

## **AI applied to Indian Taxation: A solution in search of a problem?**

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Buzzwords such as AI (Artificial Intelligence) and more specifically ML (Machine Learning) have crept into the world of Indian taxation! Here is my perspective on the same.

Firstly, some background. What is all this noise about AI and ML? Artificial Intelligence (AI), and more specifically ML and its variants, represent the culmination of a number of progressive fronts: an incredible increase in processing power to allow “learning” algorithms to be practically applied on real-life data, the possibility of massive crowdsourced (parallel) processing because of the internet, a generation of theoretical and practical advances in the field by really smart people who have thronged to Computer Science since the 90’s. What this has resulted in is being able to apply more and more sophisticated learning algorithms in everyday life while also modularizing it to such an extent that your average Joe can use these with a few lines of code and feel not only fuzzy and warm about being intelligent but also get some immediate, tangible albeit simple benefits too.

The AI advances do seem to give rise to moments equivalent to when programming first appeared and routine tasks were able to be done so automatically by computers. So, the processing of huge amounts of data and detecting aberrations, or any kind of patterns for that matters, by algorithms which constantly loop in the feedback to self-improve is indeed fantastic. No doubt there is solid math and a sense of practicality to the entire field.

But all this is the academic perspective.

Real life and academics have very different incentives and implementations. In real “market-driven” life, there is a constant need for a new buzzword every few years for those who are stupid but with money to feel intelligent and for those who are in industry & profession to restart the money-train. Whether it be the VC’s, the educational institutions, the professionals, the media or the Government who want to show its progressive chops. The last two decades of the tech landscape are littered with examples such as y2k, dotcom boom, java, blockchain (which continues to survive like a cockroach!) and AI has fallen right into that. AI is expansive enough, ambiguous enough and has enough potential to keep talking, writing and teaching about it.

So, now everything has AI attached to it. Want funding? Have your startup end with .ai . Want to fill your course? Start a B.Tech Data Science degree. Want to publish in a conference? Use some libraries and run it on your custom dataset. Want to run a conference? Have an AI impact on taxation technical session in it. Remember it is no longer merely more efficient data processing, it is “AI” applied to your data. It isn’t running iterations to get a best fit, it is “Machine Learning” of your data.

Grudgingly I admit that as a result of all this crazy hype there are so many resources, human and otherwise, thrown at this field now that there is actual some progress (albeit few % compared to the leaps and bounds advertised).

Some semblance of sanity at least? But then to discuss Indian taxation and the “implications” AI, ML loses all semblance of sanity in my opinion and boggles one’s mind.

Indian taxation, specifically the Income Tax Act, itself is a well worn-out code hewed by the cat & mouse game of the Department on one side and reluctant taxpayers and eager accountants, lawyers on the other have played over decades. It is this much-appreciated intellectual jousting of financial flows that has led to this ever evolving and robust Act. So, the issue is not in the Act itself but its implementation. The implementation is deliberately skewed by the *human* factor for reasons outside the four walls of the Act. Target pressure on Department officials is a classic example wherein the Department’s Assessing Officers will be forced to come up with illogical disallowances justified by Rube Goldberg-like explanations and it will get litigated up and down at every level with a pound of flesh being extracted happily by the “professionals” of the taxpayer. For it is these professional firms, especially the bigger ones, who have maximum incentive to create a new source of attestation and litigation to keep the gravy train going. Everyone has an incentive here to milk this attestation and litigation cow except the taxpayer.

Fact is that any professional worth his salt who has dealt with the Department will know there are a thousand efficiencies or inefficiencies, reasons, pressures to arrive at a particular conclusion. And that the process once initiated is a long grind for the taxpayer to get out of. All these factors cannot be modelled as boundary conditions or variables in the neural network that easily for there must be logic (math) and human factors are anything but.

So, in my view, to unleash AI blindly on our taxation system is a solution in search of a problem. Do you want to use AI to prove that the Assessing Officer did not follow the earlier years or the Tribunals? Of course, he or she didn’t. Deliberately. The reasoning of course is that the “facts” are distinguishable. You see, in India the creativity is in coming up with answers to sustain not in solutions to end the problem.

I recently saw a demo of an online platform in which decisions made by a Judge were categorized by their AI system and the logic was that it would help understand how this particular Bench would be inclined to decide a matter. Firstly, it depends on the facts of each case (not to mention so *many* other factors! Say, arguments made, or not made, by the Counsel for one?) and secondly, these are practical issues best discussed with fellow Counsels and/or form part of common knowledge than rely on a possibly incorrect solution by AI! This is another classic example of solution in search of a problem.

So, should we be an eternal pessimist and throw in the towel and not use AI? Not at all. What needs to be done in my view is to first make ALL the data more structured (i.e., every Order passed right from Assessment, TP, CIT(A), DRP, ITAT, HC and SC) and generate a lot of useful metadata for each Order and make it all searchable, parseable. This would be an amazing achievement given the disparate systems in place at every forum as well as across the country and also the volume of legacy data (not to mention doing away with the egregious overuse of (image) scans for Orders uploaded to merely check the box of digitization!). Even with such messy data, sites like IndianKanoon.org have done

a fantastic job but are still limited in scope due to these constraints. Imagine what can be done if the homogenization effort comes from the Government authorities who are generating the data in the first place. Second step should be using this data for *audit* purposes by the Department and the public (via a limited API) would be a good idea. This would open a goldmine of data for processing and searching and coming to conclusions about.

But knowing the Department, this would be a double-edged sword for by using a better “understanding” of the processed data more assessments could be initiated which they feel had been left out in the first place! It is my sneaking suspicion that like most things Government, and all things Indian, there will be a way found out to use this new-fangled AI to cause more trouble to the taxpayer than less. In other words, subvert it to each party’s prejudices, for that is what we do best.

Setting aside the cynicism for a moment though we shouldn’t shy away from change as it is the only thing constant. In my firm opinion, we should adopt such a practical approach iteratively improving our existing system. Come to think of it, that is what AI and ML are all about isn’t it?

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*The Views in this article are the personal opinion of the author.*