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Future of Tax: Unlocking the Power of AI Through Trusted Data

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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. I'm Carrie Falkenhayn, your host for Tax News and Views. Today we're talking about a very hot topic, given the age of AI we are now entering, and that is, what is the future of tax departments and data?

Joining me today are two of Deloitte's thought leaders on this topic. I have Ben Barudin and Emily VanVleet joining me. Great to have you both here today. Emily, I'm going to start with you. You know, when we talk about the future of tax, it's really being described as a shift from traditional compliance and the work of the tax department towards a more strategic, insight-led role. Tell me a little bit about what you think this shift looks like in practice? And in particular how trusted data is required, or how it helps shape, the value that tax departments can create for the broader business?

Emily VanVleet: Yeah, thanks, Carrie. Happy to do that. I would say that as we think about that shift, it isn't completely a shift away from compliance, right? This is about viewing compliance differently, and in a sense, it's about building reliable compliance processes to spend more of our time and energy helping the business make better decisions.

As we look into the future, the focus in the compliance arena is really on reimagining how these processes that are so core to tax can operate very differently in the future to enable more real-time insights. If we

think about how tax functions have traditionally behaved, we have in the past spent a lot of time looking backwards, in a sense. Gathering information on what the business has done, reconciling that, reporting it on filings, and then also defending it with the tax authorities. And so, none of that work is going away. But the way that this work is done in the future is going to change fundamentally, with AI now as part of our toolkit.

Tax can really start to move toward more real-time, data-driven operations, with technology handling a lot of the more repeatable calculations and work. And tax professionals in that way are going to start shifting our time away from kind of processing and compliance-oriented activities toward planning and advisory work. We also expect to see some dramatic shifts downward in the amount of time that we all spend on gathering and wrangling data as well, as AI takes on that sort of work. I would tell you that many of my clients are very actively planning for this future, asking a lot of good questions about what their teams will need to look like in the future, what skills they are going to need, how they should be organized. For instance, to what degree are, shared service center type teams still going to be relevant for tax in the future? Are technology investments best made on kind of build versus buy approach? Are we building to insource compliance activities in the future, or are we thinking about buying technology, and AI-enabled processes through more of an outsourcing arrangement? And then also, you asked about data, and I expect we'll talk about data quite a bit more as we continue to move forward here, but certainly, when a tax team can access timely, consistent data across all of their entities and jurisdictions and systems. That is really what can power tax professionals to shift their attention away from just explaining what has happened to helping leaders really understand what might happen next, and how some of the choices that we have to make could affect things like tax positions, cash flow, and risk in our tax positions.

Carrie Falkenhayn: So, everything that you just described, Emily, sounds very exciting, but right, it all comes down to data. Ben, love to get your thoughts on what does trusted data mean and how can leaders really tell if their data is ready to support AI?

Benjamin Barudin: Yeah, thanks for the question, Carrie. Yeah, as Emily said, and in most of our conversations, a lot of this comes down to how ready is the tax function for AI based on the data quality and the data access that we all need? And so, I try to frame this a lot of times into two kind of big buckets supporting what we mean by a trusted data source. And I break it down between the source data systems we get from upstream, as we all know, tax is a major consumer, if not the largest consumer of data from the organization. And the good news there is that most of that, the data that we need from upstream, and when we're talking upstream, think accounting, FP&A, the business itself, or transactions master data, those types of points of data. Those are typically in our ERPs, or just a governed structured data source. But a lot of times, the issues around the tax need for that are the quality of that data and the access, as Emily laid out. The problem statement we deal with from tax on that systemized, structured data is mainly around access and data quality and fidelity. We solved that problem in a couple different ways, but in order for us to, again, unleash the power of AI, that data to be cleaned up, validated, normalized, made fit for purpose for the tax user. Bucket number one of what we have to do, and the solution for that is relatively systematic, right? We know what we can do, and I'm going to get into some of the techniques we do to help utilize AI to ready those data sets.

The second component, when we talk about governed and structured data, is direct tax, and that's a relatively overgeneralization, but it gets the point across. And the reason we break it down into direct tax is we, in the tax function, create, off of those data sources we get from our financial systems, we create several elements of data. Throughout our entire footprint, whether we're a global multinational or our state, transfer pricing. We have several disconnected, federated models, calculations, engines that do several things to that source data to create what we need for direct tax data.

The transformation of a book ledger to Schedule M1 is a good example. We now are the owner of that tax data that we have to create. All that has to be packaged consolidated and put back for purpose in order for us to get compliance or reporting out the door. In that exercise, we're dealing with a different type of problem. Now it's not about how much data we're dealing with, it's the complexity

of the data that we create within tax and then how federated and spread out across our organization that data becomes. Our job there is to really harness and figure out how to get all those unstructured, disconnected systems to get back together so that we aren't left in the position of trying to AI enable each individual tax process or our tax calculation engines, but we instead are using AI off of our centralized data systems. We have to think about leading with data versus leading with process and that's a little unique and new for the tax organization to get their head around, but that's where AI really thrives, is knowing that the data I'm feeding it can provide me outputs and results that I can rely on and use, whether that's just for analysis and insights, or through operational efficiencies. I need to know that I can trust the data that I'm using.

Carrie Falkenhayn: I love what you said there, using AI to make sure your data is ready to use AI, right? As a tool to make sure your data is ready for the use of AI. That is a great insight. Talk to me more about where you see AI and automation creating other meaningful values for tax teams.

Benjamin Barudin: Yeah, I'd love to. And we, again, break this down into what we think of a life cycle of data throughput. In the early days of AI, I'm sure you guys, the audience has heard of different use cases and looking for the perfect unicorn use case to find where we can deploy AI. And in all of those, you know, discussions that we've had and what the trends tell us. I break it down into, like, 4 major components of the process throughput of where AI gets used.

Bucket one is totally around data acquisition, meaning how do we get data into a process? Where do we get it from the source systems? Where do we get it from the field? But there's a lot of ways that we think about historic manual processes, or just very inefficient, full of abilities to have errors. And where AI is really componentizing where I can put solutions that can scale either much larger data sets, much quicker data access points, and again, just being able to do things around the clock, 24-7, and being able to get that data to me as a user of that data faster. Second big bucket that we've heard in all these themes is all around what we do to that data once we get it to make it fit for purpose. Whether that is reconciling it, normalizing it, validating that it's a full data set. Again, these were techniques that, in the manual effort component of it, took hours out of our process, didn't add a lot of value, where AI is creating a perfect solution where we can start with a good fit-for-purpose data set in order for us to start a tax process. The third major component where we're seeing a lot of it is around data analytics. This is where we talk about the insights, the ability to spin up dashboards with a natural prompt, the ability to make a story out of the data that we are either looking at or what we're creating. So, you know, these are the things that we used to have, like, 3 or 4 personas. One is the person who knew what they were wanting to get out of the data, second was the person who knew how to get access to it, and third was the person who could actually visualize it. Now that can all be done through a single persona using AI, where it's able to do all three of those components together. So, those are the three major components that we're seeing today. What I will say to the audience is what we're not seeing as much, but there is still a lot of exploration happening, is within the actual tax and data processing engines. So, think about the actual true grit calculation that we do as tax professionals. We say a lot of times this is AI-powered, human-led process of the future, and tax is a really good use case of why that's so important. The tax expertise, the human expertise of how we use some of these things that it can do much better than the human, but where we still see the human really leading the efforts is on the analytics and the know-how and those subject matter expertise that we do within an individual tax process. However, saying all that, I still think the power of where the tools will go will continue to augment our tax professionals of the future, where some of those complicated tax calculations will be augmented more and more through a governed data approach using AI capabilities.

Carrie Falkenhayn: This all sounds exciting and creating the opportunity for tax departments to give more valuable insights to their stakeholders, but Emily, I want your thoughts, right, on how, as a leader of a tax organization. How are you sure that you have the right transparency, that there's the right controls, and really that you can have confidence in the results, especially as things move so quickly?

Emily VanVleet: It's a very important question, and so Ben is appropriately emphasizing governance around the data, right? But governance and control over, kind of end-to-end, how we're using AI in our tax

processes is extremely important. We keep in mind that we should be using AI to augment our professional judgment and our professional expertise, right? AI is not going to replace human accountability, even as we are incorporating it into our day-to-day tax processes. And one clear example of why that's so important is that the IRS Office of Professional Responsibility has issued some guidance around this, right? Clarifying how existing professional standards under Circular 230 apply to the use of AI, and that guidance states very clearly that practitioners cannot rely solely on AI and remain themselves fully responsible for the accuracy of their work. So, while it is, you know, kind of intuitive, it also is becoming part of clear regulatory guidance, and we expect that regulatory guidance to continue to evolve and become more robust as well. So, you know, trust in a process, confidence in the outcomes and deliverables, all of that really comes from building governance into the way that we do the work. And so that means defining who owns the data, how is the data being used, how do we control access to that data testing outputs of the process against known examples, right? So doing some testing as we go. And then also really documenting assumptions, documenting some of our review procedures. Rooting exceptions that may be raised in the process to individuals that we know to be qualified reviewers. And periodically reassessing the tools that we're using, because things are going to change, right? Data changes, reporting requirements change, aspects of business operations change, and so we do have a responsibility to continually reassess what we're doing and make sure, through testing and review, that we're still getting the level of quality in deliverables that we expect just a couple more practical, suggestions, maybe. We can use prompt language that basically tells the AI tool to show me your work, right? In some situations, we're having AI develop Excel files that are part of the documentation, and that can allow for some good traceability through the data and calculations as well. But at the end of the day, there's just simply no replacement for the review and oversight of a knowledgeable tax professional. We also, in the realm of governance, need to be working with our teams to make sure that we are developing, kind of, new and modernized review skill sets, and we're thinking, you know, about how can we best perform an analytical review as well as a detailed review? Of the outputs from our process, what sorts of questions do we need to ask? To continue to challenge those outputs until we get comfortable that we are receiving a result that's accurate.

Carrie Falkenhayn: Well, that's absolutely, critical, so thank you for talking about that, and thank you to both of you for sharing insights on this important topic that, as we all think about what is the future of tax, the tax department, and what the data requirements are to make that all happen.

So, for our audience, if you'd like more information, I'd encourage you to go Deloitte.com and put in the words Future of Tax or Tax Technology Consulting. There's a myriad of resources there for you to learn more about this topic. You can also connect with Emily and with Ben directly via LinkedIn, and as always, we hope you continue to tune in here. I'm sure this is a topic we're going to continue to talk about. In the meantime, thank you all for listening, and until we speak again, be well, everyone! Take care.

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