

How Changes At The IRS Will Affect Tax Controversy In 2026

By **Carina Federico and Starling Marshall** (January 7, 2026)

The Internal Revenue Service saw significant changes in 2025. Both the IRS' funding for tax enforcement and its human workforce were greatly reduced. Headed into 2026, the agency will have to do more with less.

Based on these changes, we predict that we will see changes in enforcement priorities and the use of technology in enforcement, and a shift in taxpayers' approach to tax disputes.

Decrease in Funding and Work Force Will Shift Enforcement Priorities

We expect that the IRS will continue to open routine audits under the Large Business & International division's Large Corporate Compliance Program and Large Partnership Compliance Program using its data analytics tools to evaluate risk.

The IRS will likely continue to focus on many of the same issues that it has historically concentrated on, including complex transactions, domestic incentives like the research and experimentation credit, and international issues like foreign tax credits and transfer pricing. However, due to resource constraints, the IRS may drop issues earlier in an audit or decide not to pursue issues where the IRS thinks it will be difficult to prevail.

We expect to see changes for taxpayers who are examined under LB&I division campaigns, which typically involve audits of taxpayers that are not selected for audit under the Large Corporate Compliance and Large Partnership Compliance programs.

LB&I campaigns tend to be resource-intensive, as the IRS must determine issues to designate as campaigns, develop strategies to evaluate the issues and open examinations to assess risk, all of which involve humans to complete the bulk of the analytical work.

For these reasons, the LB&I division will likely pursue fewer new LB&I campaigns and may abandon existing LB&I campaigns. This may result in an overall reduction in the number of LB&I taxpayers under audit.

We also expect the IRS to focus on areas that received less scrutiny in the past.

Tax-exempt organizations may see a significant increase in enforcement, as the Trump administration has expressed a desire to revoke some organizations' tax-exempt status. Because tax-exempt entities have generally faced fewer examinations than other types of organizations, they are likely to see this as a significant change.

We also predict an uptick in enforcement in the Inflation Reduction Act energy tax credit space, due to the negative view of the credits held by the Trump administration and congressional Republicans, as evidenced by the rollback of many of the incentives under the One Big Beautiful Bill Act enacted in July 2025.



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The increased skepticism and allegations of fraud related to energy tax credits, the new and complex restrictions under the July legislation, and the IRS' existing systems for identifying potential fraud on tax returns claiming energy credits together make energy credits targets for IRS audits in the future.

IRS Will Increase Reliance on Technology to Aid Enforcement Activity

The increase in funding under the Inflation Reduction Act was intended to transform the IRS into a modern agency by upgrading 60-year-old technology to the current era. While these funds are no longer available, over the last decade the IRS had already invested heavily in data analytics, artificial intelligence and machine learning to aid its enforcement efforts.

With fewer human resources available to select audit issues and identify red flags, we expect the IRS to rely even more on AI going forward. The IRS will continue leveraging cutting-edge algorithms to mine and analyze extensive tax data, verify third-party details and pinpoint compliance risks.

Taxpayers should stay well-informed about how the IRS is using technology to approach compliance. For instance, the IRS regularly uses publicly available data, including investor calls, press releases, LinkedIn profiles and media interviews, to inform approach to audit selection, information document requests and audit resolution.

Tax directors and controversy leads should take steps to manage external and internal communications and documentation to ensure that transactions and business decisions are characterized accurately and consistently.

Considerations for Taxpayers Managing Tax Disputes

Shifting enforcement priorities and reduced bandwidth at the IRS provide several considerations and even some opportunities for taxpayers.

First, a resource-constrained IRS may be more willing to resolve issues earlier in the audit process. For this reason, taxpayers should strongly consider making an affirmative presentation at the opening conference with the IRS or early in the audit process.

Demonstrating to the audit team that an issue was fully considered, and that the taxpayer is ready and willing to defend its position, may cause an IRS that has limited time and fewer subject-matter experts to reconsider pursuing items that seem unlikely to lead to adjustments.

Second, subject-matter experts being dispersed in the field, rather than sitting at the national office and conferring regularly, could lead to disparate treatment of similarly situated taxpayers who are in different geographical locations. This development makes coordination among taxpayers more important, so that taxpayers can raise horizontal equity arguments where useful and appropriate.

Coordination can take place through organizations that bring in-house tax professionals together, such as the Tax Executive Institute, or through industry groups like trade associations.

Tax directors and controversy leads can also identify similar disputes. Because it is likely that subject-matter experts will be less able to identify patterns or know of settlements, the

onus will be on taxpayers and their representatives to raise these arguments with the IRS.

Third, while there will still be a dedicated group of attorneys within the U.S. Department of Justice's Civil Division to litigate tax cases, the Tax Division was eliminated in December. This could mean that nontax supervisors at the Civil Division are involved in approving settlements, including those that must pass before the Joint Committee on Taxation.

While DOJ line attorneys and their immediate supervisors usually draft settlement memos recommending settlement, taxpayers should consider offering to help in this effort and at least write up their perspective on the legal landscape, facts and justification for settlement. This offer may speed the settlement process for a resource-constrained government. Further, taxpayers can approach these summaries with an eye toward explaining complex tax concepts to a nontax audience who may be involved in the approval of the settlement.

Conclusion

Following a multitude of changes at the IRS in 2025, taxpayers involved in audits, appeals and litigation against the IRS and the DOJ should be prepared to adjust their approach.

The IRS will likely continue to audit many of the same issues it has for years. However, taxpayers may have more opportunities to convince the IRS to drop or resolve issues earlier in an audit.

Tax directors and controversy leads should continue to watch for announcements by the IRS and new programs aimed at settlement and earlier resolution. Finally, taxpayers should monitor IRS statements regarding new and changed enforcement initiatives, including LB&I campaigns.

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