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Episode - From AI potential to proven performance in tax

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Carrie Falkenhayn: From Deloitte Tax, welcome to the Tax News and Views Podcast. In this series, we talk to specialists from Deloitte about the latest business issues and developments. I'm Carrie Falkenhayn, your host for Tax News and Views. And today, you're joining us for a conversation about transforming tax with AI. No surprise, AI continues to be a hot topic, and today's focus will be on the latest trends, including agentic AI. Joining me today are three Deloitte specialists that have been active in the marketplace around these trends. First, we have Ronan Ferry. Ronan is a tax transformation partner from Ireland and leads Deloitte's TTC GenAI efforts across North-South Europe. We also have Tim Lapetina. He is a partner in the tax-operate practice, where he specializes in the design of tax function operating models, as well as outsourcing tax compliance. And then we also have Hali Booker, who's a senior manager in the tax operations practice, specializing in the design and deployment of tax technology solutions, specifically for outsourced tax compliance engagements. As I said, generative AI has been the rage for the past few years, but now we're hearing more and more about agentic AI, or AI agents. Ronan, get us started. It would be great to hear from you to understand the differences between Gen AI and Agentic AI, and do you see Agentic AI bringing more opportunities compared to Gen AI?

Ronan Ferry: Thanks, Carrie, and great to be on the podcast today with you and Hali and Tim. I think maybe to state the obvious, firstly, right, there's definitely a difference between Gen AI and agentic AI.
I would say, but in terms of comparisons and opportunities, it's really not about one or the other. What

we're learning very quickly, it's actually how they both can complement each other. And Gen AI can create the reason, the thought, the content in terms of drafting opinions, explain trade-offs, and summarize information. Well, Agentic AI can really turn that content and make it and bring it to action by planning steps, using tools, integrations, and really iterating until the task is done. And maybe, like, a simpler way to think about this is GenAI really helps in writing the playbook. Agentic AI runs the play, and for example, if we have Gen AI and tax as drafting a tax roadmap or a project plan. then the Agentic AI systems can send the content, it can track replies, updates, tracking systems, and then escalate even exceptions. So really, working with Agentic AI has really now helped us move the dial, almost, with clients. We've kind of gone through a period of proof of concepts, use cases in the tax function. But to be honest, probably most of that, what we've found, is really difficult for clients to take those proof of concepts and scale them, and really prove out their return on investment, as we kind of say, making the proof meet possibility. And really, if I look at, look, much of this comes from original use cases associate with large language models and chatbots, which tended to be more, I'd say, focused on individual productivity. Like, content generation, summarizing, insights, all valuable in their own right, but, look, primarily focused on the individuals in tax like, now we've got Agentic AI, it's really allowing us and our clients look at processes end-to-end, drive automation and efficiency, and really allow tax and tax functions, and to consider AI at scale, and finally start realizing that there is a return on investment, and really where the proof is, meeting the possibility. And to be honest, what we're actually even learning ourselves within Deloitte Carrie is it's actually even the clever use of multiple agents and orchestration. Really, it's really exciting, actually, as to what can be achieved. Even if you look back at the last few years the advancement of AI vis-a-vis maybe the adoption of AI has been slower. We are definitely now seeing that advancement versus adoption of agentic AI is much quicker, and we're really only at the beginning of it.

Carrie Falkenhayn: So, what are Gen AI and Agentic AI use cases that are effectively solving key tax challenges for your clients and colleagues?

Tim Lapetina: Yeah, Carrie, well, first, I think it's important to really think about the different areas in tax. So, we have tax compliance, tax planning, tax research, tax risk management, and they're very different. So, they each require their own tailored AI approaches. There's really not a one-size-fits-all solution. As an example, the use of AI-powered research tools really enable what we call the prompt-based tax research and subsequent drafting of tax memos, which is pretty revolutionary if you think in the way a tax professional works. Normally, spending a lot of time researching and writing the memos, these prompt-based AI tools really handle the bulk of that. The use of natural language processing also allows users to speak naturally, to evoke human-like responses to their tax technical questions. And then further, the tool has the ability to take a first pass, like I said, at drafting the structured content, which, you know, if you think about before, it just took so much time to research and write the memo, and now the tax professional has really a first start, a first draft that he or she can work with and shape in much, much less time. Another area within tax that is really specially suited for AI is indirect tax. And really, it's because indirect tax is typically known as high volume, very frequent, in some cases, very low complexity, and very repetitive in terms of compliance and process-oriented tasks. So, the way that we think of agentic and generative AI, the agentic AI is really for the end-to-end workflows with humans, obviously, checking the results. And then we think about designing small agents to really be orchestrated together to automate some of the multi-step work, like multi-jurisdictional indirect tax reconciliation, taxability, and anomaly flagging in specific transactions. Now, what's really a huge game change that we've seen recently is in the tax notice area. So, as we all know, notice our taxpayers get a tremendous volume of notices every year, and in many cases, those notices are in unstructured format, PDF, and very hard to extract the information. We used to use OCR technology to do that. Now, we're leveraging generative AI solutions to automatically read and interpret the results of all that unstructured data. And this can save tax teams many, many days just trudging through notices from federal and state taxing authorities. This Gen AI tool, really think of it as it extracts the data from the file, collates it, organizes the data into a database and then looks at the underlying tax positions, and really comes up with a response, so the tax professionals can then take a first look at the notice, you know, the content of the notice, the action items, without having to go back to the ultimate, the original notice itself.

Hali Booker: Another area of tax that is, you know, currently taking advantage of the benefits of AI is R&D. So, as a lot of us know, the process of substantiating a company's R&D credit and building out the contemporaneous documentation can be really cumbersome. Conducting interviews with busy employees, reviewing and analyzing outputs from those interviews, plus relevant company files, drafting reports on all that data. It can take the better part of a year if doing it the way that we used to do it. And so now what we're seeing is our R&D practice working with a tool called TechWriter. And that leverages GenAI to accelerate the mandatory qualitative support process, and so what they what that does is it automates the analysis of the contemporaneous documentation that we receive from a company's from the company's technical employees, so if you're thinking engineers, researchers, the tool mines that documentation and project notes that are relevant, to the qualified research tests. And like Tim was mentioning earlier, previously we used OCR, so it's similar technology, but smarter and faster. The tool can also then draft detailed reports, so reports that have a substantial amount of information that's been pulled that can then be reviewed by humans, by your professionals, after they've had a chance to analyze the documentation themselves, and the notes, and then to pull it all together. You know, we ultimately can provide clear substantiation for why certain activities the client is conducting qualify for the credit. And it's, not just a one-time thing, the process can be iterative, so the reports are not just reviewed by the humans once, or by your professionals once, they're then refined and polished with the use of a GenAI assistant. So, a team that was previously spending 6 to 8 months doing this sort of R&D process work can now spend 3 to 4 months doing that same work. So we are seeing, just with Gen AI alone, substantial savings in time and efficiency. Now, down the line, when it comes to Agentic AI, we are very excited about the potential for Zora AI. So that's Deloitte's new Agentic AI platform, and we'll we are looking forward to it from a tax perspective because of at least the opportunity for better quality of data. As we know, tax is the primary consumer of data within an organization, specifically, too, within finance. And so we are looking forward to what Zora can do for not only providing us, better quality data, but also for helping us to get to a point of detailed analysis, detailed analytics, detailed insights, much sooner, hopefully throughout the process of the tax return, instead of having to wait maybe till the end, when the return is ultimately filed.

Carrie Falkenhayn: For tax business leaders in general, what will they need to do differently with their people, their technology, data, etc, to prepare for the effective use of Agentic AI solutions?

Ronan Ferry: Yeah, a lot in that question, Carrie, and even if I come back to, like, Tim just discussed or brought us through a number of use cases in tax. All of those use cases included tax on and or finance people. And to me, right, the answer to this and how clients approach the interaction of AI and people is probably the biggest factor in the success or failing of any AI deployment. And that's particularly the case with Agentic AI, and I think there does need to be a bit more of a focus going forward, as opposed in the last few years, on the people element, that's the transformation using AI and it's starting off with the realization that a lot of even ourselves and clients, and our clients are coming to the fore in terms of realizing, look, AI is not a one-time project, and it really is a continuous and evolutionary journey of a tax function. And you really need to involve and evolve your workforce through that journey. And even as I say, right, this isn't easy, because we're not talking about humans running technology. We're actually talking about teamwork and workforce and tax that has agents working in collaboration with humans, and even the concept, as we're saying this even sounds a bit unusual, and probably even needs a bit of time for some people to have settled into their mindset. But to get these right, we really need, and tax needs clear leadership strategy, there needs to be a tone set from the top, and really giving your team a vision, involve them in the design, and use and test, that is, like, a continuous development as tech starts deploying and adopting more AI in its functions and activities. And really, what you're really thinking here, you're enabling your team to think more digital in achieving outcomes that unusual digital workers to get there in collaboration. I do think we kind of still got to make sure we balance in terms of a people perspective. There needs to be more of an acute awareness of the subject matter expertise that tax and finance. People bring to a tax function, but that has to be mixed with the digital skills and soft skills and how these will be reshaped in your tax function due to the adoption of AI, and the more you start adopting Gen AI and Agentic AI in your tax function in the future. But I think even having the awareness of this as a basic fundamental on your journey, and how that interacts with your tax function, your people in your function, will help your tax team evolve with AI over time. Like, there's obviously still a need that would probably lead me here, right, to highlight the need to

really understand what you've got your vision for AI that includes people, then you've also got your vision for AI, and what is that technology, and we're back to the age-old Your build versus buy dilemma is very relevant. What you're centralizing versus still allowing local autonomy your global versus local platforms, your point solutions, and then critically, like, how does the support and maintenance of all this technology work through your tax function, or with IT and finance? And that's where we're seeing a lot of Tax functions really start to evolve, and this is not just a tax transformation, it's tax transformation as part of a wider finance or organizational AI transformation journey that really helps tax be plugged into that and get the best from it. I also think, in that Question there, Carrie, you made a call out in data, and I think this is, look, this is so relevant. And I do believe that and most, I think, and even clients at this stage all are on board with the fact that, look, at this stage, they realize the importance of data, how it's structured, having clean data, making sure you've data integrated within your systems really allows you to achieve better results using AI, whether it's GenAI, Agentic AI, or whatever the next AI that comes next. And to that, we are working with so many clients in terms of their data structure and their data management. And it's almost like a no-regrets move, to be honest, that kind of has an easy business case. The return on investment is there, and it sets you up really strongly as a tax function, how you use your data and how you work with your data, whether that's with AI or not.

Carrie Falkenhayn: Ronan and Hali, let's get your take on how service providers can help companies realize the value of Gen AI, as well as Agentic AI sooner.

Ronan Ferry: Carrie, what I actually really find fascinating about AI, Gen AI, agentic AI, even if I look at in my own practice globally in tax transformation consulting, we're continuously helping clients, identifying their issues, understanding their pain points, and then driving solutions to solve those issues or pain points. And that's obviously still very important when we're talking about Gen AI and agentic AI, and actually the efficiency they can bring, and the value that they have, and to the process or activities we're trying to solve. But the other interesting things that's really relevant here is that AI and agentic AI can actually bring value and efficiency to process or activities that you might have never actually even thought there was an issue with. And I think that's what we're finding as we're getting more and more into AI and agentic AI projects, and we're really getting to the stage with our work with clients, and even internally in Deloitte, right? We know AI and agentic AI can actually bring about completely different ways to get to the same outcome, as opposed to maybe the more traditional way of trying to change or automate the current way of doing it. And I think if you're a tax function, or you're a head of tax, or a client it's realizing that this is the kind of the way forward, but you actually can't do it alone. You need to stay connected with your service providers and just the wider AI community to stay on top of the latest developments, and then how can those developments be applicable to you and your team and your tax function? This then probably brings us back to the big question, is how much do you want to invest? And how do you go about the execution or deployment to stay up to date of these advancements? And we're back to the, as I mentioned earlier, the kind of adoption vis-a-vis advancement off AI, and then you probably just get back into we are back into discussion, well, what's your operating model and strategy for AI, and really, what do you want to insource or outsource to drive quicker results?

Hali Booker: I completely agree, Ronan. In our roles, Tim and I help our clients make that decision, as to whether they forge their own path rely on the proven results of a service provider or some combination of the two. And clients that go their own way, whether in part or in full, have the benefit of developing tools, right, that are designed specifically for their data and processes. The flip side of that is the investment of time, resources, plus the infrastructure required to build, deploy, and appropriately upskill the people ultimately using the AI also all sit with the client. And so, when we think about our role and what we can bring to the table, service providers like ourselves, offer an opportunity to advance pretty quickly to deployment. We've got resources, we have tested solutions, we can help our clients overcome what we know to be a common concern around resource constraints and accelerate time to value. Much more quickly. And that's not a biased opinion. According to our most recent tax transformation trends report, 45% of tax leaders cited AI skills as the top near-term need, and 94% said they're essential in the next 4 to 5 years. So, outsourcing or collaborating, at the very least, with a service provider may provide that near-term capacity and know-how, while the organization can focus on building AI literacy or other supportive areas, that can help them to use the AI. Tools more efficiently. Another thing I would add is that service

providers also have broad experience across jurisdictions, industries, areas of tax, and the many different use cases that allow us to develop and test solutions with a much larger audience and ultimately offer a wider range of AI capabilities, so that is another thing that kind of adds to our ability to accelerate time to value for our clients. So, our clients then benefit from learning, right, and becoming more proficient with AI technology by working alongside us without having to make that front-loaded investment. And we can also guide them through the process if they do ultimately want to develop their own stuff and help them so that they don't have to go it alone. But, you know, the decision is ultimately theirs to make.

Tim Lapetina: Yeah, Carrie, I would say the big takeaway is this. AI and tax isn't theoretical anymore. We've moved from what if to here's now. It's really a beautiful illustration of the concept of proof meets possibility. The solutions we're discussing, right, research tools, notice analyzers. Agented workflows, these are not prototypes. We use these systems here at Deloitte in our own operations, and we bring them to clients through real-world implementation.

Carrie Falkenhayn: Well, thank you all for sharing your insights into how tools like Agentic AI will be shaping tax departments in the future. If our audience would like more information, you should go to Deloitte.com and search generative AI for tax, and you're going to see a number of articles and resources there. As always, thank you, audience, for joining us. We hope you continue to tune into this series in the future. And be well, everyone. Take care.

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