Deloitte.

Testing the water

AI-enabled Tax Transformation

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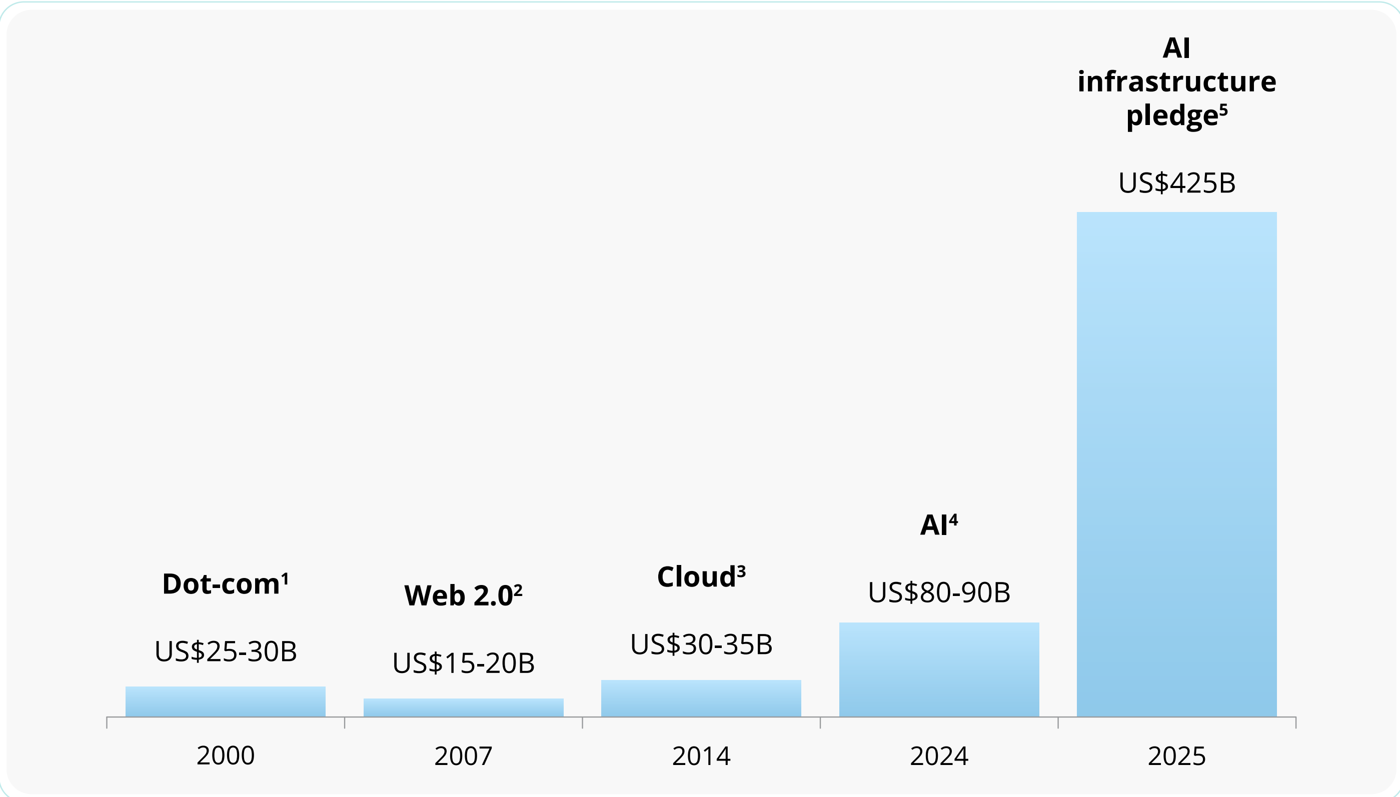
AI in Tax today: Advantage or hype?

Artificial intelligence (AI) has transitioned from a futuristic concept to an expected component of today's business landscape. And it's growing at a pace far exceeding any technology before it, with businesses jumping in quickly to ride the wave. For example, in 2024 in the US alone, AI attracted investment three times greater than the next most heavily funded sector, Cloud computing, attracted a mere decade earlier. By 2025, the total US investment pledged from the US technology giants such as Microsoft, Apple, and OpenAI for AI infrastructure reached US$425 billion (Fig. 1), and is expected to be US$1.4 trillion over the next four years.

Figure 1. Investment in AI is outpacing past technology waves



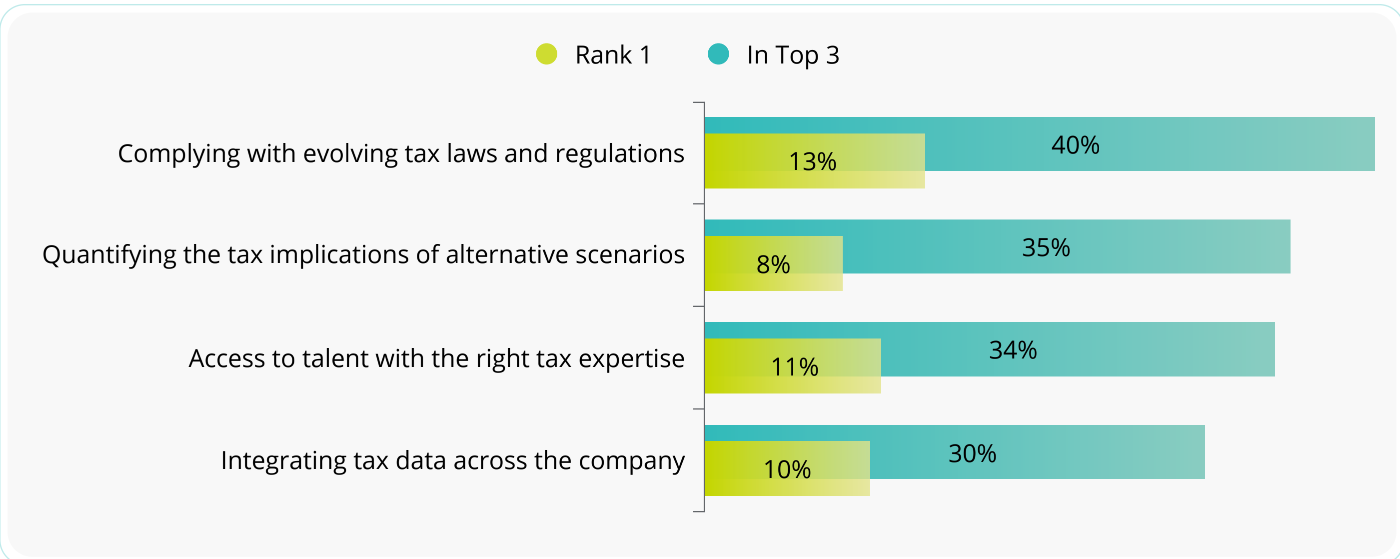
See page 11 for the sources of these figures

In tax departments, where precision, compliance, and efficiency are vital, AI has the potential for reshaping operations: From streamlining compliance and accelerating payments, to enabling smoother transactions with tax authorities, AI could help tax departments save organizations time and money. AI can also help streamline manual processes, performing initial document reviews and analysis of complex scenarios (e.g., due diligence, controversy, employment status), data review and classification, and preparation for compliance returns. While human validation is always required, AI can increase efficiency and focus. When Deloitte surveyed 1,000 tax and finance leaders for its *Tax Transformation Trends 2025* research, more than half of the survey respondents (51%) chose the data-heavy process of *Transfer Pricing Documentation* in their top three areas for AI to take a leading role in (if they were to allow AI to lead), while 37% chose *Tax Data Management*.

However, current efficiency gains are a drop in the ocean compared to the hoped for untapped possibilities of AI. The transformative potential of AI in generating data-driven insights, for strategic decision-making, and allowing for quicker responses to market shifts, remains largely unrealized. Tax leaders today are challenged by *complying with evolving tax laws and regulations*, *quantifying tax implications of alternative scenarios*, and *accessing talent with tax expertise* (Fig. 2). In an environment of increasingly complex rules and a regulatory environment often requiring ever increasing amounts of data, AI tools are an effective way of keeping up. Some tax authorities are already advancing with AI-driven automation to improve compliance and reporting and increasing numbers can be expected to demand real-time access to companies' data, another area where AI automation would be useful.

The current market excitement surrounding AI is tempered by concerns about its high cost and environmental impact. Breakthroughs in Generative AI (GenAI) and large language models are driving investment, but the sector's history of volatility and the risk of a speculative bubble remain. High capital expenditure for AI development, intense competition among providers, and looming regulatory, ethical, and environmental concerns further complicate the picture. For tax departments competing for limited resources within their organizations, the substantial upfront investment required to build internal AI capabilities presents a significant challenge. Some companies are looking to outsourcing as a way to gain access to AI-powered solutions without the need for massive capital expenditure and the ongoing cost of upgrades as the technology evolves. In this way, tax leaders can embrace AI strategically, focusing on demonstrable business outcomes and managing risks effectively, while leveraging outsourcing to mitigate the financial burden.

Figure 2. The three greatest challenges to achieving tax department priorities in the next three to five years



Source: Deloitte's Tax Transformation Trends 2025 research

What Tax leaders can (and arguably should) do today

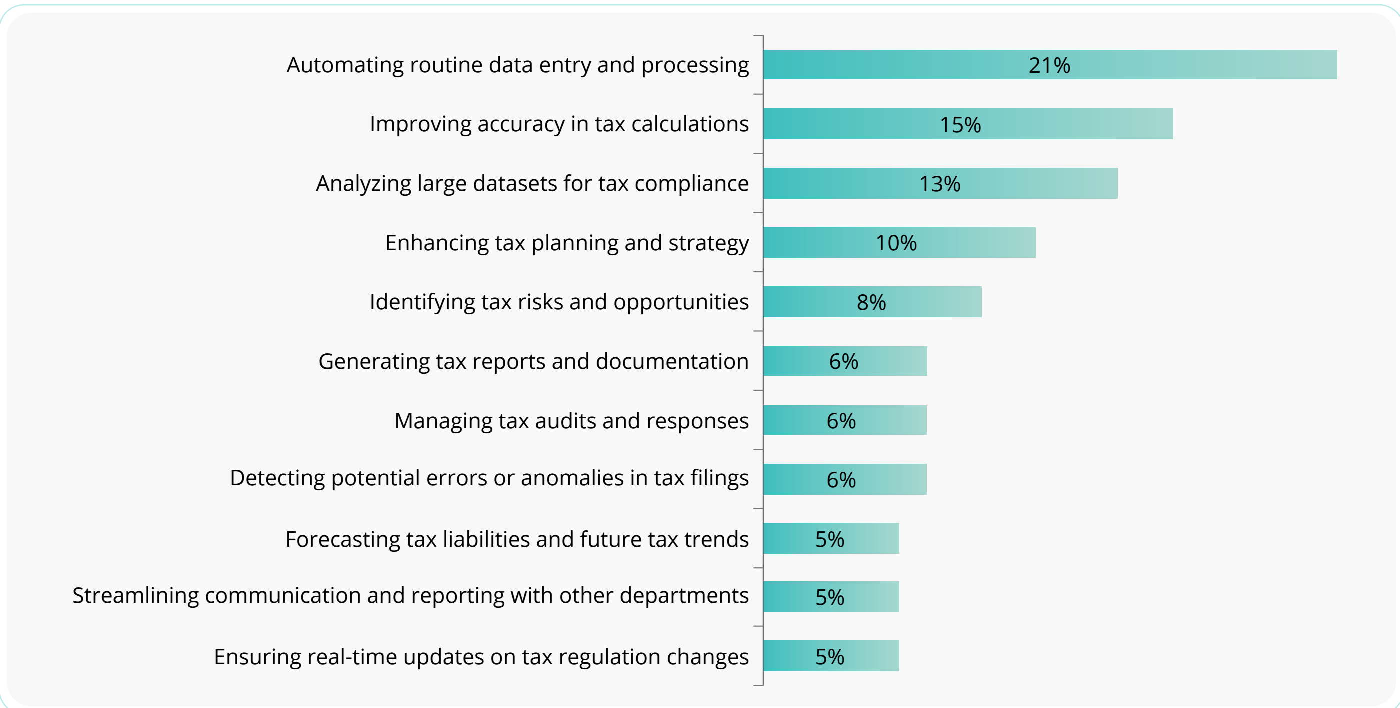
1. Test the water

Notwithstanding the hype, many tax departments remain hesitant about embracing AI, caught between the excitement of technological innovation and resistance to change. Tax leaders, understandably wary of potential pitfalls (inaccuracy and data security chief among them) are carefully weighing the risks against the promise of AI-powered efficiency. Many companies have started simply with gaining familiarity with AI tools, from leveraging GenAI to boost productivity (e.g., drafting emails, summarizing documents) to automating data-intensive tasks.

According to Deloitte's *Tax Transformation Trends 2025* research, 21% of tax leaders are testing the water by prioritizing *automating routine data tasks* using AI. Some have already started experimenting with more strategic tasks for AI such as *tax planning enhancement* (10%) and *identifying tax risks and opportunities* (8%). (Fig. 3)

> By automating many of the manual processes we manage today, we're unlocking time and capacity to focus on higher-value activities—like identifying savings opportunities and mitigating risk. One exciting example is our use of AI to autodetect R&D efforts in the company. It's allowing us to maximize eligible tax credits with greater accuracy and speed.
>
> **Ingrid Berner**
> Senior Vice President, Tax Operations and Technology, *AT&T*

Figure 3. Priorities for AI use in the tax department



Source: Deloitte's Tax Transformation Trends 2025 research

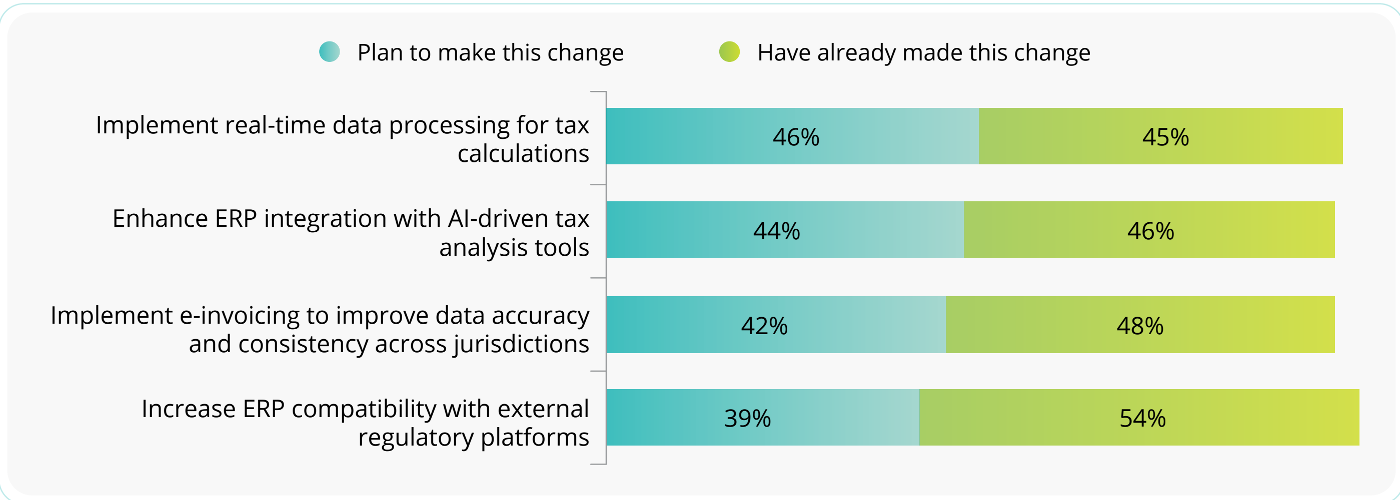
2. Employ an outcomes-based approach

With so much choice in AI tools on the market, and more being developed by the day, it's important not to forget first principles and have clarity about the business or tax department objectives. Start by defining what success looks like: Is it streamlined compliance (as prioritized by 47% of *Tax Transformation Trends 2025* survey respondents in moving toward lower-cost resourcing models for global tax provision)? Better insights (implied by the need for data analytics skills)? Reduced costs (achieved through automation, as indicated by 41% of survey respondents)? Improved accuracy? Clearly defined goals clarify the evaluation criteria for AI tool functionality. Typically, it is important to integrate AI tools into the operations where people spend their time. Also consider integrating data flows from Systems of Record/Enterprise Resource Planning systems and boundary systems into AI tools.

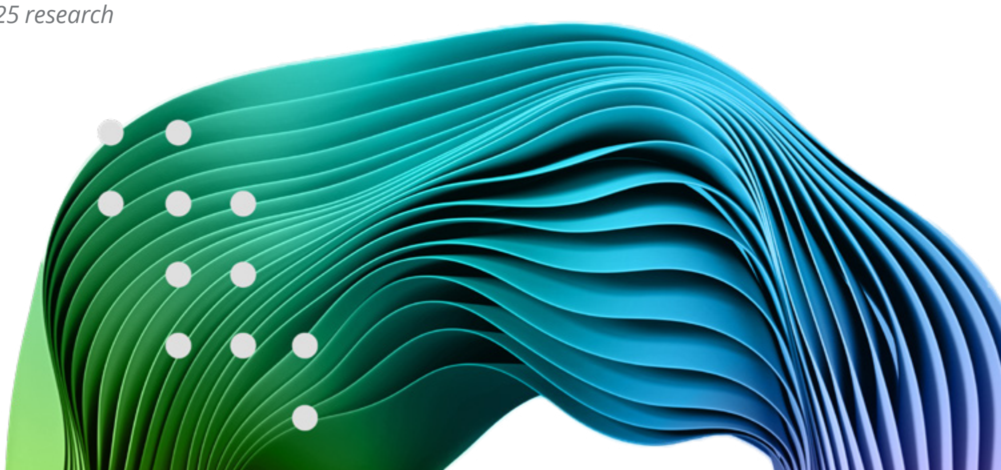
For example, as early as 2023, a Deloitte team in the US experimented with creating a tax research assistant. The aim was to free up tax practitioners' time to be able to focus more on the client and less on the research. The internal GenAI-powered tax research tool developed managed to replace roughly five out of eight traditional steps. The pilot showed gains in efficiency and speed, although the tool was later replaced with a third-party product still in use today because of maintenance time and effort.

Focus on value, not novelty: Some AI tools, like ChatGPT, are already proving productive. Others, like agentic systems, are more disruptive and require deeper consideration. If initial priorities center on efficiency, incremental improvements to existing tax processes within the ERP system may be sufficient. This approach, enhancing ERP systems with AI-driven tax analysis tools, has already been implemented by 46% of respondents to Deloitte's *Tax Transformation Trends 2025* survey, with another 44% planning to do so (Fig. 4).

Figure 4. Changes already made or planning to be made to ERP systems



Source: Deloitte's Tax Transformation Trends 2025 research



3. Prepare tax data for AI

Poor data quality can lead to inaccurate insights, flawed predictions, and ultimately, incorrect tax filings or strategies. The old "garbage in, garbage out" principle is just as true today with AI as it was when the term was popular in the early days of computing. The accuracy of AI algorithms is directly tied to the quality of their training data. To mitigate inaccuracies, many AI tools are often limited to specific, high-quality datasets. Consequently, incomplete or inconsistent tax data not only hinders automation, but also poses a significant risk, ranging from incorrect calculations and missed deductions to substantial financial penalties, regulatory scrutiny, and even reputational damage.

With the right quality of data, AI can process information much faster than it can when dealing with poor data, providing quicker insights and allowing for more timely business decision-making. This necessitates a well-defined data strategy and approach, which is crucial for understanding what data should and could be used to advance AI-fueled business outcomes. This strategy must also take into account data privacy and confidentiality, clearly defining what data is vital for your tax process flows and identifying the systems that house that data. By meticulously preparing and cleaning tax data, a tax leader can unlock accurate insights, improve efficiency, and reduce risk.

4. Sink or swim: Address the barriers

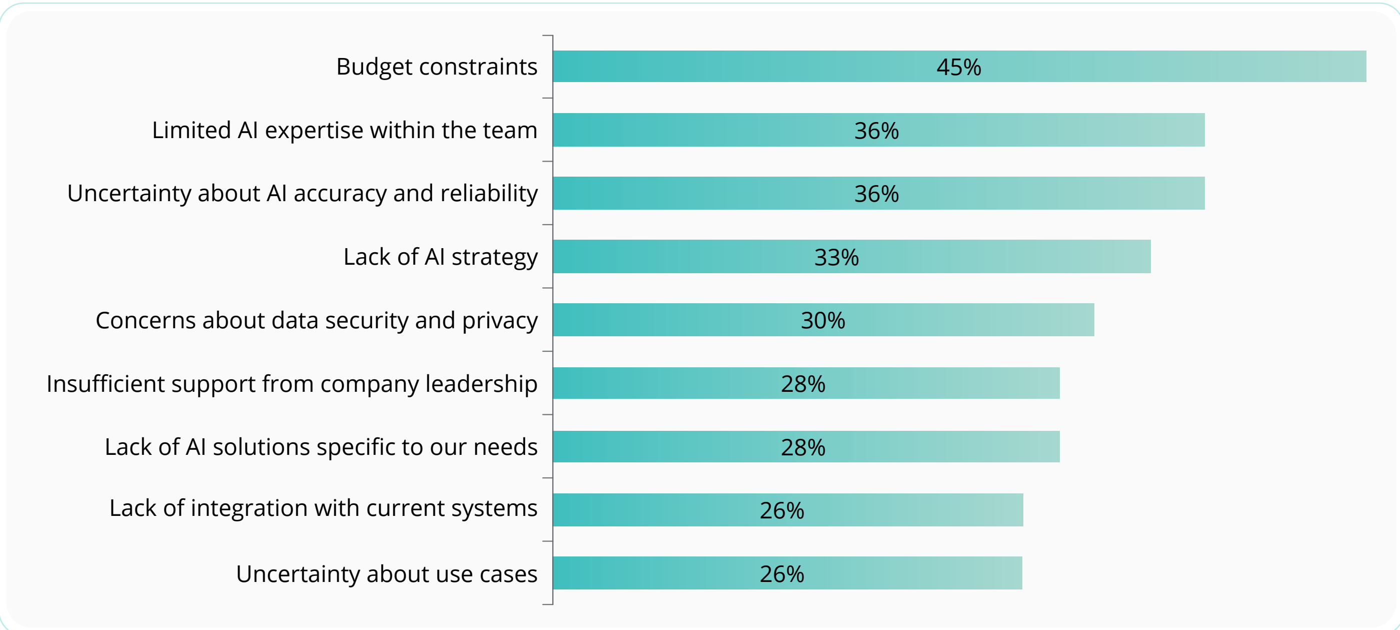
Trust is the ultimate gatekeeper: 77% of *Tax Transformation Trends 2025* survey respondents said they require 90% or higher accuracy before entrusting AI with their tax processes. This reflects the exacting and regulated nature of tax, its impact on the business, and a need for greater transparency and confidence in AI's capabilities.

However, the journey to successful AI adoption is challenging. A recent MIT report (*The GenAI Divide: State of AI in business 2025*) revealed that many generative AI pilot initiatives fail to deliver expected returns, often due to difficulties integrating AI tools with existing systems and an organization’s culture, rather than technical limitations. MIT also found that significant investment is frequently misdirected to areas with limited measurable impact.

Beyond trust issues, other factors are preventing tax leaders from diving in headfirst (Fig. 5). These include *budget constraints* (cited by 45% of Deloitte's *Tax Transformation Trends 2025* survey respondents), *limited AI expertise within teams* (36%), and a *lack of a clear AI strategy* (33%). Furthermore, concerns about *data security and privacy* (30%) and *insufficient support from company leadership* (28%) are significant hurdles.

The barriers to AI adoption are both technical and cultural. Company-wide challenges typically involve integrating with existing systems, addressing cybersecurity concerns, and securing leadership buy-in. However, within the tax department's direct control, progress is often slowed by factors such as *limited AI expertise*, the *absence of a clear strategic roadmap*, and *uncertainty regarding specific use cases* (Fig. 5), all of which can be addressed internally. While there aren't any quick fixes, these issues are solvable. A cautious approach is to start small, learn quickly, and build confidence along the way. Crucially, a programmatic and thoughtful deployment strategy, focused on solving core business problems, yields better engagement and ROI than simply introducing tools without clear guidance.

Figure 5. Factors holding tax leaders back from implementing AI



Source: Deloitte’s Tax Transformation Trends 2025 research

To harness the truly transformative power of AI in tax operations, a fundamental re-wiring of existing processes and workflows is usually essential. Simply applying AI to current systems, without addressing underlying inefficiencies, standardized processes, and legacy data challenges, will likely yield minimal returns and a poor ROI. Successful AI integration requires a holistic approach, encompassing data standardization, process automation, and the development of new, AI-optimized workflows. This might involve redesigning data-capture methods, streamlining internal communication channels and process workflows, and even restructuring teams to leverage AI's capabilities effectively.

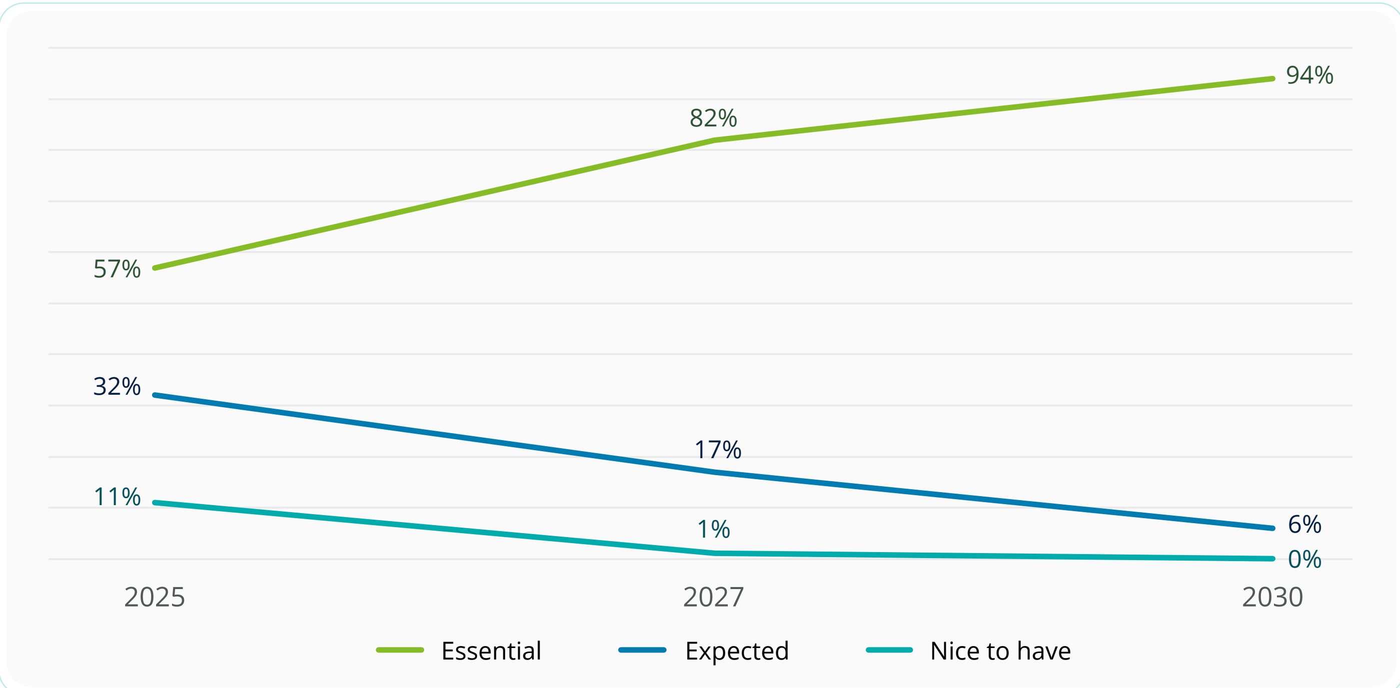
Organizations should measure success beyond just quantitative metrics, considering qualitative impacts and aligning measurement with actual outcomes. Viewing AI as one tool within a broader strategy to transform operations, rather than a standalone solution, is vital for unlocking its full potential and achieving substantial savings, improved accuracy, and enhanced strategic decision-making. This can be particularly challenging when navigating an environment of rapid AI innovation and market shifts.

5. Top up the talent pool

For most organizations outside of the AI industry itself, AI is new territory. A barrier to implementation (Fig. 5) is *limited AI expertise in the team*, and 45% of *Deloitte's Tax Transformation Trends 2025* survey respondents identified AI-related skills as their greatest need in the next one to two years. In addition, 94% of respondents believe AI skills will be essential within the next four to five years (Fig. 6). In a bid to improve their tax teams' technological expertise, 53% of respondents said they are actively recruiting digitally native talent skilled in technology and AI.

To address challenges, basic first steps should therefore include defining the outcomes you want to achieve with AI and planning to bring new skills into the team. In the same research, 70% of respondents said technology strategy and budget are largely set by Finance or IT, and over 98% said they rely on either finance teams or shared service centers for some aspects of their tax operations. Given the wide distribution of tax work and stakeholders who will have a broader enterprise view on the specialist or supporting functions, talent strategy, and skillsets, fostering close collaboration with Finance and IT is essential for better use of AI across the enterprise.

Figure 6. The importance of AI skills in Tax



Source: Deloitte's Tax Transformation Trends 2025 research

What's next?

Whether through outsourcing, shared services, or partnerships, there are ways to get started while building a longer-term strategy.

The message is clear: embrace AI or risk being left behind. But adoption doesn't mean going all-in overnight or doing it alone. The AI landscape is noisy, and new tools are emerging constantly, each promising more than the last. It's tempting to wait for clarity, but waiting too long could mean falling behind. Tax departments have an opportunity to achieve the ambition of being a strategic business partner; evolving from compliance enforcers to invaluable advisers, contributing significantly to overall business success. The next step? Determine what business issue you are trying to solve and then develop a robust strategic roadmap to define your goals for AI implementation and measuring success.

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Sources for chart figures in Figure 1

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[2] National Venture Capital Yearbook (2007) Tech Crunch acquisitions data, Crunchbase funding validation

[3] CloudTimes Global Cloud Spend, Forbes US Enterprise Cloud Share

[4] Pitchbook Global AI VC Spend, Investor's Business Daily AI Infrastructure Investments | All GDP Investments from historical Bureau of Economic Analysis

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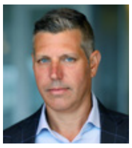

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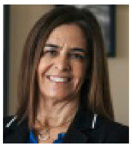

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