“Developing an Artificial Intelligence’s Tax Assistant in International Tax Avoidance Cases: The Case Study under the PPT”

Abstract

The avalanche of new anti-avoidance rules triggered by the BEPS’s project and its derivatives, such as the Anti-Tax Avoidance Directive (ATAD), which includes a minimum standard for addressing international tax avoidance by all Member States, and domestic anti-BEPS measures (e.g. diverted profits tax in the UK, Australia, and France), increases the complexity of tax laws, further exacerbating the difficulties with tax compliance and tax supervision. Such a high complexity may also decrease the effectiveness of anti-tax avoidance rules. But what if taxpayers, tax authorities, and courts could be supported in addressing international tax avoidance by artificial intelligence (AI)?

A self-learning tax avoidance algorithm (one and the same for all potential users) could be used to determine the result of application of various anti-tax avoidance rules without bias stemming from the ever-changing and vastly diverging fiscal agendas of different countries and jurisdictions. It would seem to be a particularly good approach to solving potential problems arising from the principal purpose test (PPT), especially since it could reach even further than the MLI (i.e. more than 78 countries and jurisdictions), such as protocols to many tax treaties have recently demonstrated. This reveals the global potential of using AI in treaty abuse cases covered by the PPT and would enhance the scalability of AI in that domain, something which is extremely rare in the area of law in general. The purpose of this study is thus to examine the reasons for and the possibility of developing and applying AI in international tax avoidance cases that are covered by the PPT – the AI tax treaty assistant (AITTA).

In practical terms, the author will address the following questions. Why is there a need of an AI tax treaty and is it suitable to applications of the PPT? How does an AI tax treaty assistant actually work in practice?