

Future perfect?

Paul Rosser charts the rise and rise of AI in the tax consultancy space

Like most advances in technology, people don't really pay much attention to them until there are practical applications that they can use to either make existing tasks easier, or to perform tasks they couldn't previously.

When I say people, I mean the general public. Engineers might get very excited about developing a way to allow high-speed internet connectivity via a copper wire phone cable, but people don't really care until they can use this new technology to stream their favourite movies via Netflix, making their weekly trek to Blockbuster video no longer necessary.

Paranoid android

When it comes to artificial intelligence (AI), this isn't a new concept – it's been around since at least the 1950s and has spawned all manner of sci-fi literature and movies. From evil terminators to paranoid androids with a brain the size of a planet, sci-fi has fully embraced the concept of AI and given us a multitude of ways it might be used for the benefit, or detriment, of humankind.

Until recently, outside of sci-fi, most people didn't give much consideration to AI. Suddenly, though, lots of software claims to be 'AI powered', people are using ChatGPT to generate social media posts, and there are lots of shock news stories about how AI will replace all of us in the workplace.

AI has gone mainstream, and the pace of its adoption shows no signs of slowing down, as the applications for this technology seem limitless.

What exactly is AI?

AI is quite a broad term and, put simply, it means creating computer systems capable of performing tasks that traditionally required human intelligence, such as learning, problem-solving and decision-making.

AI and tax consultancy

There are lots of ways AI could be, and is being, used in the tax consultancy space. From performing research to analysing and interpreting large sets of data, AI is already being widely adopted and used by lots of consultants as a way to make previously time-consuming task much quicker.

Whilst the use of AI technology by tax advisors has certainly made their lives easier, there are also some developers who are attempting to create more advanced AI technology, which aims to remove the need for a tax advisor all together.

The aim of this application of AI technology is that the system is provided with some inputs, text, audio, video, etc., much as a human tax advisor would be, and the AI system will analyse it all and provide the user with specific tax advice for them to follow.

There are, however, several potential issues with this application of AI. The first and most obvious one is liability should the AI advisor get it wrong and give incorrect advice. Of course, human advisors sometimes give out incorrect advice, but in those cases the taxpayer has a defence against penalties should HMRC try to issue one.

Where a human advisor has made a mistake, or worse deliberately misled their client, then FA 2007 Schedule 24 paragraph 18(3) confirms that a person shall not be liable to a penalty in respect of anything done by an agent, where the person took reasonable care to avoid the error. Generally, HMRC will accept that a taxpayer taking advice from an advisor they believed was qualified and reputable can be considered having taken reasonable care.

In the case of AI systems providing tax advice without a qualified advisor being involved, it's unlikely that HMRC would consider this the same as using a properly qualified and reputable tax advisor.

A similar conundrum existed in relation to autonomous vehicles and the Automated Vehicles (AV) Act came into force in 2024, which states that provided an automated vehicle achieves a level of safety equivalent to, or higher than, that of careful and competent human drivers, then if an at-fault accident occurs, it's the manufacturer who is liable and not the owner of the vehicle.

Whilst there is no general legislation which covers errors when AI is used outside of the AV market, it would perhaps make sense that if someone uses an AI powered tax advisor and there are inaccuracies that it's the software vendor who is liable and not the taxpayer – provided the AI system has been independently verified to give tax advice to the same standard as a reputable, qualified tax advisor.

Misuse of AI

Unfortunately, AI in the tax space can also be used to help facilitate fraud and we know in my field, R&D tax relief, that disreputable advisors have been using AI technology to help them prepare invalid R&D claims for their unsuspecting clients, in an attempt to make them appear to be valid should HMRC check them.

I asked Shilin Chen, founder of SmartClaim, an AI platform designed to assist with R&D claims, for her thoughts on the use of AI in the tax consultancy space, and she told me: "AI is transforming how R&D consultants operate, and there's no stopping that – it's only a matter of time before AI becomes as intrinsic to everyday work as Excel is today.

"However, it's important to keep in mind that AI can make mistakes. AI should never fabricate or insert information into a narrative. It should highlight gaps, not fill them."

When will AI take over?

There is much debate currently as to when AI might advance enough to be able to provide advice at the same level as a competent tax advisor – some say a few years, others believe it will be much longer.

However, in the same way accountants and tax advisors no longer have to scribble down numbers using a quill pen, AI shouldn't be seen as something to replace advisors, but as a tool which will allow them to focus on better relationships with their clients.

As Shilin puts it: "Most importantly, AI cannot replace the trust-based relationships between R&D consultants and their clients – that remains the most rewarding and complex part of an advisor's role."

So, for now at least, I would suggest advisors should be excited about all the new possibilities AI in the tax consultancy space offers.

- Paul Rosser is the founder of R&D Consulting Ltd