# AI transforms global tax enforcement as governments tighten compliance scrutiny



Artificial intelligence is redefining tax enforcement worldwide, with authorities such as HM Revenue & Customs (HMRC), the US Internal Revenue Service (IRS) and the Canada Revenue Agency (CRA) deploying AI tools to uncover fraud, underreporting and complex tax avoidance schemes on an unprecedented scale.

Governments are driven by the vast sums lost to tax evasion. AI’s ability to process enormous datasets allows agencies to spot discrepancies human auditors might miss—comparing spending habits against declared income, analysing unusual VAT or GST refund claims, and linking shell companies to their real owners. These capabilities are no longer experimental; they are now integral to enforcement.

For businesses, the new reality is one of reduced tolerance for error. Even small mistakes in payroll or expense classification can trigger AI alerts, while aggressive tax strategies once seen as defensible are increasingly flagged by automated risk analysis. A mid-sized e-commerce firm misreporting VAT on cross-border sales, for example, could now be identified in near real time rather than during lengthy manual audits.

Many organisations are responding by adopting AI themselves to enhance compliance—automating filings, digitising documentation and running predictive audits to pre-empt regulatory issues. Professional services firms are using AI to reconcile payroll and benefits data, automatically identifying potential errors before they become liabilities.

In the US, the IRS has embraced AI through initiatives such as CI-FIRST, which uses machine learning to accelerate financial crime investigations, and the Large Partnership Compliance programme, which targets high-value partnerships with assets exceeding $10 billion. These systems direct audit resources toward the most complex and opaque structures, marking a shift to intelligence-led enforcement.

Not all developments have been without controversy. Proposals such as the No AI Audits Act in the US seek to restrict automated investigations, citing privacy and due process concerns. In response, tax agencies are embedding governance frameworks into AI deployments, including transparency, privacy and oversight safeguards, to maintain public trust.

AI is also being used to improve taxpayer engagement. Chatbots and robotic process automation now handle common queries and reduce processing delays. In the UK, firms such as V7 Labs are helping automate tax correspondence across jurisdictions by classifying notices and generating expert-informed responses, cutting administrative burdens for businesses and advisors alike.

The global shift signals a fundamental change in how compliance is managed. AI is turning tax administration into a system of real-time transparency and accuracy. Businesses that embrace it as a compliance ally—not just a threat—can reduce risk, enhance efficiency and strengthen trust with regulators.

As governments refine AI-driven enforcement and oversight, the UK is well placed to lead in setting responsible standards—combining technological innovation with fairness, accountability and public confidence in the digital age of taxation.

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## Bibliography

1. <https://www.jdsupra.com/legalnews/ai-and-taxes-how-businesses-can-turn-9499728/> - Please view link - unable to able to access data
2. <https://www.reuters.com/technology/artificial-intelligence/us-irs-re-evaluate-modernization-investments-light-ai-technology-2025-03-14/> - In March 2025, the U.S. Internal Revenue Service (IRS) paused its technology modernization investments to reassess its approach in light of emerging artificial intelligence (AI) technologies. This review includes initiatives like the Direct File free filing system and considers potential workforce reductions of 20-25%. The evaluation aims to address challenges from integrating multiple technological solutions and achieving a modern operational state, with the 2025 tax filing season remaining unaffected. This marks a shift from the original $80 billion IRS funding from the 2022 Inflation Reduction Act, with Republicans targeting these investments. Recent upgrades included new scanning technology, AI chatbots, and initial replacements for outdated computer systems. The Biden administration had anticipated these improvements to generate significant revenue over a decade.
3. <https://apnews.com/article/342ea3261a0c62901b854fd29ecdc580> - In March 2025, the IRS Criminal Investigation (IRS-CI) announced the CI-FIRST program to modernize its response to financial crimes using technology and AI. The program aims to streamline subpoena requests, enhance data-sharing with banks, and accelerate investigations, particularly in detecting financial crimes linked to drug trafficking, human smuggling, and other illegal activities. Between 2022 and 2024, the IRS-CI reported recovering $21.1 billion in fraudulent assets and recouping $1.4 billion in restitution. The modernization efforts coincide with legislative discussions about raising reporting thresholds for financial transactions to reduce compliance burdens. Additionally, the IRS-CI has been requested by the Trump administration to support immigration enforcement efforts.
4. <https://www.govexec.com/oversight/2023/09/ai-part-new-era-irs-commissioner-says/390180/> - In September 2023, IRS Commissioner Danny Werfel announced the agency's deployment of artificial intelligence (AI) to identify complex tax evasion schemes and focus enforcement efforts on large partnerships. The IRS is expanding its Large Partnership Compliance program, launched in 2021, to cover more partnerships, including hedge funds, real estate investment partnerships, large law firms, and other industries. The agency plans to audit 75 large partnerships, each with assets over $10 billion on average, selected with the help of an AI tool. This initiative represents a 'new era' for the IRS, where investment in tools like AI aims to improve visibility on how the wealthy shield income and focus staff attention on areas of greatest abuse.
5. <https://www.govexec.com/management/2024/03/gop-bill-aims-limit-irs-use-ai/395070/> - In March 2024, a new House bill, the No AI Audits Act (HR 7694), was introduced to constrain the IRS's use of artificial intelligence in its enforcement efforts. The legislation aims to amend the tax code to require that any investigation be initiated by IRS staff, while limiting the agency's use of AI technology. The bill, cosponsored by Representatives Clay Higgins and Eric Burlison, could potentially disrupt the IRS's efforts to improve compliance practices by deploying emerging technology. The proposal reflects concerns about the balance between the power of AI and its implications for constitutional freedoms and national security.
6. <https://arxiv.org/abs/2509.16294> - A September 2025 survey titled 'Balancing Innovation and Oversight: AI in the U.S. Treasury and IRS' explores how the U.S. Department of Treasury, particularly the IRS, is adopting artificial intelligence (AI) to modernize tax administration. The survey highlights applications of AI for taxpayer support, operational efficiency, fraud detection, and audit optimization. Key initiatives include AI-powered chatbots, robotic process automation, machine learning for case selection, and advanced analytics for fraud prevention. These technologies aim to reduce errors, improve efficiency, and enhance taxpayer experiences. The IRS is also implementing governance measures to ensure responsible use of AI, including privacy safeguards, transparency initiatives, and oversight mechanisms.
7. <https://www.v7labs.com/go/agents/tax-authority-correspondence-agent> - V7 Labs offers an AI-powered agent designed to manage tax authority correspondence, supporting major global tax authorities, including the IRS (USA), HMRC (UK), and tax bodies across the European Union, Canada, and Australia. The system's knowledge base is continuously updated to handle new and modified notice templates. The agent operates on a sophisticated workflow that uses large language models to classify notice types based on text, codes, and structure. This classification is then mapped to an action plan from a knowledge base developed by tax experts, ensuring a best-practice response. The AI agent aims to automate the handling of tax notices, reducing the burden on tax professionals and improving compliance management.