



**GAO Report Recommends A New Designated IRS Antifraud Entity Amid Tax Fraud
Loss of \$116 to \$304 Billion
Posted October 23, 2026**

By Marc Montano

In late September 2026, the U.S. Government Accountability Office published GAO-26-107810, Tax Fraud: The Federal Government Loses an Estimated \$116 Billion to \$304 Billion Annually. Their report analyzed the scope of federal tax fraud and proposed IRS actions that may help prevent, detect, and respond to tax fraud.

The U.S. Government Accountability Office (GAO)

The GAO, often called the “congressional watchdog,” is an independent, non-partisan agency that works for Congress. The GAO examines how federal revenues are spent and provides Congress with objective, nonpartisan, and fact-based information to help the government save money and work more efficiently.

The Report’s Recommendations

The GAO’s report contains two recommendations to the IRS. First, the GAO recommends that the IRS develop and document an agency-wide antifraud strategy or direct its divisions to develop and document antifraud strategies at the operating level with oversight by a designated antifraud entity. Second, the Commissioner of Internal Revenue should designate an antifraud entity to be responsible for coordinating and overseeing fraud risk management activities.

Federal Taxes Account For 84% Of All Federal Revenue, and the GAO Estimates a Tax Fraud Loss of Between \$116 Billion and \$304 Billion

The IRS collects about 84% of all federal revenue in the form of federal taxes. This amounts to more than \$5 trillion dollars annually. However, the GAO estimates that annual federal tax fraud loss is between \$116 billion and \$304 billion based on its analysis of data and information from 2018 through 2024. This tax fraud is committed by various means, including, but not limited to, tax evasion, return preparer fraud, and identity theft tax refund fraud. The GAO’s estimated range of between \$116 billion and \$304 billion represents about 2–6% of estimated federal tax liability if applied to tax year 2022, which is the most recent available year for an estimate of total federal tax liability.



Differing Methodologies

The GAO's estimated tax fraud loss range between \$116 billion and \$304 billion is the GAO's best estimate based on the available evidence and analytical methods, while recognizing that inherent uncertainties and data limitations associated with quantifying fraud that may not be detected. In accounting for these limitations, to estimate their tax fraud, the GAO utilized a *Monte Carlo* simulation, a methodology deployed to provide an estimated range when data may be limited or a high degree of uncertainty exists. To develop the estimate, the GAO collected and analyzed relevant data on (1) cases of both adjudicated and potential tax fraud, (2) potentially fraudulent noncompliance in the tax gap, and (3) federal tax evasion in the shadow economy. The GAO defines the shadow economy as legal economic activities that are purposely hidden from government authorities to avoid monetary, regulatory, or institutional oversight. Examples of the shadow economy include unreported individual income, unreported business transactions, uncollected employment tax, and unreported inheritance and gifts from relatives who transfer unregistered assets to heirs who intentionally do not report said assets.

Notably, the IRS employs a different methodology. The IRS's method in calculating the tax gap includes a variety of sources of noncompliance, including taxpayer errors. In 2024, the IRS estimated the tax gap in tax year 2022 was about \$696 billion. The IRS estimated that underreporting accounted for the largest segment of the tax gap, totaling about \$539 billion. Non-filing was the second largest segment, totaling about \$63 billion, while underpayments totaled to about \$94 billion.

Current IRS Efforts to Safeguard Revenue, Prevent and Fight Fraud

The report describes numerous IRS efforts that safeguard revenue and prevent fraud. One effort described is the IRS's Return Review Program (RRP), an automated system powered by machine learning. In late 2016, after the IRS retired its Electronic Fraud Detection, the RRP became the IRS's primary system used to detect pre-refund anomalies and fraud. [In the IRS's FY 2023 Capital Investment Plan](#), the RRP is described as "leading-edge, machine learning technologies to detect, resolve, and prevent criminal and civil tax refund fraud and non-compliance." According to IRS information cited by GAO, the IRS's RRP prevented \$88 billion in fraudulent refunds from data spanning from 2018 to 2024.

The IRS's four major divisions (the Taxpayer Services Division, the Large Business and International Division, the Small Business/Self-Employed Division, and the Tax-Exempt and Government Entities Division) all have their own existing programs and procedures



to identify and combat tax fraud. The report also identifies functional and support divisions within the IRS that help to support the IRS's antifraud efforts. These include the Office of the Chief Risk and Control Officer, the Office of Fraud Enforcement, the Office of Promoter Investigations, and the IRS Criminal Investigation.

While the GAO found that the IRS has routinely assessed fraud risks and conducts a broad range of relevant activities across its automated systems, divisions, and offices, it concluded that the IRS has not managed those risks through a documented, coordinated, agency-wide antifraud strategy.

In a September 10, 2026 letter in response to the GAO's report, IRS CEO Frank Bisignano wrote that these various divisions contain specialized expertise, operational knowledge, and insights to identify, assess, and mitigate tax fraud risks. He further voiced concern that the report does not fully reflect these approaches.

The GAO Antifraud Strategy May Help Reverse Declining Trends in IRS Criminal Investigation's Criminal Tax Investigations and Overall Tax Crime Prosecutions

Since 2018, there has been a declining trend in IRS Criminal Investigation's (IRS CI) criminal tax investigations activity and prosecutions. The GAO's recommendations may be one of the solutions to help reverse this trend.

IRS CI's direct investigative time devoted to tax fraud declined from 75.1% in 2019 to 63.3% in 2025, a drop of almost 12 percentage points. Adopting the GAO's recommendations for a documented, agency-wide antifraud strategy, overseen by a designated entity responsible for coordinating fraud-risk management, could help IRS identify and prioritize tax fraud across its offices and divisions. By improving coordination among IRS functions and identifying potential fraud more effectively, the GAO's recommendations may produce additional tax fraud referrals that would push IRS CI to focus a larger share of its investigative resources on tax fraud matters and potentially move it closer to its 72% average from 2018 to 2024.



IRS Criminal Investigation Tax Crime Trends 2018 to 2025				
Year	Percentage of Direct Investigative Time Spent on Tax Related Crimes	Tax Crime Investigations		
		Initiated	Prosecutions Recommended	Defendants Sentenced
2018	73.2 %	1,714	1,050	1,052
2019	75.1 %	1,500	942	848
2020	73.1 %	1,598	945	593
2021	72.0%	1,372	850	633
2022	71.7%	1,388	789	699
2023	69.9%	1,409	665	655
2024	69.2%	1,373	674	615
2025	63.3%	1,380	834	589

This overall push may then have a corresponding effect on overall tax crime investigations. In 2018, IRS CI was responsible for initiating over 1,700 tax crime investigations. In 2025, this number dropped down to 1,380, about a 20% drop. Even more drastic was the significant decline in defendants sentenced for tax crimes. In 2018, 1,052 defendants were sentenced for tax crimes. In 2025, the number of defendants sentenced for tax crimes had declined to just 589. This is a decrease of more than 44%.

Questions Remain After Operational Costs, Workforce Reductions, and the Resulting 35% IRS Audit Revenue Drop

Despite the GAO's recommendations, questions remain whether the recommendations will be implemented given operational costs and workforce reductions. Operational costs will have to be considered given that the Trump administration cut the IRS workforce by 28%, with reductions in the number of IRS revenue agents and tax examiners declining by 33% and 32% respectively. Since 2010, the number of Criminal Investigation special agents has dropped by 20%. A [new report from the Treasury Department's Inspector General for Tax Administration \(TIGTA\)](#) shows that revenue from audits plunged 35% in fiscal year 2025. This result follows from the IRS staffing reduction of more than 25,000 IRS employees. While the report calls for the IRS to designate an antifraud entity, the IRS pointed out that its Chief Tax Compliance Officer, Jarod



Koopman, who also serves as the Chief of IRS Criminal Investigation, is already responsible for coordinating tax fraud initiatives across divisions.

Views on the GAO Report

The GAO's report and recommendations could be a step towards addressing hundreds of billions of dollars in tax fraud loss. However, meaningful results may take years. Even if Congress votes to increase IRS funding, hiring and training of IRS CI Special Agents is a process that may take years before yielding stronger enforcement and prosecution results. Although the report did not discuss the decline in IRS CI's tax crime investigations and overall decline in tax crime prosecutions and defendants sentenced, the recommendations serve as one path to reverse this downward trend. Based on IRS CEO Bisignano's response to the report, we are unlikely to see any structural or organizational changes to the IRS. What might happen, however, are operational changes within the existing offices and divisions of the IRS. Perhaps more significant is whether the report prompts Congress to strengthen the IRS's ability to combat tax fraud, and whether this report could serve as an impetus for increased tax crime investigations and prosecutions.

The new DOJ National Fraud Enforcement Division (DOJ NFED), which includes a Tax Section focused on criminal tax enforcement, may complement the GAO's proposed improvements to IRS antifraud coordination. This stronger coordination between IRS CI and DOJ NFED's prosecutors could potentially increase the share of IRS CI's direct investigative time devoted to tax crimes.

Marc Montano is an Associate at Hochman Salkin Toscher Perez P.C. where his focus is on representation of clients in civil and criminal tax litigation and investigations. Mr. Montano joined the firm in 2026 while attending NYU Law School, where he received his LL.M. in Taxation.

Prior to joining the firm, Mr. Montano interned with the IRS Office of Chief Counsel where he worked on matters including a case stemming from one of the largest tax fraud cases in history, involving over \$7 billion in fraudulent tax deductions. His experience at the IRS included successfully arguing a Motion to Dismiss before the U.S. Tax Court, working on tax shelter cases before trial and matters before the IRS Independent Office of Appeals. Mr. Montano also interned with the United States District Court for the Southern District of Indiana, where he gained experience in federal civil and criminal litigation.

For more information, please contact Marc Montano at montano@taxlitigator.com