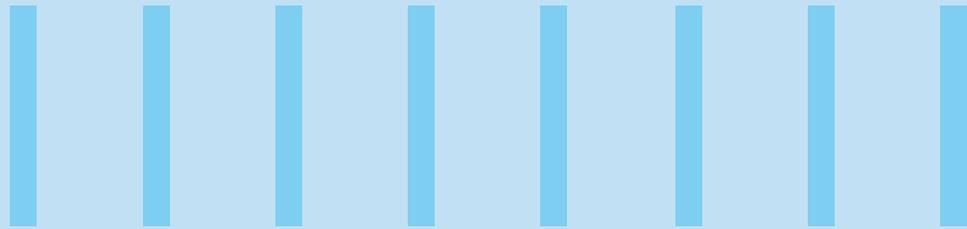




REVOLUTIONIZING THE LEDGER: THE INEVITABLE RISE OF AI IN GLOBAL TAX SYSTEMS





Taxation in the Digital Age

Our world is rapidly embracing digital transformation, and the realm of taxation is keeping pace by increasingly receiving much-needed Artificial Intelligence (AI) modernization. From revealing hidden tax evasions in the “Panama Papers” to automating routine compliance tasks, AI is reshaping the global tax sector with a swish of its algorithmic wand.

AI in the tax industry solves several fundamental problems. From automating manual and time-consuming tasks to navigating the complexities of tax codes and regulations, boosting the accuracy in tax reporting and financial analysis, and identifying tax fraud and evasion, AI can play a significant role in streamlining processes, enhancing precision, and offering data-driven insights, making tax-related tasks more efficient and less prone to errors while ensuring compliance with evolving tax laws. The recent (August 2023) story of the Australian Taxation Office (ATO) using AI to recover over AUD 530 million of unpaid taxes while preventing AUD 2.5 billion in fraud¹ was a glimpse into a challenging but promising AI-infused tax future.

Now, join me for the AI tax landscape short journey.



AI's Growing Role in Taxation

In the domain of **regulations**, AI is taking center stage by decoding complex tax laws and ensuring compliance with ever-evolving international tax standards. Governments and corporations are already harnessing Natural Language Processing (NLP) to interpret and stay updated with the maze of tax codes. The AI-assisted ability to automatically adapt to regulatory changes is particularly advantageous for local and cross-border business taxation. The U.S. Internal Revenue Service (IRS) deployed AI to catch tax evasion and to pursue 1,600 millionaires who the IRS believes owe at least USD 250 thousand each in unpaid taxes².

Audit trails are becoming less daunting with AI's "diligent eyes" scanning through terabits of transactional data³. The auditing process, often considered a necessary evil, is now less about chasing paper trails and more about intelligent data analysis. AI's capabilities include identifying discrepancies, ensuring accurate financial reporting, and highlighting potential areas of non-compliance. As an outcome, there are streamlined audits with increased transparency and accountability. The Indian Income Tax Department's e-Verification scheme is successfully using AI

algorithms to detect unreported or under-reported financial transactions in the income tax returns filed by a taxpayer⁴.

Cost-effectiveness is another forte to take advantage of. AI has significantly reduced the operational costs associated with tax compliance and audits via routine task automation and real-time transaction monitoring. KPMG LLP reported that 59% of 500 surveyed C-suite executives already used emerging AI technology in their tax or finance departments to make workflows more efficient and reduce the strain on existing talent. Of the 41% who aren't yet using AI, all are interested⁵. Automating data collection, validation, and report generation frees human resources and allows tax professionals to focus on strategic tax planning and decision-making.

There are numerous process enhancements AI can assist with, and the number is growing. The entire tax lifecycle, from data collection to filing returns, is being enhanced while simplified.

Examples of AI utilization in the tax domain.

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|---|---|
| Automation of Repetitive Tasks | AI/ML significantly automates repetitive tasks. Example: fill account ID numbers onto spreadsheets and an aid in financial closeouts and reporting. ¹ |
| Data Extraction and Classification | Early in the tax lifecycle, AI can be used for classification and extraction of key data from tax documents. Machine Learning algorithms can help in defining the taxonomy of documents and extracting required data. Example: capital gains and charitable contributions. ¹ |
| Tax Evasion Identification | AI/ML algorithms are used to identify tax evasion by checking data anomalies. Predictive analytics are also used for fraud detection based on aspects like an individual's employment status, past audit history, allegations of illicit revenue sources, etc. ¹ |
| Forecasting Tax Burdens | AI enhances the accuracy of tax forecasting through projecting. By analyzing sales trends and other relevant factors, AI can help in forecasting tax burdens. AI is capable of advice-reporting on strategic financial decisions to minimize tax liability. ¹ |
| Enhanced Tax Policy Optimization | AI assists with optimizing tax policy by simulating tax policy scenarios and incentives. ¹ |
| Streamlining Tax Functions | AI streamlines routine tasks and make tax recommendations, transforming tax into an innovation hub. ² |
| Optimizing Advisory Services | AI optimizes advisory services by providing data-driven insights. This helps accounting professional to better understand client needs and offer relevant services. ³ |
| Improving Decision-making in Tax Planning | AI serves as a robust tool for crunching big data. This helps to collect beneficial insights and make improved tax decisions as well as with tax planning and reporting throughout the tax life-cycle. ⁴ |

Figure 1 - The Tax Lifecycle Enhanced by AI

AI continues to show discerning adaptability and tangible impact on federal, corporate, small business, and personal tax domains. The same KPMG LLP survey reported that 99% of leaders say AI is the “next frontier” for corporate tax departments. That federal and corporate sectors have very complex tax structures is well-known. So, the benefits from AI’s ability to analyze vast datasets and ensure compliance with limitless regulations are tremendous. Small businesses and individual taxpayers also see the rewards of simplified tax processes and real-time accessibility to tax-related information⁶.

Thus far, we have learned about various benefits of AI in the tax world. It is not a question of “will” but rather a question of “how” human professionals in the industry will be impacted. KPMG LLP survey reported that 100% of leaders say the proliferation of AI will change their tax department’s human capital strategy⁷. We are yet to experience and adjust to the changes. Possibilities are endless for tax professionals to upskill and engage in more strategic and advisory roles with AI assistance, leading to a more robust and effective tax ecosystem. The transition might be somewhat challenging, but there is an opportunity for enhanced collaboration between AI and human expertise.

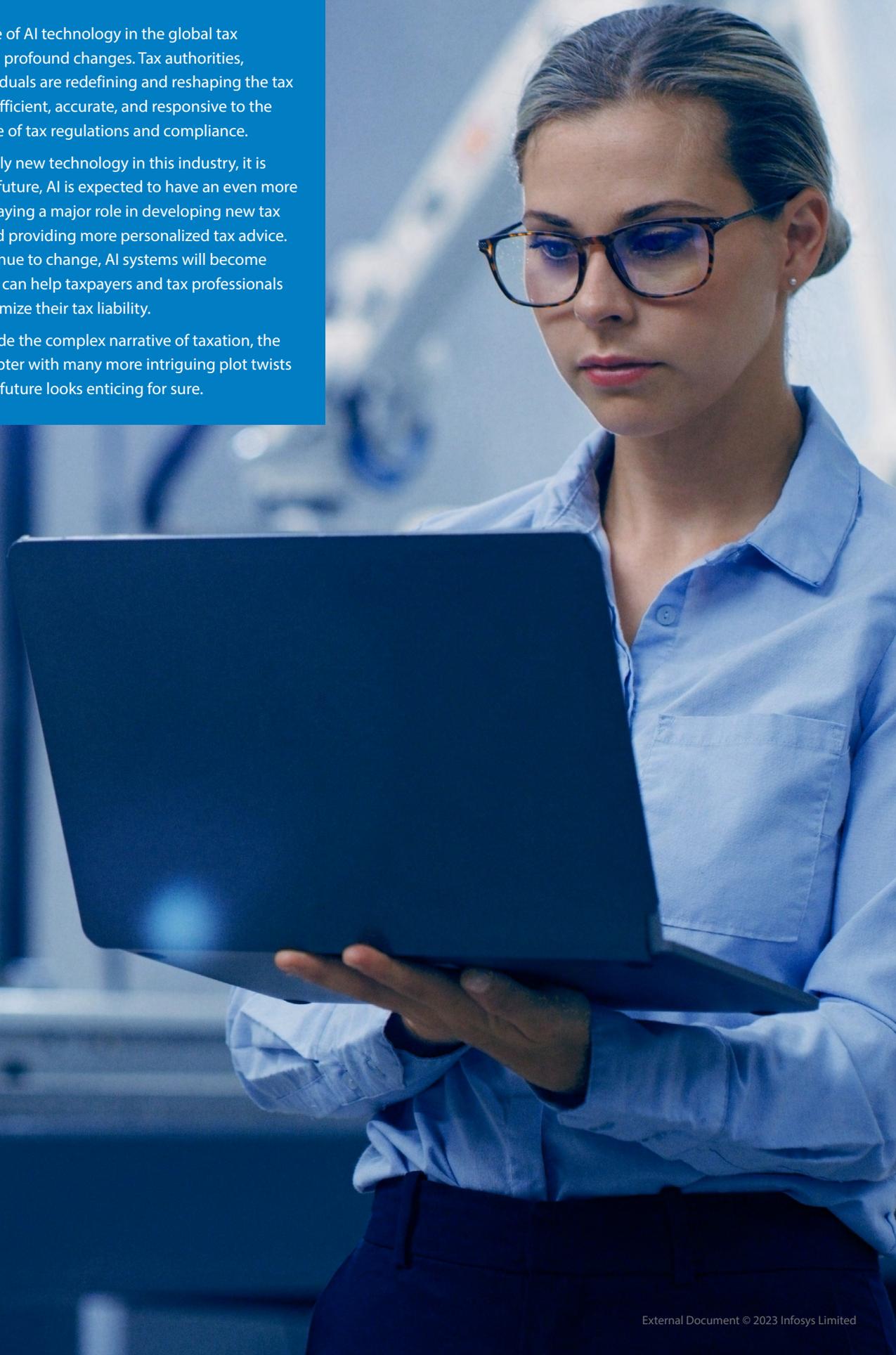


Taxation's New Chapter: AI's Impact Continues to Unfold

In conclusion, the usage of AI technology in the global tax industry has introduced profound changes. Tax authorities, corporations, and individuals are redefining and reshaping the tax world, making it more efficient, accurate, and responsive to the ever-evolving landscape of tax regulations and compliance.

While AI is still a relatively new technology in this industry, it is rapidly evolving. In the future, AI is expected to have an even more significant impact by playing a major role in developing new tax compliance systems and providing more personalized tax advice. As tax regulations continue to change, AI systems will become more sophisticated and can help taxpayers and tax professionals stay compliant and optimize their tax liability.

As we continue to decode the complex narrative of taxation, the AI saga is a riveting chapter with many more intriguing plot twists awaiting discovery. The future looks enticing for sure.





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The utilization of AI in the tax domain TEXT only with references

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4. Forecasting Tax Burdens

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5. Enhanced Tax Policy Optimization

AI technology can assist in optimizing tax policy by simulating tax policy scenarios and incentives.¹

6. Streamlining Tax Functions

AI can streamline routine tasks and make tax recommendations, transforming tax into an innovation hub.²

7. Optimizing Advisory Services

AI can optimize advisory services by providing data-driven insights. This helps accounting professionals to understand client needs better and offer relevant services.³

8. Improving Decision-making in Tax Planning

AI serves as a robust tool for crunching big data. This helps to collect beneficial insights and make improved tax decisions as well as with tax planning and reporting throughout the tax life-cycle.⁴



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