



Easing the tax dispute burden with AI

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Artificial Intelligence (AI) could help businesses and their tax function handle increasing workloads more efficiently and effectively. More than nine in 10 businesses are hopeful that AI could have an impact on their tax dispute work.

In this research, 44% of businesses said they want AI to play a big role in improving the speed and quality of their tax dispute work (see Figure 1). A further 49% see a role for AI in particular niches of work – in analysing big data sets, for example.

For now, however, many businesses are at a relatively early stage in their deployment of new technologies such as AI in their tax functions. They have become adept, for example, at using new tools to track and manage workloads, but fewer functions have put technology to work to reduce those workloads.

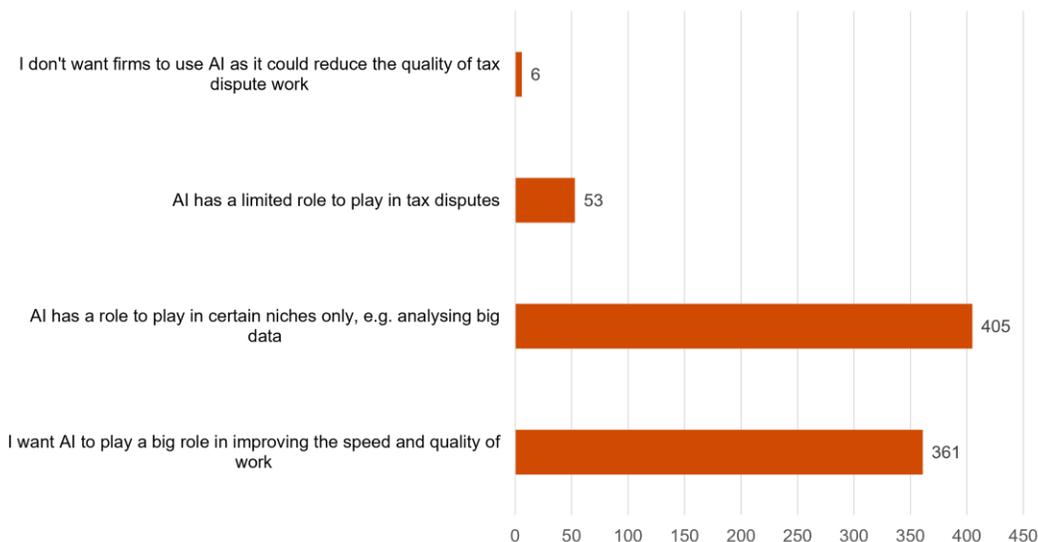
Still, there are good opportunities. Some businesses, for example, are experimenting with tools that automatically generate responses to the thousands of notices they receive from tax authorities; routine notices can be managed with little or no manual input, while more demanding notices are escalated, with the AI capabilities in the tools carrying out this triage process.

Elsewhere, AI could also prove useful as businesses disclose information to tax authorities, particularly in response to requests for large quantities of data – hundreds of thousands of emails, perhaps. Reviewing this data manually, to ensure the business knows exactly what information it is disclosing – and that there are no unexpected surprises – is time-consuming and expensive. AI tools could take on much of that work.

Indeed, AI could also enable businesses to be more proactive about identifying issues before they give rise to a tax inquiry or dispute. Tools that trawl through the company’s data to identify hidden problem areas or information gaps, for example, may enable the business to take remedial action at a much earlier stage.

Figure 1: The role of AI

To what extent do you want AI to impact tax dispute work?



Given these opportunities, why are some tax functions moving only slowly towards greater use of AI?

One challenge is certainly capacity. In many businesses, multiple functions are now competing for the resources required for technology deployment – both the cost of acquiring new tools and the support from the technology function – particularly in the case of AI. Tax professionals may find it difficult to secure those resources; they may also be struggling to decide which areas they should prioritise with technology investment.

A second problem is data quality. AI is more effective when applied to well-managed, accurate and complete datasets. Building those datasets, particularly at large organisations where data may be stuck in silos in multiple subsidiaries, territories and business units, often represents a daunting challenge.

The regulation of AI will also need to be managed carefully. In the European Union, for example, the new AI Act places significant restrictions on organisations in areas such as their use of large language models. Nevertheless, the opportunities of AI are too significant to ignore, particularly as tax dispute work becomes more onerous.

It is also important to recognise that tax authorities themselves are stepping up their use of new technology. A straw poll of authorities undertaken as part of this research found that authorities are using a mix of third-party and in-house AI tools as part of their work, as well as tools such as web crawlers that can analyse information available on the internet.

Some authorities have set out their intent publicly. In October 2024, for example, the US's Internal Revenue Service said it would begin using AI to select large partnerships for audit and that it is also piloting the AI tools to select earned income tax credit recipients for audit, though it has given little detail of the models and algorithms it will use.¹

Other tax authorities are no doubt working on similar initiatives. Indeed, the OECD's recent Forum on Tax Administration, held in Athens in November, focused specifically on the "opportunities and challenges of artificial intelligence". That included discussions of how tax authorities might share knowledge on the use of AI in order to encourage wider adoption.

Against this backdrop, tax functions that are too slow to adopt AI may be at risk of being outgunned by the technologies to which their tax authorities increasingly have access. Not only will they miss out on opportunities to drive faster and better quality tax work, but they could also find themselves under greater scrutiny because of tax authorities' use of AI.



¹ <https://www.taxnotes.com/featured-news/transparency-oversight-urged-irs-artificialintelligence/2024/10/21/7m6nv>

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