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Staffing Issues Lead 2026 Challenges For IRS – NTA

IR-2025-71

A more then 25 percent reduction in the Internal Revenue Service workforce will likely present some significant challenges on the heels of a 2025 tax season described as a "measured success," according to the Office of the National Taxpayer Advocate.

In the "Fiscal Year 2026 Objectives Report to Congress," National Taxpayer Advocate Erin Collins noted that the 2025 filing season marked the IRS' "third consecutive year of delivering a generally successful filing season, and by some measures, it was the smoothest yet. Most taxpayers filed their returns and paid their taxes or received their refunds without any delays or intervention from the IRS."

The report highlights that more than 95 percent of individual returns were filed electronically and more than 60 percent of taxpayers received refunds, "the majority within standard processing timeframes."

Despite having a successful season, the agency has reduced its workforce by more than 25 percent since the federal government under President Trump began cutting the federal workforce.

In analyzing what agency functions are affected by this workforce reduction, the report states that "many functions are more visible to taxpayers and directly impact service delivery, while other functions play vital supporting roles in providing taxpayer service and delivering on the IRS's mission."

In the report, Collins went on to encourage Congress to ignore requests to cut the IRS budget and ensure the agency is properly staffed and financed.

"The Administration's budget proposal envisions a 20 percent reduction in appropriated IRS funding next year and an overall reduction of 37 percent after taking into account the decrease in supplemental funding from the Inflation Reduction Act. A reduction of that magnitude is likely to impact taxpayers and potentially the revenue collected."

The issues arising from the workforce reduction could be compounded by the expected permanent extension of the Tax Cuts and Jobs Act.

Collins stated that most of the changes related to the extension won't take effect until January 1, 2026, "but several provisions impacting tens of millions of taxpayers will likely be effective during the 2025. This suggests additional complexity when taxpayers file their 2025 tax returns during the 2026 filing season and more complexity the following year. In addition, the reduction of more than 25 percent in the IRS workforce has the potential to reduce taxpayer services."

The report also echoed ongoing calls the National Taxpayer Advocate has made in the past, as well as calls by other stakeholders, to continue to improve the IRS's information technology modernization strategy. Collins noted that in recent years, "the agency has made notable strides in modernizing its systems. … If this momentum continues, the IRS will be well positioned to deliver high quality service, enhance the taxpayer experience, and perhaps improve tax compliance at a reduced cost."

She highlighted the improvements that were made possible through the supplemental funding from the Inflation Reduction Act, but added that the Trump Administration has paused indefinitely or cancelled projects and replaced them with nine distinct modernization "'verticals,' which are technology projects designed to meet specified technology demands."

"While these initiatives are promising, the IRS must provide clear and detailed communication to Congress and the public regarding the objectives, scope, business value, milestones, projected timelines, costs, and anticipated impacts of these nine vertical projects on taxpayer service," the report stated. "Without such transparency, there is a real risk these initiatives could stall or deviate from their intended outcomes."

Collins also made a case for sustained funding for IT improvements, recalling a 2023 blog post where she highlighted that large U.S. banks "spend between $10 billion and $14 billion a year on technology, often more than half on new technology systems. Yet in fiscal year (FY) 2022, Congress appropriated just $275 million for the IRS's Business Systems Modernization (BSM) account. That's less than five percent of what the largest banks are spending on new technology each year, and the IRS services far more people and entities than any bank."

IRS Swears In New Commissioner Billy Long, Emphasizes Cultural Transformation

The IRS has sworn in Billy Long as its 51st Commissioner, following Senate confirmation earlier this month. His term is scheduled to run through November 12, 2027. Long has stated his intention to focus on building a more taxpayer-centered agency by initiating a shift in the organization's internal culture. He has asked employees to participate in this effort during his first 90 days. Long previously served as a U.S. Representative and has also worked in the private sector before assuming his role at the IRS.

IR-2025-70

IRS Clarifies Guidance for Energy Projects in Energy Communities

Notice 2025-31

The IRS clarified guidance relating to the energy community provisions in:

- qualifying for energy community bonus credit amounts or rates;
- the Code Sec. 45 production tax credit for electricity produced from certain resources;
- the resource-neutral Code Sec. 45Y clean electricity production credit that largely replaces the Code Sec. 45credit for property placed in service after 2024;
- the Code Sec. 48 business energy investment credit for investments in property that produces electricity from certain resources; and
- the resource-neutral Code Sec. 48E clean energy investment credit that largely replaces the Code Sec. 48 credit for property placed in service after 2024.

New Statistical Area and Coal Category Sites

This guidance lists information taxpayers may use to determine whether they meet certain requirements under the Statistical Area Category for metropolitan statistical areas (MSAs) or non-MSAs; or under the Coal Closure Category.

- Appendix 1 adds one new MSA or non-MSA in Ohio that meets the Fossil Fuel Employment threshold. This site should be added to the list in Appendix B of Notice 2023-29.
- Appendix 2 lists counties that have met the Fossil Fuel Employment threshold as of the Census Bureau's publication of the 2022 County Files of the County Business Patterns (CBP) as part of Vintage 1, Vintage 2, or both.
- Appendix 3 lists counties and county-equivalents that qualify as energy communities as part of Vintage 1, Vintage 2, or both.
- Appendix 4 lists newly identified census tracts with either a coal mine closure or a coal-fired electric generating unit retirement, and census tracts directly adjoining with coal closures.
- Appendix 5 lists tracts contained in Appendix 4 that newly qualify as coal closure census tracts because of location data corrections issued since the publication of Notice 2024-48.

REFERENCE KEY

USTC references are to ***U.S. Tax Cases***
Dec references are to ***Tax Court Reports***

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Charitable Contribution Deductions No Longer Allowed for Organizations

Announcement 2025-17

The IRS has announced that the following organization no longer qualifies under Code Sec. 170(c)(2) as an organization for which deductions for charitable contributions are allowed.

- Little Kings and Queens Inc of Buford, GA. Effective revocation date: January 1, 2020.

However, contributions made to the organization before June 23, 2025, will generally be deductible, unless made by a person who (1) knew of the revocation, (2) was aware that the revocation was imminent or (3) was responsible, in whole or in part, for the activities or deficiencies that gave rise to the loss of qualification.

If the organization files suit, in a timely manner, for declaratory judgment under Code Sec. 7428, challenging the revocation of its status as an eligible donee of deductible charitable contributions, Code Sec. 170 contributions will continue to be deductible. Protection under Code Sec. 7428(c) would begin on January 1, 2018. The maximum amount of individual contributions protected would be $1,000, with a husband and wife treated as one taxpayer. This protection is not afforded to anyone who was responsible, in whole or in part, for the acts or omissions of the organization that resulted in revocation of qualification.

Charitable Contribution Deductions No Longer Allowed for Organizations

Announcement 2025-18

The IRS has announced that the following organizations no longer qualify under Code Sec. 170(c)(2) as an organization for which deductions for charitable contributions are allowed.

- Global Rescue Welfare League, Inc. of Columbia, SC. Effective revocation date: July 1, 2021.
- Global Rescue Welfare League, Inc. of Williston, SC. Effective revocation date: July 1, 2021.
- Providing Hope VA of Loris, SC. Effective revocation date: January 1, 2020.
- Houston Serenity Place Inc. of Spring, TX. Effective revocation date: January 1, 2020.
- Preserve Reasonable Shoreline of Bainbridge Island, WA. Effective revocation date: July 1, 2021.

However, contributions made to the organizations before June 23, 2025, will generally be deductible, unless made by a person who (1) knew of the revocation, (2) was aware that the revocation was imminent or (3) was responsible, in whole or in part, for the activities or deficiencies that gave rise to the loss of qualification.

If an organization files suit, in a timely manner, for declaratory judgment under Code Sec. 7428, challenging the revocation of its status as an eligible donee of deductible charitable contributions, Code Sec. 170 contributions will continue to be deductible. Protection under Code Sec. 7428(c) would begin on June 6, 2025. The maximum amount of individual contributions protected would be $1,000, with a husband and wife treated as one taxpayer. This protection is not afforded to anyone who was responsible, in whole or in part, for the acts or omissions of the organization that resulted in revocation of qualification.

Inflation Adjustment and Reference Prices for Renewable Energy Production Credit Released

Notice 2025-30

The IRS has published the inflation adjustment factor and reference prices for determining the credit for renewable electricity production for calendar year 2025 sales of kilowatt hours of electricity produced in the U.S. or a U.S. possession from qualified energy resources.

The inflation adjustment factor for qualified energy resources is 1.9971. The reference price for facilities producing electricity from wind is 3.1 cents per kilowatt hour. The reference prices for facilities producing electricity from closed-loop biomass, open-loop biomass, geothermal energy, solar energy, municipal solid waste, qualified hydropower production and marine and hydrokinetic renewable energy have not been determined for calendar year 2025.

Phaseout Limits

For electricity sold during calendar year 2025, the renewable electricity production credit is not subject to a phaseout under Code Sec. 45(b)(1) for electricity produced from wind. This is because the 2025

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reference price for electricity produced from wind, 3.1 cents per kilowatt hour, does not exceed 8 cents multiplied by the inflation adjustment factor (1.9971). The phase-out of the credit also does not apply to electricity sold in 2025 and produced from closed-loop biomass, open-loop biomass, geothermal energy, solar energy, municipal solid waste, qualified hydropower production and marine and hydrokinetic renewable energy.

Credit Amount Adjustments

The credit for renewable electricity production for calendar year 2025 under Code Sec. 45(a) is 3.0 cents per kilowatt hour on the sale of electricity produced from the qualified energy resources of wind, closed-loop biomass and geothermal energy. The credit is 1.5 cents per kilowatt hour on the sale of electricity produced in open-loop biomass facilities, landfill gas facilities, trash facilities, qualified hydropower facilities and marine and hydrokinetic renewable energy facilities.

Enhanced Oil Recovery Credit Inflation Adjustment Factor Published

Notice 2025-32

The IRS has issued the inflation adjustment factor for use in determining the enhanced oil recovery credit under Code Sec. 43. The inflation adjustment factor for calendar year 2025 is 2.1115. Because the reference price, as determined under Code Sec. 45K(d)(2)(C), for 2024 ($74.48) exceeds $28 multiplied by the inflation adjustment factor for 2025 ($59.12) by $15.36, the enhanced oil recovery credit for qualified costs paid or incurred in 2025 is phased out completely. The GNP implicit price deflator to be used for calendar year 2025 is 125.139.

AFRs Issued For July 2025

Rev. Rul. 2025-13

The IRS has released the short-term, mid-term, and long-term applicable interest rates for July 2025.

Applicable Federal Rates (AFR) for July 2025

Short-Term	Annual	Semiannual	Quarterly	Monthly
AFR	4.12%	4.08%	4.06%	4.05%
110% AFR	4.54%	4.49%	4.47%	4.45%
120% AFR	4.96%	4.90%	4.87%	4.85%
130% AFR	5.37%	5.30%	5.27%	5.24%
Mid-Term				
AFR	4.19%	4.15%	4.13%	4.11%
110% AFR	4.62%	4.57%	4.54%	4.53%
120% AFR	5.04%	4.98%	4.95%	4.93%
130% AFR	5.47%	5.40%	5.36%	5.34%
150% AFR	6.33%	6.23%	6.18%	6.15%
175% AFR	7.39%	7.26%	7.20%	7.15%
Long-Term				
AFR	4.90%	4.84%	4.81%	4.79%
110% AFR	5.39%	5.32%	5.29%	5.26%
120% AFR	5.89%	5.81%	5.77%	5.74%
130% AFR	6.39%	6.29%	6.24%	6.21%

Adjusted AFRs for July 2025

	Annual	Semiannual	Quarterly	Monthly
Short-term adjusted AFR	3.12%	3.10%	3.09%	3.08%
Mid-term adjusted AFR	3.17%	3.15%	3.14%	3.13%
Long-term adjusted AFR	3.71%	3.68%	3.66%	3.65%

The Code Sec. 382 adjusted federal long-term rate is 3.71%; the long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months) is 3.71%; the Code Sec. 42(b)(1) appropriate percentages for the 70% and 30% present value low-income housing credit are 8.06% and 3.45%, respectively, however, under Code Sec. 42(b)(2), the appropriate percentage for non-federally subsidized new buildings placed in service after July 30, 2008, shall not be less than 9%; the Code Sec. 7520 AFR for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest is 5.00%; and the Code Sec. 7872(e)(2) blended annual rate for 2025 is 4.22%.

Reference Price Provided for Marginal Well Production Credit

Notice 2025-34

The IRS has provided the applicable reference price for qualified natural gas production from qualified marginal wells during tax years beginning in 2025 for determining the marginal well production credit (MWC). The applicable reference price for tax years beginning in 2025 is $1.64 per 1,000 cubic feet (mcf). Also provided is the credit amount used for determining the MWC for tax years beginning in calendar year 2025. The credit amount is determined using the 2025 inflation adjustment factor of 1.5821 and the applicable reference price of $1.64 per mcf. Therefore, the credit amount for tax years beginning in calendar year 2025 is $0.79 per Mcf.

Missouri Victims of Severe Storms, Straight-line Winds, Tornadoes, and Flooding Granted Tax Relief

Missouri Disaster Relief Notice (MO-2025-01)

The president has declared a federal disaster area in the state of Missouri. The disaster is due to severe storms, straight-line winds, tornadoes, and flooding that began on May 16, 2025. The disaster area includes:

- the City of St. Louis,
- Scott County; and
- St. Louis County.

Taxpayers who live or have a business in the disaster area may qualify for tax relief.

Missouri Filing Deadlines Extended

The IRS extended certain deadlines falling on or after May 16, 2025, and on or before November 3, 2025, to November 3, 2025. This extension includes filing for most returns, including:

- individual, corporate, estate and trust income tax returns;
- partnership and S corporation income tax returns;
- estate, gift and generation-skipping transfer tax returns;
- the Form 5500 series returns;
- annual information returns of tax-exempt organizations; and
- employment and certain excise tax returns.

However, the extension does not include information returns in the Form W-2, 1094, 1095, 1097, 1098, or 1099 series or Forms 1042-S, 3921, 3922 or 8027.

Missouri Payment Deadlines Extended

Also, the relief includes extra time to make tax payments. This includes estimated tax payments due on June 16, 2025, and September 15, 2025. Further, taxpayers have until November 3, 2025, to perform other time-sensitive actions due on or after May 16, 2025, and on or before November 3, 2025.

The IRS excused late penalties for employment and excise tax deposits due on or after May 16, 2025, and before June 2, 2025; but the taxpayer must make the deposits by June 2, 2025.

Casualty Losses

Affected taxpayers can claim disaster-related casualty losses on their federal income tax returns. Taxpayers may get relief by claiming their losses on their 2024 or 2025 returns. Individuals may deduct personal property losses not covered by insurance or other reimbursements.

Taxpayers claiming a disaster loss on their 2024 or 2025 returns should write the assigned FEMA declaration number, "**FEMA- 4877-DR**," at the top of the return. This will allow the IRS to speed refund processing.

Also, the IRS will provide affected taxpayers with copies of prior year returns without charge. To get this expedited service, taxpayers should:

- add the disaster designation at the top of Form 4506, Request for a Copy of Tax Return, or Form 4506- T, Request for Transcript of Tax Return; and
- submit it to the IRS.

TAX BRIEFS

Electronic Filing

The Internal Revenue Service Electronic Tax Administration Advisory Committee (ETAAC) released its 2025 annual report during a public meeting in Washington, D.C., outlining 14 recommendations—ten directed to the IRS and four to Congress. ETAAC operates under the Federal Advisory Committee Act and collaborates with the Security Summit, a joint initiative established in 2015 by the IRS, state tax agencies and the tax

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industry to address identity theft and cybercrime.

ETAAC recommended that the IRS update tax return forms to strengthen security and reduce fraud and identity theft. It also advised the agency to revise Modernized e-File reject codes and explanations, expand information sharing with state and industry partners, and continue transitioning taxpayers toward fully digital interactions.

Congress was urged to support tax simplification aligned with policy objectives, grant the IRS authority to regulate non-credentialed tax return preparers, ensure stable funding for taxpayer services and operations, and prioritize sustained technology modernization. For more information, visit the Electronic Tax Administration Advisory Committee (ETAAC) page.

IR-2025-72

Estate Tax Closing Letter

The IRS has issued corrections to interim final regulations concerning the user fee for estate tax closing letter requests (T.D. 10031). The corrections adjust numerical errors in the cost calculations, including revising the Quality Assurance & Benefits figure to $9,546 and the full cost per request to $502,573.

T.D. 10031, Correcting Amendment

Exempt Organizations

An organization had its tax-exempt status revoked under Code Sec. 501. The organization failed the operational test under Code Sec. 501(c) because more than an insubstantial part of its activities involved non-exempt purposes. Thus, the organization no longer qualified for exemption.

IRS Letter Ruling 202526013

Federal Tax Lien

The IRS did not abuse its discretion in sustaining a Notice of Federal Tax Lien (NFTL) against a married couple for unpaid income taxes, despite the taxpayers' entering into an installment agreement. The Tax Court upheld the collection action after finding that none of the statutory criteria for withdrawal under Code Sec. 6323(j)(1) were met.

Glaser, TC, Dec. 62,680(M)

Penalties

An individual taxpayer was liable for a deficiency in income tax, an accuracy-related penalty under Code Sec. 6662, and a penalty under Code Sec. 6673(a)(1) for maintaining frivolous arguments. The Tax Court sustained the IRS's determinations after finding the taxpayer had failed to report wage and annuity income.

Christiansen, TC, Dec. 62,681(M)