How generative AI is transforming tax practice

General Features



10 July 2024

Tax practitioners across the UK are recognising the significant time and cost savings offered by generative AI.

A May 2024 survey by Tolley found that two-thirds of UK tax practitioners are regularly using generative AI or are planning to do so soon.

The survey of over 400 UK tax practitioners found that 10% use generative AI every day. Their top priorities are for researching tax matters (91%) and drafting tax documents (87%). Drafting emails or other communication-based tasks was also listed as a priority by 80% of respondents. Almost two-thirds (71%) would be somewhat or completely confident using AI-powered tools grounded on tax research and guidance content.

More than a third (35%) of those surveyed are using generative AI at least once a month, and a further 32% of tax practitioners said they are currently not using generative AI but have plans to do so. Only a third said they have no plans to use generative AI.

While excitement levels are high, many tax professionals have valid concerns over the trustworthiness of public-access and free-to-use generative AI tools. To get the most from this technology, they need tools grounded in trustworthy tax sources.

The technology will continue to develop at pace and is set to transform and revolutionise the practice of tax. Tax professionals are clearly keen to embrace the value that generative AI can offer and, with careful adoption and training, it has the potential to significantly improve the productivity and effectiveness of tax practitioners.

Given the pace of change and how much we expect the critical reasoning abilities of generative AI to increase, the tax sector will look very different in a year’s time, says Hayley McKelvey, Tax and Legal – Digital Innovation Leader at big four accountancy firm, Deloitte. ‘We are only at the foothills of what GenAI can do and how much of the tax professional’s compliance and advisory work it can consume,’ she says.

Bivek Sharma, Chief Technology Officer & Head of Alliances for Tax, Legal and People business at PwC, says AI has changed the rules of the game, with an unprecedented level of transformation in tax. ‘Gone are the times where you have to spend hours, days or even months reviewing thousands of technical documents.’

Helen Whiteman, the CEO of the Chartered Institute of Taxation, says generative AI will only get better. ‘We’ve seen rapid development over the past 18 months and clearly AI offers many benefits.’

AI technology will prove particularly useful in breaking down lengthy or complex analysis, such as research and development (R&D) technical reports.

It is also useful for finding patterns, issues or common themes that we didn’t know existed, says Adrian Henderson, the Director of Technology and Transformation Services at one of the UK's biggest accountancy firms, Evelyn Partners. ‘Generative AI can spot patterns that humans cannot – this helps us create new business insights for our clients.’ His firm is looking into using AI to map trial balance information for tax returns, create claim narratives from interview transcripts and help to interpret

foreign language documents.

The AI revolution is well underway

Overall, a third (32%) of all tax practitioners surveyed had made a change in their organisation, the most common being carrying out AI-related training for staff (12%), developing policies on the use of generative AI (11%), and launching an AI-powered product for internal use (11%).

When comparing actions taken by in-house teams to the movements of private practice, there is a clear divide. Almost half of in-house teams have made a change to their day-to-day operations as a result of AI. In-house teams were significantly more likely to have created an AI policy (24% vs. 8%), launched an AI-powered product for internal use (18% vs. 10%), and hired AI experts (11% vs. 5%) than private practice practitioners.

Jane MacKay, Corporate Tax Partner at Crowe, says they are currently using AI to analyse large client datasets, such as Import and Customs' Duty classifications. 'Generative AI means we can quickly identify errors or trends typically resulting in customs duty savings for our clients.'

Can tax practitioners rely on AI?

Despite their eagerness, tax practitioners still have concerns over the ethical implications and risks of using public access AI tools.

Without training, oversight and grounding in robust datasets, generative AI technology can lead to inaccurate answers. The tools also require robust security to ensure confidential data is kept secure.

Jonathan Scriven, Director of Tax Markets at Tolley, says accuracy of information is critical to tax professionals. 'There's a huge fear of providing the wrong advice to clients, which is particularly heightened by issues with public access generative AI.'

Helen Whiteman from the Chartered Institute of Taxation says data security and privacy pose significant risks to tax practitioners. 'The lack of transparency around how AI systems operate can leave tax practitioners and their clients in the dark.'

Overreliance on public access generative AI platforms can be particularly problematic for tax research. Jane MacKay from Crowe says the current AI tools for the tax market are limited by the quality of information, context and appropriateness of research terms. ‘The quality of information isn’t currently reliable enough, which can lead to ludicrous or inconsistent results if you don’t already know what answer you are expecting. This also comes down to the proficiency of the tax professionals, she says, who will need to morph into prompt engineers. ‘Whatever the quality of the information, if you ask the wrong question, you’ll get the wrong answer.’

Ian Hayes, the President of CFE Tax Advisers Europe, says the possibilities of generative AI are exciting, but the tax world must have competent risk evaluations in place. We are still at a very early stage of this technology and have much still to learn, he says. ‘This is not Artificial General Intelligence and we are not, at this stage, preparing to pass over the controls to a machine.’

Almost three-quarters (71%) of respondents said they would be somewhat or completely confident using AI-powered tools grounded in tax content sources, with linked citations to the verifiable authority used to generate the response.

In-house tax professionals also expressed a strong demand to be informed if the external advisers who they are working with had used AI. Four-fifths (83%) of in-house teams expect to be informed, whilst only half (50%) of those in private practice think that their clients want to be informed.

How will AI impact pricing models?

One potentially problematic point of conflict for private practice and in-house teams is pricing. Some believe that the firms investing in generative AI-powered products or tools should be the ones who benefit from the time and cost savings. Others believe the benefits should be passed on to the client.

The survey found almost half (45%) of in-house teams expect bills to be reduced as a result of generative AI. Those in private practice were less likely to believe their clients would expect a reduction in cost, with 35% agreeing.

Jonathan Scriven from Tolley says there are challenges firms will need to consider before deploying AI. ‘Advisers will need to think carefully about many aspects of their businesses when deploying AI solutions – pricing structures, resourcing models,

the cost of acquiring and maintaining the tools, as well as managing employee concerns around job security.’

Generative AI will ultimately mean some tax tasks are undertaken much faster than the current delivery model, he says, which could have an impact on pricing. ‘The impact of this on price will depend on many different factors – the importance and number of those tasks in the overall workflow, the pricing mechanism at play, the commercial relationship between the client and their adviser, and the overall level of competition in that segment of the market.’

There was an even starker contrast in opinion when it came to the topic of restructuring pricing models in general. Only a quarter (28%) of medium and large practices said they will make changes to their billing as a result of AI, despite 43% believing it will reduce overall costs for the firm and 39% believing it will increase hours billed.

More than half (57%) of in-house teams, however, said they expect practices to make changes to billing as a result of generative AI.

In-house teams and private practices have a lot to consider over the months ahead – and pricing will be one of them. Yet the opportunity for tax professionals to improve their reach and break new ground is high. As a result, we are seeing real collaboration between advisers and their clients and between technology and innovation teams and fee-earners.

Final thoughts

The efficiency and productivity benefits of using generative AI in tax workflows are significant and adoption of the technology will clearly transform the practice of tax.

The level of excitement in the tax profession is high but concerns remain around the trustworthiness of the technology and data security. Careful adoption of Gen AI technology, using tools with robust data security and grounded in trusted tax content sources, will be critical to successful implementation across teams.

The skills required of tax professionals will also need to evolve as the technology develops. Organisations that are prepared to adapt will be able to fully realise the benefits available, unlock new opportunities and deliver even more value to their clients.

For further analysis and information about the Tolley+ AI™ Insider Programme, see: www.lexisnexis.co.uk/tolley-tax/ai-insider/sign-up.html