HOW ARTIFICIAL INTELLIGENCE IS GOING TO EFFECT THE TAX PROFESSION

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September 2023

It's the new revolution

Table of Contents

HOW AI IS GOING TO EFFECT THE TAX PROFESSION

AI Definition

The term "Artificial Intelligence" (AI) can be defined in various ways, depending on the context in which it is used. At a high level, AI refers to the simulation of human intelligence in machines that are programmed to think, learn, and make decisions. These machines can be designed to carry out specific tasks or to adapt and solve problems.

In summary the types can be defined as follows.

- **Narrow AI**: Specialized in a single task, e.g., voice assistants.
- **General AI**: Theoretical, capable of any intellectual task a human can do.
- **Machine Learning**: AI subfield focused on data-driven decision-making.
- **Computational Intelligence**: AI subfield inspired by biological systems.
- **Natural Language Processing (NLP)**: AI for understanding and generating human language.

Machine Learning in Financial Forms

Machine learning in the context of processing financial forms or tax return numbers refers to the use of algorithms and statistical models to automatically analyse, interpret, and make decisions or predictions based on the numerical and categorical data contained in these forms.

- Error identification – scan and identify errors
- Fraud detection – assess likely hood by comparing to other data
- Audit selection
- Data entry automation – populate on 3rd party data received
- Optimization suggestions - improvements
- Trend analysis – analyse the whole market place
- Natural language processing of textual notes - ChatGPT

Use of AI by South African Revenue Service (SARS)

SARS employs algorithms for:

- Investigating tax returns
- Monitoring behaviour on their e-filing platform
- Flagging inconsistencies
- ***Back-office systems offer more privacy during tax preparation and SARS cannot see any manipulations on the tax return***
- The modern e-filing system "Pre-Population" feature automates certain fields but is not foolproof.

The South African Revenue Service (SARS) uses various algorithmic **(SAM)** and data analytics methods to enhance its tax administration. These algorithms assess whether a tax return should be investigated further based on multiple factors, such as VAT refund claims and the industry involved. For example, businesses in the metals sector may be flagged if they make large claims for refunds while avoiding Value Added Tax (VAT) on exports. This industry is an immediate red flag for SARS and will be investigated.

SARS also uses its e-filing platform to monitor taxpayers' and tax practitioners' behaviours, flagging suspicious activities for further investigation. Playing what if on the travel allowance will generate a request for a log book.

However, filing through a **back-office system** offers the advantage of less scrutiny during the preparatory stages of the tax return. SARS will only see the end result of the tax return when filed.

SARS in fact has analytics of each taxpayer and more importantly each tax practice. Are the filings on time or are they late. Check out your stats for last year! Also, how many penalties do your clients have, how many remissions have you asked for, how many corrections have you done, how many disputes going etc. etc. The numbers can be analysed into categories and the results could cause policies to change and practices to be targeted.

SARS tracks motor vehicle and property registrations against tax returns and relates them to tax returns.

AI tracking and analysis of all these aspects will highlight the weaknesses on tax filings and allow SARS to investigate further. Practises need systems to pre-empt this.

Auto Assessments

SARS has modernized its approach with features like **Pre-Population**, on all tax returns and the generation of **auto assessments** on lower income taxpayers with simple returns which automatically fill in certain fields on tax forms using data from third-party sources. While this feature enhances efficiency, it also comes with challenges like leaving out travel deductions on log books and out of pocket medical expenses. It also does not know about other non-employment income and income from side hustles which a large number of taxpayers tend to forget about. Currently there are many issues with this

Future AI Applications for SARS

SARS are doing many things now that fit in with the definition of AI, however I can assure you that the best (or worst) of AI from SARS is still to come.

The overarching theme is the transformative potential of AI in tax administration, compliance, and finance, while also highlighting the need for ethical considerations.

From an AI perspective, the large amount of data collected by SARS on the whole employment base (current and going back in time) presents several opportunities for improvements, such as predictive analytics for audits, fraud detection, behavioural analytics, resource allocation, and more. However, the key challenge lies in implementing these technologies securely, ethically, and with respect for privacy and of course taking into account the huge cost to implement.

Potential AI applications include:

- Predictive analytics for audits
- Fraud detection
- Behavioural analytics
- Personalized tax recommendations
- Resource allocation during tax seasons
- Automated customer service
- Regulatory compliance
- Macro-economic analysis.

High Net Worth Division

SARS has created a High Net Worth Division targeting taxpayers with a net worth of R50 million or more, requiring them to record their assets at market value as well as cost on their statement of assets and liabilities. Imagine how AI can assist;-

1. **Asset Valuation:** AI can predict and validate the market value of assets like real estate, shares, and other financial instruments.
2. **Compliance Checks:** AI can flag anomalies and identify non-compliance patterns, aiding in compliance enforcement.
3. **Audit Prediction:** AI can evaluate risk levels of each taxpayer and prioritize audit cases.
4. **Root Cause Analysis:** AI can understand underlying factors leading to compliance or non-compliance.
5. **Data Integration:** AI can cross-reference data from multiple sources to validate asset values. SARS claim they are already doing this.
6. **Tailored Recommendations:** AI can suggest targeted compliance or educational measures for high-net-worth individuals.
7. **Transparency:** AI can automate the reporting process to build trust and accountability.
8. **Decision Support:** AI can simulate different tax scenarios to aid in decision-making.

For actively tracking changes in the value of assets over time, SARS can:

1. Conduct portfolio analyses to monitor asset movement.
2. Detect liquidity events like asset sales or purchases that might have tax implications.
3. Regularly update the market value of real estate properties to track transactions triggering tax events.
4. Monitor share market transactions to estimate capital gains or losses.
5. Track increases in asset values due to dividends or interest as clues for additional taxable income.
6. Track overseas transfers.
7. With bank records SARS will be able to track the money movement.

The technology must be implemented carefully to address data security, privacy, and ethical considerations.

Do you believe that SARS has ethical considerations?

What Must The Profession Do

In response to SARS advanced use of AI for monitoring **high-net-worth individuals** (HNWI) and all taxpayers, tax professionals must evolve to stay effective. Once SARS have mastered this division they will move downwards to scrape up more income.

Practices must look at each aspect that SARS is looking at and build defence mechanisms to ensure that taxpayer clients comply.

Tax professionals can adopt several strategies:

1. **Embrace Technology**: Invest in analytical tools that simulate tax scenarios and automate documentation to match SARS' capabilities.
2. **Stay Informed**: Keep updated on regulatory changes and understand the basics of AI and data science to anticipate SARS' methods.
3. **Proactive Client Management**: Use analytics for risk assessment and help clients understand the value of their assets and the tax implications of various financial decisions.
4. **Ethical Practices**: Maintain transparency and ethical guidelines to build credibility and trust.
5. **Continuous Learning**: Engage in ongoing education and partnerships with tech firms to stay ahead like Accfin Software.

The goal is to level the playing field with SARS by adopting advanced analytical tools, staying current on regulations and technology, maintaining ethical standards, and committing to continuous learning. This will help tax professionals effectively counter SARS' technological advancements and continue to provide valuable counsel to their clients.

To adapt to SARS' use of AI in tax compliance, accounting firms must also incorporate AI-driven analytics into their practices. By building databases of historical assessments verifications, notices and audits AI can predict outcomes of the likelihood of an audit or query from SARS. The filing process can even be paused for an AI review, allowing practitioners to adjust submissions proactively making sure all the rules are met and the taxpayers are compliant. Given the rapid changes in South Africa's tax laws, AI can help firms stay updated in real-time, reducing the risk of non-compliance.

Very soon there will be AI systems that provide all the necessary information like **tax laws** and cases required to make navigating through the minefields of processes and procedures.

How will tax practices compete with SARS.

How will tax practices compete with SARS because that's what it's coming down to and place themselves in a position that does not invite queries. Each practice has to build systems in order to remain competitive and compete with SARS i.e. having a defence or blocking SARS total on a legal basis.

The complexity of creating such AI systems likely goes beyond the capabilities of small to medium sized firms. Therefore, software vendors who are the **most proactive** keep up with the changes and who already provide integrated back-office systems for the tax industry are best positioned to integrate AI functionalities into their back office systems.

Partnerships between tax practices and tech vendors are crucial for standardizing services and streamlining compliance industry-wide. This tech-enabled approach ensures accounting firms and their clients operate with the most current information, enhancing compliance and advisory quality.

Beneficial Ownership and Fic Situation

SARS are collecting the shareholder information in a data format, making it easier for them to trace Beneficial Ownership (BO) and ensure tax compliance. This is in contrast to the Companies and Intellectual Property Commission (CIPC), which is collecting information on shareholders in a less searchable PDF format, but are collecting beneficial ownership in data format. We believe that the CIPC have it all wrong. The implication is that SARS will be better equipped to track financial activities and links between entities, leading to increased tax compliance and less room for evasion or avoidance.

For tax practitioners, staying updated on these new regulations is crucial. They'll likely need to invest in advanced software to manage complex data, conduct thorough due diligence, and advise clients appropriately to ensure compliance.

Navigating the Data-Driven Landscape of Modern Auditing and Compliance

The Changing Regulatory Environment

SARS and other government agencies are utilizing AI to scan through a comprehensive tax base, identifying any inconsistencies that may point toward tax evasion or non-compliance. The comprehensive data at their disposal gives the regulators a distinct advantage over practices. The pressing question for Practices is: How can vendors like ours assist you in staying compliant, thus reduce the risk of challenging questions or penalties from authorities?

The Immediate Need for Data Integration within the practice

Would you believe that you already have all the **data in your practice**. Its just a question of providing it in a way that is can be utilised.

At the very least, accounting firms have to start **blending the data** across their different divisions, such as Tax and Company Secretarial, and eventually accounting records. Not doing so puts practices at a disadvantage, especially when stacked up against the advanced data capabilities of regulatory bodies like SARS.

The Basic Requirement for Practices

Practices, at the very least, must blend the data they have within their practices. This internal integration is the bare minimum requirement for maintaining a competitive edge and ensuring compliance in today's data-driven landscape.

Why Integration Matters

1. **Cross-Departmental Collaboration**: For accurate tax returns, seamless data sharing between Tax and Secretarial Departments is essential so that on a tax return all the shareholders are in place
2. **Annual Updates**: Shareholder information changes over time, and the Tax Department must be kept updated for accurate filings and unless the practice is running an integrated secretarial system this is a large amount of work.
3. **Groups**: Company groups must all be worked on simultaneously to ensure that everything fits.
4. **Groups and High Net Worth:** Integration of accounting systems to show movements so that everything is accounted for.

Compliance: The SARS & CIPC Angle

1. **SARS Checks**: SARS verifies your share register against data filed with the Companies and Intellectual Property Commission (CIPC). Inconsistencies can lead to complications in your capital gains assessments.
2. **CIPC Alignment**: Maintaining consistency between your records and the CIPC website is a mandatory compliance requirement.

FATF & Trusts

1. **Beneficial Ownership**: Per Financial Action Task Force (FATF) guidelines, data may need to go down to the beneficial owners, especially in complicated trust structures.
2. **Trust Complexity**: Managing trusts calls for understanding multiple layers of ownership and control. Proper data management is key to compliance.

The Solution: What Clients Can Expect

1. **Real-Time Updates**: Integrated systems remove the need for practices to update multiple departments saving duplications when there are changes in shareholder or ownership or accounting details.
2. **Automated Alerts**: We issue automated notifications across relevant departments when there's a change in shareholder or ownership information.

3. **Streamlined Compliance**: Our centralized approach to data management simplifies regulatory reporting, aiding in compliance with SARS, CIPC, and FATF guidelines.

By leveraging Accfin Sky Software's Integrated back off system your firm can pre-empt potential compliance issues, ensuring smoother interactions with regulators like SARS the CIPC, Masters and FIC. We are committed to helping you navigate this intricate and ever-changing regulatory landscape.

ACCFIN SKY

SARS Anti-Tax Evasion Measures:

Overview

Introduction

In response to the challenges of tax evasion and compliance, the South African Revenue Service (SARS) announced Vision 2024 about a year ago, a strategic roadmap aiming to fundamentally change the way tax works in the country. Among the proposed changes are the **elimination of provisional tax in favour of monthly payments** and the **implementation of various pre-population routines** as well as **monthly PAYE reconciliations**. While the adoption of these ambitious measures has been delayed, SARS remains committed to implementing them as part of its multi-faceted approach to improve tax collection and compliance and they will all eventually be implemented.

Monthly PAYE Filing EMP501 - Monthly Reconciliations

Objective

Improve the accuracy and timeliness of PAYE tax collection by implementing monthly PAYE reconciliations which have be done bi-annually. SARS estimates an annual loss of at least R500 million due to PAYE non-payment and fraudulent refunds on tax returns. They will be going into test phase soon and the system will be live from March 2025. Building this data is ideal for AI analytics.

Benefits

1. **Quick Detection of Irregularities**: Enables SARS to identify discrepancies more promptly and will take out the timing differences that taxpayers use from a cash flow point of view.
2. **Risk Assessment**: Helps SARS to better evaluate which entities pose a higher risk of non-compliance and to ensure that a PAYE claim on a tax return is valid.
3. **Deterrent Effect**: Regular scrutiny could discourage businesses from non-payment or fraudulent activities.
4. **Cash Flow Management**: Provides better insights into revenue flows.
5. **Data-Driven Policy**: Allows SARS to refine its policies and procedures based on frequent and accurate data.

IT3(T) - Trust Distributions

Objective

Combat tax evasion through trusts by requiring the uploading of trust distributions via the IT3(T) form. This has to be done by the end of May 2024 for the first time. A test system will be implemented soon.

It is well known that trusts are the least tax compliant return time, with virtually a third to half the trust population not filing tax returns. In fact no one really knows how many trusts there are.

Benefits

1. **Transparency**: Provides SARS with detailed information on trust distributions.
2. **Accountability**: Holds trusts responsible for the income they distribute.
3. **Data Integration**: Allows for the pre-population of distributions on trust tax returns and populates all the individuals properly.

IT3(D) - Charitable Donations

Objective

Reduce fraud related to charitable donations by introducing the IT3(D) form which requires NPOs to upload data in order to prepopulate returns.

Benefits

1. **Accuracy**: Ensures that charitable donations claimed are legitimate.
2. **Data Verification**: Enables SARS to easily verify the validity of donations.
3. **Fraud Prevention**: Makes fraudulent claims easier to detect as all tax returns are pre-populated.

Mandatory Data Upload from Accounting Vendors for VAT Returns

Current Practice

Right now, VAT returns are prepared from general ledgers and supported by source documents. The SARS algorithm then triggers verification processes and audits where required in terms of how their algorithm works.

Recent Developments

A meeting was held in January 2023, and a white paper has been released outlining the proposed changes and their implications.

Objective

Enforce standardization in VAT return filing by requiring accounting vendors to upload supporting data allowing SARS to cross reference input claims with output.

Implications

To comply with this new requirement, accounting software vendors will need to modify their systems to allow for the uploading of all source data, thereby incurring costs for these changes. Failure to adapt could limit their competitiveness in the market place.

Benefits

1. **Standardization**: Creates a uniform set of data for VAT returns.
2. **Enables Cross-Checking**: Enables cross-checking from one business's input claims to another's outputs.
3. **Audit Trails**: Establishes a digital paper trail to make detection of tax evasion or fraud easier.
4. **Analytics**: Allow SARS to build data and use AI for detection.

This document provides an overview of SARS' multi-pronged approach to improving tax collection and compliance.