Artificial intelligence and compliance with indirect taxes

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It's no secret that taxes in Brazil involve an enormous amount of bureaucracy, and that bureaucracy generates a significant volume of tax litigation in the country's courts. Brazilian companies are estimated to spend some BRL 180 billion per year on staff, systems and equipment used for tax calculation and reporting, not to mention the complexity of Brazil's tax legislation. Aside from the high tax burden, some 500,000 tax rules and regulations have been issued since the current Federal Constitution came into force in 1988[1].

The large number of tax reporting obligations often results in a considerable increase in companies' tax costs, either because they have to hire and train staff to comply with those obligations, or due to the risk of tax assessments and fines resulting from simple human error in filling out documents such as tax invoices (nota fiscal). The problem is even more severe in the case of the state value-added tax, ICMS (Imposto sobre a Circulação de Mercadorias e Serviços), since there are 27 different sets of legislation and tax procedures, one for each state plus the Federal District.

In recent years, however, artificial intelligence has emerged as a valuable tool for simplifying the process of calculating, monitoring and rectifying mistakes in indirect taxes remitted by companies, and an important ally in reducing the risk of challenges by the tax authorities.

Many companies have embraced AI solutions to increase operational efficiency and optimize workflows for their tax, accounting and financial personnel. Since the utilization of AI technology, standard tax transactions can become automated and streamlined. AI tools can also help to catch accounting errors by cross-referencing data.

AI applications like these offer numerous benefits for companies, such as a drastic reduction in the risk of tax assessments and human mistakes, lowered costs related to staff maintenance, training and fragmented technologies, and streamlined tax processes. Artificial intelligence also facilitates the work of tax professionals, freeing up their time to focus on complex, strategic transactions.

Tax authorities also use artificial intelligence in various aspects of their work, such as customs inspections conducted using the Machine Learning Customs Selection System, Sisam, which analyzes import compliance throughout Brazil. State tax authorities have access to ICMS taxpayers' tax records and use AI systems to check correct remittance of ICMS returns. As these examples, tax authorities have not been slow to adopt AI solutions, and the result is greater efficiency in tax processes.

Although AI can offer valuable solutions for companies' tax needs, use of the technology also presents challenges. Implementing AI solutions involves costs associated with organizing databases, training the AI application, and educating staff to use it.

Brazil's proposed tax reform, which will simplify the national tax system by replacing the patchwork of indirect taxes with a Goods and Services Tax (IBS) and a Goods and Services Social Contribution (CBS), does not mean that AI solutions will become less important. The transition to the new system could take up to 10 years, and even if a new bureaucracy does not grow around IBS and CBS, simplification of the tax system only favors automation.

NOTE

[1] Estudo: Quantidade de normas editadas no Brasil: 34 anos da Constituição Federal de 1988. Instituto Brasileiro de Planejamento e Tributação (IBPT). October 2022.