

LEGAL UPDATES

PUBLISHED: MARCH 5, 2025

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ROBERT M. ROMASHKO
WASHINGTON:
202.378.2310
ROBERT.ROMASHKO@
HUSCHBLACKWELL.COM

Impending IRS Workforce Cuts Mean Taxpayers Should Act Now to Resolve IRS Issues

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The New York Times reported on March 4, 2025, that the Trump administration is aiming to cut half of the Internal Revenue Service's workforce by the end of the year. The cuts are reportedly across all divisions of the IRS, reducing the IRS's workforce from approximately 100,000 at the beginning of the year to 50,000. Although it is difficult to find complete data, this would leave the IRS with its smallest workforce by far since at least the 1970s, when it was processing far fewer tax returns in what was a much simpler and less interconnected economy.

At first glance, individuals and businesses may welcome an era of significantly less tax enforcement and appreciate that their likelihood of an audit will drop. However, businesses across all industries, individuals, and even nonprofit entities should consider the impacts of an IRS that is forced to do less with fewer resources and may consider taking appropriate actions soon.

A reduced number of audits does not change what the tax laws are, nor does it change the obligation to comply with them. And compliance will remain important, particularly for business taxpayers who may be looking at engaging in borrowing or merger and acquisition transactions—prospective lenders, buyers, and investors will still be reluctant to take on tax risk due to incorrect returns or uncertain tax positions.

Moreover, reduced capacity at the IRS may have negative effects for taxpayers who need to get information or action out of the IRS. For example:

Penalties for late filing and late payment are largely automated and are likely to continue to be applied as normal. Businesses and individuals requesting abatement of these penalties for reasonable cause can expect the processing time for such waivers (which can already exceed a year) to increase—all while the penalties remain on their books.

Businesses and individual seeking to compromise tax debts or enter into installment agreements can expect processing times to increase. Similarly, where a tax lien has been filed, it may be harder to get the lien removed promptly or to get a payoff amount.

Businesses that need to request a private letter ruling from the IRS can expect that the IRS will issue fewer rulings and take longer to do so.

For those in the nonprofit world, the time it takes to get a determination of tax exemption from the IRS (which is already in excess of eight months in many cases) will likely increase significantly.

For those who are audited, it is likely that audits and subsequent appeals will take longer.

Taxpayers who claim refunds (either at their original filing time or on an amended return) can expect it will take significantly longer for them to get their money back.

What this means to you

Individuals and businesses should consider whether they have issues that they may need the IRS to address in the future and whether it would be beneficial to deal with those issues now. Businesses considering mergers or other transactions may consider whether they need a letter ruling and may want to apply promptly. Businesses and individuals alike who owe taxes should consider entering into payment plans, requesting an offer in compromise, or seeking penalty abatements now. And taxpayers of all kinds who may claim a refund should make the claim sooner rather than later.

Contact us

For more information or assistance with any of your tax issues, please contact Robert Romashko or your Husch Blackwell attorney.