statute, the office also conducts discretionary audits in response to emerging risks — particularly those that could disrupt the IRS's ability to fulfill its mission.

Following the start of the second Trump administration, the Office of Personnel Management issued new guidance to federal agencies aimed at reducing personnel costs. This included strategies such as the termination of probationary employees and the implementation of deferred resignation programs (DRP).

In light of this guidance, TIGTA launched a review of the IRS's workforce reduction efforts to assess which business units were affected and to what degree. The resulting report, released in May 2025, details the scope and scale of the agency's attrition and highlights key operational vulnerabilities — most notably within frontline units that support taxpayer compliance.

A workforce in decline

The TIGTA report paints a sobering picture of IRS staffing trends. The agency, which employs roughly 100,000 personnel, is in the midst of an unprecedented contraction. The deferred resignation program, a voluntary separation initiative intended to manage a long-term restructuring of the federal government by the Trump Administration, has contributed to over 11,000 expected departures.

Most striking is the impact on the revenue agent workforce. These employees conduct taxpayer audits and are essential to the IRS's enforcement mission. According to the report, more than 30% of revenue agents have separated in just the past few months. While TIGTA did not detail the full implications of this loss, the sheer volume of departures raises questions about the agency's audit capabilities moving forward, especially given that audit rates for high-income and corporate taxpayers have already declined over the past decade.

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While less headline-grabbing, the 10% reduction in contact representatives may pose an equally serious, if more subtle, risk to the tax ecosystem — particularly for businesses that rely on the IRS's support to navigate changing regulatory requirements.

The growing complexity of business tax compliance

One area where businesses are likely to feel the IRS's resource constraints acutely is in tax compliance tied to international trade. As the United States and other major economies adjust tariff regimes in response to geopolitical tensions, climate

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policies, and economic competition, companies that import and export goods are confronting new layers of tax complexity.

Recent months have seen renewed tariff threats and realignments, particularly in sectors like automotive, energy, and consumer electronics. These shifts affect the cost structure of global supply chains and often lead to adjustments in pricing, sourcing, and product classifications.

For businesses, that means revisiting transfer pricing arrangements, recalculating customs duties, and reinterpreting rules of origin — all of which have downstream effects on tax reporting. And when a business can't get timely guidance from the IRS, or when routine questions take weeks or longer to resolve, it can become much harder to manage compliance risk.

More risk, more cost

Businesses typically rely on IRS contact representatives for clarification on tax forms, filing procedures, and rule interpretation — especially in gray areas created by new policy. A 10% reduction in this workforce could mean longer wait times, delayed guidance, and a heavier burden on corporate tax teams.

While some argue that workforce reductions are part of a long-overdue restructuring, others warn that cutting too deeply, too fast, could erode taxpayer confidence and hinder economic compliance.

The TIGTA report did not assess how the workforce reductions will affect IRS service levels, but experience suggests the effects could be significant. During the early months of the COVID-19 pandemic, when IRS operations were curtailed, the agency faced mounting backlogs, delayed refunds, and complaints from both individual and business taxpayers. Even then, the workforce disruption was arguably smaller than the one TIGTA now projects.

For businesses already wrestling with dynamic tariff environments, the risk is not just bureaucratic — it's also financial and legal. With customs enforcement activity increasing in parallel to tariff changes, companies face heightened scrutiny over import classifications, country-of-origin declarations, and valuation methods.

Meanwhile, U.S. Customs and Border Protection, the U.S. Department of Commerce's Bureau of Industry and Security, and the U.S. Department of Justice have stepped up investigations into tariff evasion on both imported and exported goods. A misstep in tariff compliance — whether inadvertent or negligent — could lead to steep financial penalties, shipment delays, or even the loss of trade privileges.

Moreover, some compliance failures can expose companies to liability under the False Claims Act (FCA), a powerful tool the Trump Administration has signaled it intends to use to pursue importers accused of underpaying customs duties. The FCA's treble damages provision makes it especially potent, and whistleblower activity in this area has been strongly encouraged by the Administration and appears to be on the rise.

At a time when the trade compliance stakes have arguably never been higher, inadequate IRS support for companies may lead to errors — *e.g.*, misclassifying imports or applying outdated rules — thus increasing the likelihood of audit findings, penalties, or restatements.

In anticipation of these risks, some firms may opt to ramp up their own investments in tax expertise. For small and mid-sized businesses that lack in-house tax departments, however, the costs may be prohibitive. This could widen the gap between companies with the resources to adapt and those that are more vulnerable to compliance errors.

Nevertheless, as tariff regimes become more complex and the IRS's taxpayer support capacity contracts, companies — regardless of size and resources — will have to build robust internal controls and ensure close coordination on trade, tax, and legal issues to mitigate the risk attendant to this increase in regulatory scrutiny.

Strategic blind spots

The combination of declining IRS capacity and rising taxpayer needs presents a strategic blind spot for both the agency and the broader economy. Although the IRS has invested heavily in modernization and technology upgrades in recent years, those systems depend on sufficient staffing to operate effectively.

While just three years ago, the IRS sought to hire an additional 200 technologists to help the agency continue its efforts to modernize and maintain its technology, the TIGTA report found that roughly 5% of the IRS's IT staff had separated, including nearly 50 individuals in senior IT management roles who were placed on administrative leave in March 2025. According to the report, of the roughly 50 employees placed on leave, more than half were "either in key management positions or were individuals recruited for their expertise related to the IRS's [IT] restructuring efforts."

In any event, although things like artificial intelligence and automation can enhance processing and flag anomalies, they cannot replace the nuanced support that contact representatives provide when businesses encounter novel or ambiguous tax situations. Moreover, the loss of institutional knowledge as thousands of seasoned employees exit could set back the agency's ability to respond nimbly to emerging tax challenges.

The path forward

As lawmakers and policymakers debate future funding levels for the IRS, TIGTA's findings add urgency to discussions about how best to support the agency in a time of transition. While some argue that workforce reductions are part of a long-overdue restructuring, others warn that cutting too deeply, too fast, could erode taxpayer confidence and hinder economic compliance.

For the business community, the immediate challenge is pragmatic. Companies must now operate in a world where access to timely tax guidance may be constrained, and where proactive engagement with external tax experts could become not just optional, but essential.

In the months ahead, the dual pressures of evolving tariff policies and limited IRS support could elevate the compliance burden for businesses of all sizes. Meanwhile, the IRS — and the government more broadly — will need to consider how best to maintain service delivery at a time when the cost of non-compliance has arguably never been higher.

Opinions expressed are those of the author. This article is for general information purposes only and should not be taken as legal advice.

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