The future of tax

Management of taxes



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André Teixeira considers the vital role that artificial intelligence and automation will play in the tax workplaces of the future

Key Points

What is the issue?

The business of tax provision is a minefield of regulatory requirements and is expensive to manage. AI and other technologies will allow professionals to automate much of the process and allow them to meet their ongoing challenges.

What does it mean for me?

On average, tax professionals spend more than 50% of their time on collecting tax data and less than 30% on strategic tax analysis. Tax professionals can benefit from automating certain processes, such as filtering key data from spreadsheets, scanning long tax reports, and organising the data or identifying tax deductions.

What can I take away?

This shift in approach will see many practitioners move away from the traditional manual approach to manipulation and reconciliation and develop state-of-the-art capabilities utilising advanced AI and analytics to make decisions in real time.

The Industry 4.0 drive and the continued maturation of artificial intelligence (AI) technology is fundamentally changing the way that every sector operates. It is not just industrial sectors, where the idea for AI hatched, that are facing this transformational wave. The financial sector, and particularly legal and taxation professionals, are impacted.

In his recent book ‘Tomorrow’s Lawyers’, Richard Susskind argues that the legal world will change more in the next 20 years than it has in the past two centuries. He believes that this change will include major law firms setting up low-cost service centres for routine legal work, a global upsurge of more than 1,000 legal technology start-ups, and an increasing interest in the potential of artificial intelligence.

Four years ago, Professor Klaus Schwab, founder and executive chairman of the World Economic Forum, said that we were at the beginning of a revolution that would fundamentally change the way we live, work and relate to each other. Even then, he could not have envisioned the important changes that technology would deliver.

The move towards automation

According to EY, in the past five years the single biggest source of US Securities and Exchange Commission restatements has been income taxes. The business of tax provision is a minefield of regulatory requirements and is expensive to manage.

However, AI and other automation technologies, such as robotic process automation (RPA), will allow professionals to automate much of the process and allow them to meet their ongoing challenges.

What makes AI different from other emerging technologies is the ability to allow a machine to understand its environment and perform operations that in the past had required human intelligence. It can sense, think and act in a manner that can outperform even the most industrious and intelligent human.

The global tax industry faces a myriad of challenges ranging from global tax reforms and complexity, pressures to reduce costs, and the adoption of emerging technologies. To achieve their aims, tax firms need to develop effective predictive and calculation models. This requires the sector to adopt innovative thinking about the methodologies for collecting and processing financial data. This shift in approach will see many practitioners move away from the traditional manual approach to manipulation and reconciliation and develop state-of-the-art capabilities utilising advanced AI and analytics to make decisions in real time.

Starting with small steps

AI can be helpful in every field of law, including tax. AI helps professionals work faster, better, and at a lower price. Tax professionals can benefit from AI in several ways, such as automating certain processes that tend to be repetitive, filtering key data from spreadsheets, scanning long tax reports, and organising the data or identifying tax deductions. Managing multiple deadlines that involves data from multiple stakeholders and sources are daily challenges.

According to research from PwC, on average tax professionals spent more than 50% of their time on collecting tax data and less than 30% on strategic tax analysis. Up until now, the automation initiatives that have achieved the best results are those that have taken small steps rather than large corporate-wide initiatives. These solutions are being dubbed as small automation, which is automation that can be implemented without involving the IT department. This could involve something known as extract, transform and load (ETL). ETL is the general procedure of copying data from one or more sources into a destination system which represents the data differently from the source or in a different context than the source. These are proof of concepts that can show the potential of the technology while breaking down barriers to adoption that always accompany change in any work environment.

The benefits of AI in action

There has been a lot of advice and opinion about how AI will change the work landscape for tax professionals, but to date there has been little in terms of actual use cases. In its 2019 report ‘How Tax is Leveraging AI’, PwC highlighted four common use cases – tax notice processing, account classification, tax compliance and reporting, and tax guidance. These cases overcome four key challenges in the form of unstructured data, classification, standardisation, and questions answering.

Take tax notice processing as an example. The challenge is that this is what is termed as unstructured data. This is usually information that either does not have a pre-defined data model or is not organised in a pre-defined manner. Unstructured information is typically text-heavy, but may also contain data such as dates, numbers and annotations. By using natural language processing to convert scanned tax notice images to text and machine vision to understand the text and extract the required data, AI can be used to extract relevant terms to automate tracking.

One company that has seen this evolution at first hand is specialist software and technology investor, Hg. It sees the application of artificial intelligence (AI) as having a significant impact on the evolution of the tax and accounting universe over the next few years and says it has already seeing continuing development of this technology across the businesses it partners with.

TeamSystem is a leading provider of business critical, regulatory driven software products to around 250,000 accountants, HR professionals and SMEs in Italy. It is also developing automated scanning and document recognition services for its

customers, combining classic optical character recognition with modern machine learning practices to create a product which improves day by day – saving significant time for customers and increasing customer productivity. This already has accuracy of around 75%, a figure which is constantly improving thanks to machine learning.

Breaking down barriers

There is no hiding from the fact that the tax world is a conservative industry that is steeped in a rich heritage of rules and ways of working. To such a sector, a disruptive innovation such as AI is often seen as high risk and a threat to the status quo. Small automation has a vital role to play in overcoming these hurdles.

But AI can offer far more than simple ETL applications. More intelligent technological analytics and interconnectedness have led to increasing automation of tasks in the corporate tax function and promises of still greater efficiencies to come. Data automation and machine learning technologies can be applied to meet the demands of tax functions while improving tax governance, preventing costly errors, and saving professionals' time.

As with any transformational initiative, when considering an AI strategy it is important to identify the problem that you are trying to overcome. Armed with that information, it is possible to decide which manual tasks can be replaced or augmented by adopting AI.

Another barrier to the adoption of AI, one which is mirrored across most sectors, is the fear that adopting AI will mean that jobs will be lost. The truth is that AI will help tax professionals to work smarter and more efficiently. Rather than having to focus on the drudgery associated with some low-level work, it will allow them to concentrate on value added work. The eradication of some menial tasks will have the additional benefit of encouraging highly skilled workers to consider a career in taxation, something that the industry habitually struggles with.

The future for AI and tax

According to a Deloitte report published late in 2019, the next level of AI-enabled tax solutions will not just reflect the relevant tax law and practice, but also the particular policies of the parent organisation. This will allow advisors and their clients to differentiate between a company's technology solutions, as they do now between

the knowledge and experience of individual human advisors. Again, this reflects the way in which machines and humans will collaborate to deliver solutions to clients, using the best mix of artificial and human intelligence.

AI will help to revolutionise the tax industry. Ultimately, it is not about replacing people – but rather it should enable tax advisors to be freed up to focus on more complex tasks. AI should not be feared but embraced as a vital component of the tax workplace of the future.