Artificial intelligence and tax: What firms need to know
**Intro**

Artificial intelligence (AI) is changing the way we live and work, and the tax profession is no exception. For years, there’s been talk about AI and how this disruptive technology will reshape the future. And in some respects, that future is here. Consider, for example, self-driving cars, facial recognition tools, and digital assistants like Alexa and Google Home. But do you know where AI is taking the tax industry? Do you have a clear understanding of what AI is and what it’s not? Do you know what AI is good at or where it may fall short? If you answered “no” to any of those questions you’re not alone.

Research suggests that there’s a need for greater awareness and education of advanced technologies like AI throughout the accounting profession. Take, for instance, a survey by the Association of Chartered Certified Accountants (ACCA), which found that, when asked about their understanding of terms like AI or machine learning (ML), only 13% of respondents said they had a high or expert level of understanding. More than 60% had not heard of it or had heard the term but didn’t know what it was or had only a basic understanding.\(^1\) Clearly, this suggests a lot of potential for greater education and awareness.

To help tax professionals better understand AI, this white paper looks to help demystify this technology and take a closer look at its potential impact on the tax profession.

**AI defined**

One of the challenges is that there’s no agreed upon definition or industry standard as to what AI really means. So, what exactly is AI?

For starters, AI is not one “thing” but rather tools and techniques and systems of algorithms that perform particular tasks, attempting to replicate the way the human mind works. This, in turn, reduces manual human intervention on a variety of time-consuming tasks and functions.

“The idea is that it is attempting to create utilities and other digital assets, algorithms, that can ultimately achieve the same outcomes that a human might but in a programmatic fashion. Tackling the same sorts of tasks, in many cases, that one might have thought, historically, that takes a human brain to tackle, but now increasingly that sort of boundary is consistently being pushed forward in terms of what can be handled by AI instead,” explained by Jordan Kleinsmith, director of product for Onvio Advisory at Thomson Reuters.\(^2\)

Distinguishing what AI can or cannot do, and differentiating real-world applications from the world of science fiction, first requires an understanding of two key categories of AI — general AI and narrow AI\(^3\).

**General AI:** This is said to equal the human mind’s ability to function autonomously according to a wide set of stimuli (Think: R2-D2 and BB-8 in “Star Wars”) and, today, remains very much in the nascent stages.

**Narrow AI:** This is entering mainstream computing applications and is capable of performing only a limited set of predetermined functions (i.e., self-driving cars, facial recognition tools, and digital assistants like Alexa and Google Home).

Narrow AI is what most people experience today in the workplace and can be very powerful in tackling complicated problems previously thought to be surmounted only by humans. Despite this, it is important to keep in mind that AI is not designed to replace humans in the workforce.

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2 Kleinsmith, Jordan, phone interview, June 22, 2021
While it’s true the workforce is rapidly changing and routine tasks are increasingly being automated, AI is augmenting workflows and creating efficiencies. This is enabling people to focus on more value-add work rather than mundane, routine tasks.

In fact, the workforce has seen a rise in demand for human-centric skills like creativity, collaboration, persuasion, and emotional intelligence. These skills cannot be replicated by AI — at least not today, and not until data scientists achieve further breakthroughs in the field of General AI.

So, what can AI do and where does it fall short?

**What AI is good at:**
- Specific well-defined tasks
- Transforming data from one format to another
- Automating repetitive tasks
- Computing at high speed and scale
- Processing large amounts of information quickly

**What AI is not good at:**
- Adjusting to unseen/uncertain situations
- Gaining semantic understanding from text
- Interpreting nuanced language (e.g., legal documents)
- Providing clear and tailored guidance and advice

**What AI cannot do:**
- Human-centric soft skills like emotional intelligence, collaboration, and creativity
- Maintain and nurture client relationships

What does this all mean for the tax profession and how is AI transforming the way tax preparers work? Let’s take a closer look.

**AI and tax: A new frontier**

It is no secret that — in light of increased client demands, a complex regulatory and legislative landscape, and the commoditization of tax preparation — more firms are looking to drive greater efficiencies, improve workflows, provide higher-value services, and, ultimately, boost profitability. Leveraging AI can help firms achieve these goals.

AI may be newer territory for tax and accounting professionals but that is quickly changing. Now is the time to future-proof your firm by exploring and implementing the right innovative technologies.

In terms of tax and accounting and the role AI can play, it may be helpful to group it into two buckets: Optimizing operations and optimizing the top line. What does this mean?

When applying AI to optimize its operations, or improve the bottom line by eliminating expenses, a firm will examine its existing operations and look for opportunities to automate tasks and functions to drive greater efficiencies. For example, leveraging AI to automate decision making. Going forward, potential uses for AI could also include things like client scoring or client risk assessments.

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“I would argue that many times today accountants have a tendency to over-process their tax returns where they might have too many reviews performed, for instance; too many eyes on that tax return; and too many sets of billing rates that get applied to that tax return and, in many cases, needlessly. They don’t find any problems and just basically over-process that return for nothing, for no marginal improvement on the quality,” Kleinsmith said.\(^5\)

When applying AI to optimize its top line, or increase its gross revenues, a firm will look for new opportunities and then execute on those in a way the firm may not have been able to in the past. For example, examining compliance data in tax returns or trial balances to find advisory opportunities and ways to help clients optimize their position.

As a growing number of firms shift away from compliance-based work and rearview mirror accounting in favor of more forward-looking, higher-value advisory services, the need to proactively serve clients becomes increasingly important. AI can help firms achieve these goals.

“What I think we’re going to see ... is more by way of suggestions to the accountant based on that client’s tax return that gives them very concrete steps and projects, new engagements that they can kick off with their clients that help them optimize,” Kleinsmith said.\(^6\)

Leveraging AI to help identify advisory opportunities and new engagements differs from how many firms currently operate. Today, upon completing a tax filing, clients will likely have a debrief with their tax professional, who may provide them with some pieces of advice. The problem, however, is that too often preparers fail to use this as an opportunity to build up an engagement, get paid, and help the client take action on that advice.

In order to remain competitive, preparers need to become comfortable with identifying when a client is a good fit for an advisory engagement and how to correctly price that engagement. The good news is that AI can help.

“These are all areas that AI can help with: in terms of looking at prior advisory engagements and then comparing it to this client and figuring out what would be an appropriate price for this client, one you could quote and make sure that you’re not going to be underwater on this engagement and end up putting more work into this than it’s really worth, so de-risking the job at the same time, again by using AI to look at some of the attributes of the client,” Kleinsmith said.\(^7\)
Getting started

Wondering where to begin and how your tax practice can leverage AI? If so, it’s important to first remember that there is currently no truly AI-powered, off-the-shelf solution available that is designed specifically for tax and accounting professionals. Not yet.

Instead, firms should look for solution and technology providers who are both capitalized and mobilized to be able to take advantage of advanced technologies like AI.

Take, for instance, Thomson Reuters® Labs. This global reaching innovation arm of Thomson Reuters works collaboratively across the company’s core segments to identify, de-risk, and activate future-ready opportunities in AI, data sciences, and emerging technologies.

In fact, Thomson Reuters Lab’s AI functionality recently made its way into the cloud-native Onvio® platform, for example, as part of the Onvio Trial Balance.

“We now have a new AI-powered predictive tax code assignment engine when people are doing imports of their accounting data so that it can automatically suggest the most likely tax code,” said Kleinsmith. “We’ve been getting a lot of preliminary feedback from customers and they’re saying it is greatly reducing the amount of time that it takes for them to map and import data from their clients’ bookkeeping solutions.”

Another example is Checkpoint® Edge, the next generation of its Checkpoint research and guidance tool for tax and accounting professionals. Checkpoint Edge enables professionals to find fast, accurate answers with a more fluid and intuitive user experience by delivering the latest in AI, cognitive computing, and machine learning technologies — combined with the tax and accounting expertise of its editorial staff.

Conclusion

Artificial intelligence is here. It is increasingly changing the way we live and work, and the momentum shows no signs of slowing. In fact, tax professionals can expect to see additional AI capabilities come to fruition in the near term. And those who are early adopters will be the beneficiaries of those capabilities.

Now is the time to modernize your firm’s tech stack and seize the opportunity to explore how AI can transform your tax practice. A trusted solutions provider like Thomson Reuters can help.

K1 Analyzer: Thomson Reuters K-1 Analyzer software allows users to quickly extract and aggregate complex non-standard K-1 information so that it can be reviewed and analyzed. K-1 Analyzer provides a single, standard, structured output for managing K-1s that allows users to eliminate manual effort, so that they can spend time reviewing, analyzing, and gaining insights from their data.

Checkpoint Edge: Checkpoint Edge is the next generation of our Checkpoint research and guidance tool for tax and accounting professionals, trusted by 200,000 users. It delivers the latest in artificial intelligence, cognitive computing, and machine learning technologies, combined with the tax and accounting expertise of our editorial staff. It enables you to find fast, accurate answers with a more fluid and intuitive user experience.

Kleinsmith, Jordan, phone interview, June 22, 2021