ARTIFICIAL INTELLIGENCE (AI) AND BUSINESS LAW, AND IT'S IMPLICATIONS IN THE TAX ADMINISTRATION AND COLLECTION IN NIGERIA.

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Abstract

Artificial Intelligence (AI) is transforming the nature of almost everything which is connected to human life, they include, employment, economy, communication, warfare, privacy, security, ethics, healthcare and so on. Nigeria had been grappling with a very small tax base and there is need for an effective automation programmes which could greatly enhance the ability of the public sector to improve tax revenue collection. The knowledge of the potentials of Artificial Intelligence could lead the Relevant Tax Authorities to successfully use the AI to automate internal processes, improve taxpayer services and detect potential fraudulent returns through various applications. It is hoped that with an advanced data processing capacity enabled by Artificial Intelligence, AI, the tax agencies would conduct more efficient tax systems administration. This paper examined the introduction and use of advanced techniques in artificial intelligence, machine learning and machine-to-machine links in opening up new services option for tax revenue administration that allows for more compliance by design-style approaches. The paper specifically explores the increasingly trend for tax administrators to unlock the power of digital transformation. In carrying out this research, doctrinal methodology was employed and analytical approach used placing relevance on primary sources of law such as the Constitution of the Federal Republic of Nigeria, 1999 as amended, Finance Act, Federal Inland Revenue Service Establishment Act, 2007, other tax laws and Regulations, case laws and secondary sources such as text books of renowned scholars, Law journal articles and internet based sources. The research discovered that that the Federal Inland Revenue Services (FIRS) has already adopted the e-Tax portal, Tax pro max as latest effort at digitalizing tax administration in Nigeria which have yield positive results. The paper recommends for an urgent further amendment to the constitution and other tax related laws to accommodate the use of emerging technologies of AI for revenue service particularly the data on international tax evasion.

Keywords: Legal, Practice, Artificial Intelligence, Taxation, Education, digital.

1. Introduction

The legal landscape in Nigeria, like in many parts of the world, is undergoing significant transformation driven by the advent of digital technologies. Among these innovations, Artificial Intelligence (AI) has emerged as a powerful tool with the potential to revolutionize various aspects of legal practice, including the specialized field of taxation in business law.

This transformation is not just affecting how legal professionals conduct their work but also how legal education is structured to prepare the next generation of lawyers for a rapidly changing environment.[1] A new era that challenges the traditional notions and prompts that legal practitioner to re-imagine the boundaries of our profession. Legal education in Nigeria before now has traditionally focused on a comprehensive understanding of laws, legal reasoning and advocacy skills. Our society is fast becoming more and more dependent on systems using AI, hence legal practitioners must continuously acquire new skills and competencies such as data literacy, critical thinking and adopt new ways of working and collaborating with AI. The rise of AI and other advanced technologies is challenging this traditional approach, necessitating a curriculum that incorporates technological proficiency alongside legal expertise.[2]

As AI systems become more sophisticated, there is a growing need for legal professionals who are not only versed in the law but also in the technical aspects of AI. This dual knowledge is particularly crucial in complex fields like taxation, where AI can offer substantial benefits in managing and analyzing large data sets, ensuring compliance and improving decision-making processes.[3] The impact of AI on the taxation aspect of business law is profound. Taxation, a critical area of business law, involves the application and interpretation of intricate tax statutes and regulations that govern the financial obligations of individuals and corporations. The introduction of AI into this domain has the potential to enhance the efficiency and accuracy of tax-related legal services. For instance, AI can automate routine tasks such as tax form preparation, detect patterns of tax evasion and provide predictive analytics to forecast potential tax liabilities. These capabilities not only streamline the practice of tax law but also reduce the likelihood of human error, leading to more precise and reliable outcomes.

Moreover, AI's role in taxation extends to dispute resolution and litigation. With AI tools, legal professionals can quickly sift through vast amounts of data to identify relevant precedents and case law, which can significantly expedite the resolution of tax disputes. This is particularly beneficial in a legal system like Nigeria's, where delays in the judicial process are common. AI can also assist in the interpretation of complex tax laws, providing insights that might not be immediately apparent to human practitioners.[4] The integration of AI into legal practice and/ or education in Nigeria is not without challenges. There are significant concerns regarding the ethical implications of AI, particularly in terms of data privacy, algorithmic bias and the potential for job displacement within the legal profession. Furthermore, the regulatory framework in Nigeria is still catching up with the rapid pace of technological advancement, raising questions about how AI should be governed within the legal sector. It is also correct that we are yet to see its evolution in long term, whether it is leading humanity towards making this planet a better place to live or a place which is full of disaster.[5] Every technology has its

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[1] A.Z Adamov, 'Machine Learning and Advanced Analytics in Tax Fraud Detection; https://www.res earch gate. net/p rofile/Abzet din - Adamov/publication/339093129_Machine_Learning_and_Advanced_Analytics_in_Tax_ accessed 20thAugust,2024

[2] V Chand, S Kostic,& A Reis. ' Taxing Artificial Intelligence and Robots: Critical Assessment of Potential Policy Solutions andRecommendations for Alternative Approaches-Sovereign Measure: Education Taxes/Global Measure: Global Education Tax or Planetary' World Tax Journal (2020) 34 (4) 711-761

[3] Ibid

[4] ibid

[5] KSGalal, ArtificialIntelligence:BoonorBane.Academia.edu,https://www.academia.edu.Accessedon 25/8/2024

advantages and disadvantages but advantages always outweigh disadvantages for the technology to survive in the market.

This paper seeks to explore the role and impact of AI on legal education and practice in Nigeria and with a specific focus on the taxation aspect of business law. It examines the current state of legal education in Nigeria, the ways in which AI is being integrated into legal practice and the implications of these developments for the future of both the legal profession and the business community. Through this analysis, the paper aims to provide a comprehensive understanding of how AI is shaping the field of taxation in business law and to propose strategies for effectively incorporating AI into legal education and practice in Nigeria as
technology will continue to be a major instrument which influences legal education and legal practice in Nigeria and all over the world.

2 BasicConcepts

With regards to Legal Education and Practice in Nigeria: The Role and Impact of Artificial Intelligence on the Taxation aspect of Business Law, the following concepts are worthy of consideration:

2.1 Meaning of Tax

Tax spans over a wide gamut of human activity and is essentially aimed at providing the requisite revenue for the socio-economic development of a nation. There has been no universally accepted definition of tax even though it has been variously defined both judicially and by various authors. The functional and essential nature of tax influenced its definition. The word tax is derived from the Latin word tax, which literally means "I estimate" is to impose a financial charge or other levy upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law.[6]

The Black's Law Dictionary defined the term as most broadly to embraces all governmental impositions on the persons, property, privileged, occupations and enjoyment of the people and it includes all duties, imports and exercises.[7] It is a monetary charge imposed by the government on persons, entities, transactions or property to yield public revenue. Tax is a pecuniary burden laid upon individuals or persons or property to support the government which is exacted by legislative authority.[8] The Federal Inland Revenue Service (Establishment) Act,[9]
defined tax for the purposes of the Act to include any duty, levy or revenue accruable to the government in full or part under the Act, the laws listed in the First Schedule to the Act or any other enactment or law.

In *Matthews v Chicory Marketing Board*,[10] a tax is compulsory exaction of money by public authority for public purposes. Justice Latham of the Australian Supreme Court further stated that tax is a compulsory exaction of money by a public authority for public purposes or taxation

[6] E Matts, 'Tax' http://en.wikipedia.org/wiki/Taxaxion accessed 20th August, 2024

[7] B A Garner(ed)*Black's Law Dictionary*(10th edition, USA,ThomsonReuters,StPaul M N, 2014)1688.

[8] I A Ayua, *Nigerian Tax Law* (Ibadan: Spectrum's Law Publishing, (1996) 9

[9] FIRS(E) Act, 2007, s. 69.

[10] (1938) 60 CLR 263 at 276

is raising money for the purposes of government by means of contributions from individual persons.[11] In *United States v. Butter*, the United States of America Supreme Court rightly opined in 1936 that a tax in the general understanding of the term and as used in the constitution signifies an exaction for the support of government. The word has never been thought to connote the expropriation of money from one group for the benefit of another.[12] Tax is also a pecuniary burden laid upon individuals or property to support the government and is a payment
exacted by legislative authority.[13] In *Fargo v.Wetz*[14], the court stated that tax is any payment exacted by the state or its municipal subdivisions as a contribution towards the cost of maintaining governmental functions where the special benefit derived from their performance is merged in the general benefits. Tax therefore is not a voluntary payment or donation but an enforced contribution, exacted pursuant to legislative authority.[15] It is a legislative demand by government and mandatory for a citizen who has attained taxable age to pay.[16] Tax is therefore seen as a pecuniary burden laid upon individuals or property to support government, a payment exacted by legislative authority or a compulsory contribution to the support of government levied on persons, property, income, commodities , transactions and others.[17]

From the above definitions of tax, it could be deduced that for a charge to qualify as a tax, it must have the following characteristics;

1. it is an imposition by government,
2. it is compulsory,
3. it must have legislative backing and
4. It is for the support of the government.

From the basic characteristics of tax as stated above, it is clear that it is only the government with legislative backing that has power to impose tax.

2.2 Artificial Intelligence

Artificial intelligence is a high-tech science form of information technology used to simulate, extend and surpass human intelligence. It has been widely employed in areas such as finance, medical care, transportation, e-commerce and tax collection. Artificial intelligence came about through automation and it is explained to be a machine's ability to perform tasks that would demand human intelligence or behaviour. The examples of such tasks are the ability to learn, understanding human speech, making good conjectures and an ability to verbalise objectives.[18]

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[11] Supra.

[12] 297 U.S.I (1936) at 61.

[13] Re Mytinger D.C. Tax, 31 F. Supp 977., M.N. Umenweke, *Tax Law and its Implications for Foreign Investments in Nigeria*, (Enugu, Nolix Educational Publications, , 2008) P.6

5ALR 731

[15] *Michigan Employment Commission v. Patt*, 4 Mich. App. 224, 144 N.W.

[16] Tax Law; Analytical Approach on Double Taxation in Nigeria, available at http/www.lawprojectfame uk. blogspot. Com/2010/09/taxlaw-analytical approach-on-double. html (accessed on August 21, 2024),

[17] AB. Ahmed, Residence and payment Establishment issues in Nigeria taxation in *AETA Tax journal of Nigeria*,2012, Vol.1at97

[18] IGI Global. 'Artificial Intelligence' https://www.igi-global.com/dictionary/artificial-intelligence/1511 accessed 20th August, 2024

Artificial intelligence may assist tax administrators by reducing the costs involved in the traditional tax process. This may be done by reducing the lengthy process and use of complicated paperwork used in tax collection. Tax authorities may rely on the aid of AI to assist in analyzing the volumes of data provided by taxpayers when filing tax returns. The application of AI in the field of taxation brings to realization the premise of tax compliance. AI technology enhances the work of tax authorities and enhances taxpayers' trust in the tax system.

This improves on tax compliance by reducing tax evasion which results in increased tax collection.[19]

2.3 Legal Education and Practice.

Nigeria legal Education and practice became regulated from 1962 by the Council of Legal Education[20] and Legal Practitioners Act.[21] A person entitled in accordance with the provisions of the Legal Practitioners Act to practice as a barrister or as a barrister and solicitor, either generally or for the purpose of any particular office or proceeding. The education of a lawyer starts properly at the university. Faculties of law are to be found in the universities. The legal education in Nigeria involves the teaching of substantive law courses handled by faculties of

law and teaching of procedural law handled by Nigeria law school.

The legal education of lawyers does not and should not end after admission into the profession but should as provided by the Rules of Professional Conduct for legal practitioners which requires the NBA to publish a list (Annual Practicing list) of legal practitioners who have complied with the requirements of the CPD programme (in addition to payment of practicing fees) and are therefore entitled to practice as legal practitioners in that year.[22]

Law teachers must have both the basic intelligence and learning to enable them impart knowledge to their students. This followed the query of Justice Ngwuta JSC in *Unijos v Ikegwuoha*[23] that how could a panel inflicted on the university a lecturer who had no writing and/or communication skill in English language to teach. The bane of the system in the country today is that there are a lot of square pegs put in round holes. Law teachers need to regularly improve their teaching skills to remain relevant as the world we live today is changing and one of the key drivers of the expeditious change is Artificial Intelligence, AI. This has become imperative as Nigeria legal Industry seems unprepared for the impending transformation. The is not farfetched as aside from legal industry conservative nature, majority in the industry perceive AI as a doomsday which will lead to a job loss or possibly upset the status quo. In this automation age, lawyers without requisite skills will be pushed out of the way.

3. Legal Framework for the application of AI in Tax matters.

Artificial Intelligence (AI) and its derivatives are rapidly becoming integral to the global economy, including in Nigeria and of a special importance is the applicability in the

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[19] ibid

[20] See Legal Education (Consolidation ETC)Act, 1962

[21] Cap L11 LFN, 2004, s. 24

[22] RPC, 2007, Rule 11 and 12

[23] (2013) 9 NWLR (PT. 1360)478

administration and collection of tax. The regulatory framework in Nigeria, particularly concerning taxation, has been slow to adapt to these technological advancements. This review examines the existing tax laws in Nigeria, their applicability to AI and related technologies, and the challenges and opportunities in regulating this emerging sector.

3.1. Constitution of the Federal Republic of Nigeria, 1999 as amended: The Nigerian Constitution is the supreme law that delineates the powers of the federal and state governments, including taxation powers. Section 24(F) mandates every citizen as a matter of duty to declare his income honestly to appropriate and lawful agencies and pay his tax promptly.[24] By this provision, the Relevant Tax Authority is enabled to fashion out regulations to ensure compliance to the letters of the law. Tax compliance as a result of avoidance and evasion has been a major issue affecting the efficiency in tax administration and collection. There is need therefore to develop regulations that will help to automate the process for the data needed to achieve efficiency.

3.2. Finance Acts.[25] The various Finance Acts introduced significant changes to the existing tax laws and regulatory framework, aiming to foster economic growth, enhance fiscal stability and promote sustainable development. It is important to recall that the Finance Act[26] introduced amendment to the Federal Inland Revenue Service (Establishment) Act[27]granting FIRS powers to deploy technology or third party payment processing Companies (PPC) or digital platforms as agents to collect taxes due on international transactions in the supply of digital services.

3.3. Federal Inland Revenue Service (FIRS) Establishment Act, 2007: This Act establishes the FIRS as the primary tax authority in Nigeria, responsible for assessing, collecting, and accounting for taxes. The FIRS has the mandate to oversee tax matters including corporate taxes, VAT and customs duties on maritime activities. FIRS by its Act[28] amendment by the Finance Act, 2020, introduced electronic platforms such as the Integrated Tax Administration System (ITAS) and Tax pro-max platforms. With the advanced data processing capacity enabled by Artificial Intelligence, AI, tax agencies can conduct more efficient tax systems.

3.4. **Companies Income Act (CITA)**

The Companies Income Tax Act (CITA)[29] is a primary legislation governing the taxation of corporate entities in Nigeria. Under CITA, companies are taxed on their profits at a rate of 30% (or 20% for small companies with a turnover of less than NGN 100 million).[30] However, while CITA provides a broad framework for taxing corporate income, it does not contain specific provisions for income derived from Artificial Intelligence (AI) development or AI-driven services.

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[24] Constitution of the Federal Republic of Nigeria 1999, as amended, s. 24(f)

[25] Finance Acts, 2019, 2020, 2021, 2022, 2023 & 2024 in Nigeria.

[26] Finance Act, 2020, ss. 51& 52

[27] FIRS(E)Act, 2007,ss 25(3)(5) and 26(1)(e) as amended by Finance Act, 2020

[28] Ibid.

[29] Companies Income Tax Act, 2007

[30] Finance Act,

The Act[31] defines the scope of taxable profits to include profits from trade, business or investments. This section would apply to AI-related income, but it does not differentiate between traditional business models and those based on digital or AI technologies.[32] The Act[33] lists exemptions from CIT, but these do not specifically address AI-related activities.[34] The Act[35] requires companies to file annual tax returns. Companies involved in AI would file returns based on their total income, including AI-derived revenues, but the lack of specific guidance on AI income leaves room for interpretation and potential disputes.[36]

This gap in CITA creates uncertainty, particularly for companies whose primary revenue streams come from AI-driven software, services or products. For example, a company that generates income through AI-based analytics services or AI-driven software-as-a-service (SaaS) offerings might struggle to determine the appropriate tax treatment for these revenues under the current law. Without specific guidelines, tax authorities and companies might have differing interpretations, leading to potential conflicts and a need for legal clarifications.

3.5 PersonalIncomeTaxAct (PITA)

The Personal Income Tax Act (PITA)[37] governs the taxation of individuals, including those earning income from employment, trade or other sources. PITA applies to income earned by individuals involved in AI-related activities, such as software development, data analysis, AI consulting and freelancing. The applicable tax rates are progressive, ranging from 7% to 24%,[38] depending on the individual's income level.

Section 3(1) of the act defines taxable income as income from any trade, business, profession, or vocation. This broad definition encompasses income from AI-related activities but lacks specific references to digital or AI-driven work.[39] Section 33 provides for personal relief and allowances, which apply to income from AI-related activities but do not distinguish between traditional and digital or AI-based sources. The Act[40] mandates that individuals file tax returns annually, from all sources of income. For those involved in AI, the returns would include income from AI services, though the absence of specific AI-related guidelines could lead to inconsistent tax treatment.[41]

The lack of specificity in PITA regarding AI income means that individuals in the AI sector may face challenges in determining their tax obligations. For instance, a freelancer developing AI algorithms for international clients might find it unclear whether certain tax deductions

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[31] CITA, 2007, s.9(1)
[32] ibid.
[33] CITA, 2007, s. 23(1)
[34] ibid
[35] ibid, s.55
[36] ibid
[37] Personal Income Tax Act (PITA), 2011
[38] PITA, the 5th schedule.
[39] ibid.
[40] ibid, s. 41
[41] ibid

apply to income earned digitally. Moreover, without clear guidelines, there could be inconsistencies in how different tax authorities within Nigeria treat similar AI-related income.

3.6 ValueAdded Tax(VAT)

The Value Added Tax (VAT) Act,[42] as amended by the Finance Act 2020, expanded the scope of VAT to include digital services provided by non-resident companies to Nigerian customers. The VAT rate is 7.5% and this change aims at capture revenues from the growing digital economy, including AI-driven services.

The Act[43] defines taxable goods and services the Finance Act 2020 extended this to include "digital services," which can encompass AI-driven services such as cloud computing, AI-based data analytics and AI-generated content. The Act[44] imposes VAT on goods and services imported into Nigeria, which could apply to AI services provided by non-resident companies.[45]

In *Vodacom Business Nigeria Limited (Vodacom) v Federal Inland Revenue Service*[46] the Court of Appeal, held that the supply of satellite bandwidth capacities from an NRC to Vodacom (a Nigeria based company) is subject to Value Added Tax in Nigeria. Section 46 includes definitions, where "digital services" are broadly defined, potentially covering AI-driven digital services, although there is still ambiguity about the specifics of AI services.

Despite these expansions, the application of VAT to AI-related services remains complex. For example, if a Nigerian company subscribes to an AI-powered SaaS platform hosted abroad, it is liable for VAT on that service. However, the exact nature of AI services—whether they are productized or part of a broader service offering—can complicate the VAT treatment. Additionally, cross-border transactions involving AI pose challenges in determining the location of the supply, leading to potential issues with double taxation or non-taxation at all.

3.7 Capital Gains Tax Act

The Capital Gains Tax Act[47] imposes a 10% tax on profits from the disposal of chargeable assets, which can include intellectual property (IP) such as patents, trademarks and proprietary software. This tax applies to the sale or transfer of AI-related IP, but the valuation of such assets for tax purposes is challenging due to their intangible nature.

The Act[48] defines chargeable gains as those arising from the sale of assets, including IP. AI-related IP, such as algorithms or software, would be subject to CGT when sold. The Act[49] outlines exemptions, but these do not specifically address AI or digital IP. The Act[50] rules on

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[42] Value Added Tax Act, 2007
[43] VATA, 2007,s. 2.
[44] Ibid, s. 10
[45] *Vodacom Business Nigeria Limited(Vodacom) v Federal Inland Revenue Service* (2019)
[46] Supra,

[47] Capital Gains Tax Act(CGTA) cap. C1, LFN, 2004
[48] CGT Act, ibid, s. 2.
[49] ibid, s. 4
[50] Ibid, s. 10

the computation of gains, which can be complex for AI-related IP due to difficulties in asset valuation.

Valuing AI-related IP for CGT purposes is particularly problematic. AI technologies often involve complex, evolving algorithms and datasets that do not have clear market equivalents. This complexity makes it difficult to determine a fair market value, potentially leading to disputes between taxpayers and tax authorities over the correct tax liability.

3.8 Industrial Development (Income Tax Relief) Act

The Industrial Development (Income Tax Relief) Act[51] provides tax holidays and other incentives to companies involved in industries deemed to be "pioneering." While AI development could theoretically fall under this category, the Act does not explicitly recognize AI as a pioneering activity, leading to uncertainty for companies seeking to benefit from these incentives.

The Act[52] allows the President to designate certain industries as "pioneer industries," which can receive tax relief. While technology companies have benefited, there is no explicit inclusion of AI development. The Act[53] outlines the duration and extent of the tax holiday, which could apply to AI companies if they are recognized as part of a pioneering industry. The extension of the relief period, subject to certain conditions is provided, but AI companies could potentially apply for such extensions if their industry status is clarified.

Without explicit recognition of AI as a pioneering activity, companies investing in AI research and development may be hesitant to rely on these incentives. This uncertainty can discourage investment in AI, particularly from startups and smaller companies that would benefit most from tax relief during their early stages of development.

4.0 Impacts of Artificial Intelligence (AI) and its Implications on Taxation

Artificial Intelligence (AI) is reshaping various sectors globally and taxation is no exception. The integration of AI into both the economy and the administrative processes of tax authorities present significant opportunities and challenges. This section explores the multifaceted impacts of AI on taxation, highlighting both the positive transformations and the complex implications that arise from the adoption of AI technologies.

4.1.1Impact of AI on TaxAdministration

AI is increasingly being used by tax authorities worldwide to enhance the efficiency, accuracy, and effectiveness of tax administration. This shift has several key impacts:

a. **Enhanced Data Analysis and Fraud Detection**: AI can process vast amounts of data at speeds far beyond human capability, making it a powerful tool for tax authorities. Machine learning algorithms can analyze patterns in tax returns and financial

[51] Cap. 17LFN, 2004
[52] Ibid, s. 1
[53] Ibid, s. 3

transactions to detect anomalies indicative of tax evasion or fraud. This leads to more effective enforcement of tax laws and increases tax compliance.[54]

b. **Automated Tax Filing and Processing**: AI can automate routine tasks such as tax return processing, reducing the administrative burden on both taxpayers and tax authorities. Automated systems can handle a large volume of tax filings, verify the accuracy of reported information and flag discrepancies for further review. This reduces

c. errors and speeds up the overall tax filing process.

Improved Predictive Analytics: AI-driven predictive analytics can forecast tax revenue based on economic trends, helping governments plan their budgets more effectively. By analyzing historical data and current economic indicators, AI can provide insights into future tax revenue streams, allowing for more accurate financial

d. planning and resource allocation.[55]

Personalized Taxpayer Assistance: AI-powered chatbots and virtual assistants can provide personalized assistance to taxpayers, answering questions about tax obligations, filing procedures, and available deductions. This improves taxpayer experience and ensures that more individuals and businesses comply with tax laws.

4.1.2 Impact of AI on the Tax Base

AI's transformative effects on the economy can lead to significant changes in the tax base:

a. **Shift in Taxable Activities**: AI-driven automation in industries such as manufacturing, logistics, and services can lead to job displacement and changes in the structure of the economy. As traditional jobs are automated, there may be a shift away from income tax as a primary source of revenue. This necessitates a reevaluation of tax policies to ensure that the tax base remains robust in the face of economic transformation.[56]

b. **Emergence of New Business Models**: AI enables the creation of new business models, particularly in the digital economy, where companies can generate significant revenue through intangible assets such as algorithms, data, and software.[57] Traditional tax laws may not fully capture the value generated by these intangible assets, leading to potential erosion of the tax base. This challenges governments to develop tax policies that effectively tax digital and AI-driven businesses.

c. **Globalization and Cross-Border Transactions**: AI facilitates globalization by enabling companies to operate across borders with ease.[58] This raises complex issues in determining where value is created and where profits should be taxed. The current international tax framework, which relies heavily on physical presence, may be

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[54] S Zheng & A Trott. 'The AI Economist: Taxation policy design via two-level deep multiagent reinforcement learning' Science Advances Journal [2022] 34 (7)

[56] ibid

A Nirwana,, Sudarmiatin, & Melany. 'Implementation of Artificial Intelligence in Digital Marketing Development: a Thematic Review and Practical Exploration' Journal of Accounting for Sustainable Society (JASS) [2023] 23 (3) 1-9.

[57] Ibid.

[58] I Koina, Revotionizing Cross Boarder Transfers: The Role of AI in streaming Global Transctions, https://www.weforum.org.

inadequate for taxing AI-driven cross-border activities. This can result in profit shifting and base erosion, where multinational companies use AI to minimize their tax liabilities by shifting profits to low-tax jurisdictions.[59]

4.1.3 Implications of AI for Tax Policy

The rise of AI presents several critical implications for tax policy:

a. **Need for New Tax Models**: Traditional tax models, which are largely based on tangible assets and physical presence, may not be well-suited to an AI-driven economy. There is a growing need for new tax models that can effectively capture the value generated by AI technologies, such as taxes on data usage, digital transactions, or even robotic automation (sometimes referred to as a "robot tax"). Policymakers must consider how to balance the promotion of innovation with the need to maintain a sustainable tax base.[60]

b. **Complexity in Tax Compliance**: As businesses adopt AI, the complexity of tax compliance may increase. AI-driven businesses often operate with complex supply chains, multiple jurisdictions, and intangible assets, making it difficult to determine the appropriate tax treatment. This requires tax authorities to enhance their capabilities in understanding and assessing AI-related activities, which may involve significant investments in technology and training.

c. **Ethical and Privacy Concerns**: The use of AI in tax administration raises ethical and privacy concerns, particularly regarding the collection and use of taxpayer data. AI systems rely on vast amounts of data to function effectively, but this can lead to concerns about data security, algorithmic bias, and the potential misuse of personal information. Policymakers must ensure that tax authorities use AI responsibly, with appropriate safeguards to protect taxpayer rights.[61]

d. **International Coordination**: Given the global nature of AI-driven businesses, there is a growing need for international coordination on tax policies. Countries must work together to develop consistent and fair rules for taxing AI-related income, particularly in the context of cross-border transactions. Initiatives such as the OECD's Base Erosion and Profit Shifting (BEPS) project are crucial in this regard, but more work is needed to address the specific challenges posed by AI.

4.1.4 Opportunities for Tax Reform

AI also presents opportunities for tax reform, particularly in addressing long-standing issues in the tax system:

a. **Broadening the Tax Base**: AI can help broaden the tax base by enabling more effective taxation of the digital economy and reducing opportunities for tax evasion. By

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[59] [60] ibid
MC Asalam, 'Taxing the Digital Economy in IMF' https://www.elibrary.imf.org/view/book/9781513511771/ch010.xml accessed 20th August, 2024

[61] ibid

accurately tracking and analyzing economic activities, AI can help identify previously untaxed income and bring it into the tax net.

b. **Efficiency in Tax Collection**: The automation of tax processes through AI can lead to significant efficiencies in tax collection. This not only reduces administrative costs for tax authorities but also minimizes compliance costs for taxpayers. Streamlined tax collection processes can lead to higher compliance rates and increased tax revenue.

c. **Innovation-Friendly Tax Policies**: Governments can use AI as an opportunity to rethink their tax policies in ways that promote innovation. For example, providing targeted tax incentives for AI research and development can encourage investment in AI technologies, helping to drive economic growth while ensuring that the benefits of AI are widely shared.

4.1. 5. **Towards a shift in the Legal paradigm of the future**.

The legal Education and practice today is on the blink of a shift in legal paradigm where many features of the legal service and process today will be displaced by a new way of legal life underpinned by a fresh set of basic assumptions about the law and lawyers.[62] It is important that lawyers will engage and prepare for an information technology enabled platform for delivery of legal service. This means that the evolution of society and commerce would force a shift which will happen and make us emerge from the traditional way of thinking to the fully fledged information technology based society. The hindering technology lag that had hitherto created a digital divide between technologically advanced and the less technologically societies would be bridged. The same would be seen for the divide in use of technology between professions and legal systems across several jurisdictions.

Ajogwu[63] posits that the legal paradigm shift according to Susskind will see us transit from advisory to informative service. This means that information and communications technology will enable and encourage legal service to change from being a form of advisory service to a type of informative service. He further stated that without lawyers preparing themselves for the task ahead, a major source of competitive advantage will be lost on the lawyer as a service provider.

4.2 Artificial Intelligence for the Improvement of Tax Collection and Administration.

The development of artificial intelligence offers tax professionals tools such as forecasting, clustering and a virtual support system that provide convenience and improve efficiency. Artificial intelligence can be used in the tax administration process to eliminate repetitive tedious tasks such as processing documents and reviewing filed returns to identify correctness and to identify errors resulting in non-compliance. This will then alleviate pressure on tax administrators to focus on analyzing the identified transactions, instead of sifting through information. Artificially intelligent robots are able to assist tax authorities in detecting errors,

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[62] F Ajogwu, Legal Education and legal profession-A Reality Check, being a paper presented at 50th Anniversary of the Nigerian Law School / Council of legal Education on july 25th 2014, https://fabianajogwu.com accessed on 23/8/2024.

[63] Ibid,

classifying accounts and transactions, assessing and identifying tax audit risks, and increasingly proposing tax strategies within the framework of complex global laws.[64]

KPMG, one of the prestigious accounting firms, launched the "Tax Service", an intelligence tax product that assists Chinese companies to solve automated tax compliance problems. China is one of the countries with a complex tax system that has frequent policy changes. The omission of tax information during the tax declaration process could result in serious tax risks and consequences.[65] The use of the "Tax Service" aids in avoiding these risks by its ability to conform to policy requirements in the declaration process. Additionally, the "Tax Service" product can perform automatic preparation of VAT and corporate income tax returns, as well as local additional tax calculation tables, trend analysis, and the timely detection of potential errors, risks, or abnormal conditions. Governments are promoting the use of AI to drive the collection of taxes by increasing flexibility for taxpayers through chatbots and virtual voice assistance. The Singapore Inland Revenue Service (IRAS) uses "Joanna", a chatbot used to answer queries from taxpayers.[66] Joanna is also able to automatically identify application forms for tax authorities, discriminate between tax rates in different forms applicable to tax authorities, and assist taxpayers to accurately fill in and track service requests.
The application of AI technologies improves tax inspection and efficiently evaluates and reduces tax risk. It can also be attributed to the improvement of tax collection and administration. AI also has the ability to optimise the allocation of manpower and resources.

4.3ChallengesandRisks on AIandits impactsonTaxation

While AI offers many benefits, it also presents significant challenges and risks for taxation:

a. **JobDisplacement and Income Inequality** : The automation of jobs through AI could lead to significant job displacement, particularly in sectors like manufacturing and services. This could reduce income tax revenues and exacerbate income inequality, creating social and economic challenges.[67] Tax policy must address these issues, potentially through redistributive measures or the introduction of new forms of taxation.

b. **Legal and Regulatory Uncertainty**: The rapid pace of AI development often outstrips the ability of tax laws and regulations to keep up. This creates legal uncertainty for businesses and tax authorities alike, potentially leading to disputes and inefficiencies in the tax system. Continuous monitoring and adaptation of tax laws are necessary to address this uncertainty.

c. **Cybersecurity Risks**: The reliance on AI and digital systems in tax administration increases the risk of cybersecurity threats.[68] Tax authorities must invest in robust

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[64] Z Hugag, 'Discussion on the Development of Artificial Intelligence in Nigeria'https://www.scirp.org/journal/paperinformation?paperid=86895 accessed 20th August, 2024
ibid

[66] See StartFree Trial–Singapore#1whatsAppChatbothtt://www.wati.ioaccessedon 22/8/2024

[67] R J Kovacev, A Taxing Dilema: Robot Taxes and the challenges of Effective Taxation of AI, Automtion and Robotics in the fourth Industrial Revolution, *The Contemporary Tax Journal* vol.29 No 2 2020.

[68] Cybersecurity risks to artificial intelligence-GOV.UK, Europian Union Agency for Cybersecurity.,2020, 2023. Attackers can exploit vulnerabilities to gain unauthorized access, steal sensitive data or impersonate legitimate users, leading to data breaches and unauthorized system changes.

cybersecurity measures to protect sensitive taxpayer data and ensure the integrity of AI-driven tax systems.

5.0Conclusion

The integration of Artificial Intelligence (AI) into the taxation aspect of business law is ushering in profound changes, reshaping both the way businesses operate and how tax systems function. AI's capacity to analyze vast datasets, automate complex processes, and enhance decision-making is revolutionizing tax administration and compliance. These advancements offer significant benefits, including improved accuracy in tax filings, enhanced detection of tax evasion, and streamlined operations for both taxpayers and tax authorities. However, the rapid evolution of AI also presents challenges, particularly in the areas of regulatory adaptation, valuation of AI-related intangible assets, and the need for updated legal frameworks that can adequately address the complexities introduced by AI technologies.

The current tax laws in many jurisdictions, including Nigeria, are not fully equipped to handle the unique characteristics of AI and its derivatives. This gap creates uncertainty in the taxation of AI-driven businesses and income, potentially leading to inconsistent tax treatment and challenges in enforcement. Moreover, AI's impact on the broader economy, including job displacement and the emergence of new business models, requires a reevaluation of existing tax policies to ensure that they remain effective and equitable in a rapidly changing economic landscape.

5.1 Recommendations

To address the challenges and harness the opportunities presented by AI in the taxation aspect of business law, there is the need to understand the process of AI development while it is adjustable, becoming aware of issues arising and actively taking part in designing the future with policies and informed future planning. This will help in creating a legal framework in order to avoid all the consequences and make sure no harm is done to the society and in turn to humanity. Such a legal framework is becoming a need as AI development is rapidly moving on its way and the following recommendations are proposed:

1. **Develop AI-Specific Tax Legislation**:
    - ○ Governments should consider enacting legislation that specifically addresses the taxation of AI-related income, digital services, and intangible assets. This includes clear guidelines on how to tax revenues generated from AI-driven businesses and the valuation of AI-related intellectual property.
    - ○ Such legislation should also consider the unique characteristics of AI, including its reliance on data and the global nature of AI-driven businesses, to ensure that tax laws are comprehensive and relevant.
2. **Update and Clarify Existing Tax Frameworks**:
    - ○ Amend existing tax laws, such as the Federal Inland Revenue Service (Establishment) Act, Companies Income Tax Act (CITA) and the Value Added Tax (VAT) Act, to explicitly include provisions that address AI and digital economy activities. This will reduce uncertainty and provide clearer guidance for both taxpayers and tax authorities.

- Implement clear rules for the application of VAT to AI-driven services, especially those provided by non-resident companies, to ensure consistent and fair taxation across borders or international taxation.

3. **Enhance Capacity and Infrastructure for Tax Authorities**:
   - Invest in the technological infrastructure and training of tax officials to equip them with the necessary skills to effectively monitor, assess and tax AI-driven activities. This includes adopting AI tools within tax authorities to improve data analysis, fraud detection and compliance monitoring.
   - Strengthen cybersecurity measures to protect sensitive taxpayer data and ensure the integrity of AI-driven tax systems.
4. **Promote International Cooperation on AI Taxation**:
   - Engage in international discussions and adopt international tax frameworks, such as those led by the OECD, to develop consistent global standards for taxing AI and the digital economy. This cooperation will help address the challenges of cross-border transactions and prevent issues such as profit shifting and tax base erosion.

   - Advocate for the inclusion of AI-related considerations in existing and future international tax treaties to ensure that AI-driven businesses are taxed fairly and appropriately.
5. **Foster Innovation-Friendly Tax Policies**:
   - Introduce targeted tax incentives for AI research and development to encourage innovation and investment in AI technologies. These incentives could include tax credits, tax holidays for AI startups and reduced tax rates for businesses that adopt AI to enhance productivity.
   - Ensure that tax policies balance the need to promote technological innovation with the imperative to maintain a sustainable and fair tax base.
6. **Address Social and Economic Implications**:
   - Consider the broader social and economic impacts of AI, particularly in terms of job displacement and income inequality. Tax policies should be designed to mitigate these effects, potentially through redistributive measures or the introduction of new forms of taxation, such as a "robot tax" on AI-driven automation.

   - Implement policies that support workforce retraining and education to prepare workers for the changing job landscape in an AI-driven economy.

By proactively addressing these areas, governments can ensure that their tax systems are well-equipped to handle the challenges and opportunities presented by AI, ultimately fostering a more equitable, efficient, and innovative economic environment.