



TAXPAYERS'
FEDERATION
— OF ILLINOIS —

AI in SALT

September 30, 2026

Speakers



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Learning Objectives

- Distinguish between AI, automation, and deterministic tax software, and recognize the strengths and limitations of each.
- Identify where AI can support the sales tax compliance lifecycle.
- Evaluate the risks associated with AI-assisted sales tax activities.
- Assess how AI use may affect practitioner responsibilities
- Apply best practices for incorporating AI into sales tax workflows while maintaining appropriate human oversight and review.



Paths to Adoption

- The right starting point depends on the organization's goals, risks, and readiness
- Path One: Provide access to an approved AI tool
 - Employees explore applications within their existing roles
 - Benefits emerge organically but may vary by user
 - Best suited for discovery and building familiarity
- Path Two: Target a specific workflow
 - AI is applied to a defined process or business need
 - Results can be measured through efficiency, accuracy, and reduced rework
 - Best suited for scalable, long-term adoption



How AI Is Reshaping Sales Tax Compliance

- AI is increasingly embedded in the tools, platforms, and workflows used in sales tax compliance and advisory work.
 - It learns from patterns in data and applies learnings to new situations
 - Processes large volumes of information quickly
 - Identifies patterns across datasets
 - Summarizes and structures data
- AI can assist, but it cannot own conclusions. It's important to remember that AI does not change professional responsibility
- Professionals who understand how to guide, review, and apply AI-supported outputs are better equipped in their careers.



AI, Automation, and Tax Engines Are Not the Same

- Deterministic tax engines remain better for rate calculation, jurisdiction assignment, and repeatable rule-based tax decisions.
- AI is better suited for summarizing, issue-spotting, testing at scale, documentation, and anomaly detection.
- Selecting the right AI tool requires familiarity with available options and understanding how those options apply to the task at hand, as well as the risks associated
- Evaluation Criteria: Intelligence, latency, speed, cost-efficiency



AI Agents and Secure AI Environments

- AI agents combine LLM intelligence with ability to act using tools
- Tools serve as the agent's “hands,” enabling actions and multi-step processes across connected systems.
- Agents can be linked together to complete more complex workflows.
- Environment matters: Public AI tools may increase data confidentiality risks, while enterprise platforms typically offer stronger controls.
- Establish governance for data use, user access, review requirements, and avoid entering personal or sensitive information.



Using AI Ethically

- Always assume you are handling highly sensitive company or client information
 - Understand your provider's data policy
 - Prefer secure deployments
 - Redact and anonymize
 - Monitor and audit
 - Consider enterprise plans
- Develop a clear company policy that entire business aligns with



How Tax Authorities Use AI

- IRS leverages AI for audit selection, fraud detection, document search, case summarization, and taxpayer services
- AI allows states to focus enforcement on narrow, high-risk taxability issues instead of broad industry audits.
- Third-party vendors are using AI and automation to help states identify businesses likely to be collecting tax incorrectly
- Automated test purchases can be used to compare expected tax outcomes against actual tax collected and identify potential compliance errors
- Product mapping and taxability errors can be detected more quickly when AI reviews transaction patterns across large populations of sellers



Moving from Possible to Practical

- Choose the technology that best fits the task – not every process improvement requires AI
- Understand the maturity of the application
 - Demonstration: Shows what may be technically possible
 - Pilot: Tests the application in a limited, controlled setting
 - Production: Integrates a proven application into ongoing workflows
- Evaluate AI based on what is operational today, not what is theoretically possible



Assessment and Discovery

- AI excels at reviewing large volumes of company information to identify:
 - Nexus triggers
 - Marketplace activity
 - Gaps in documentation, such as exemption certificates or incomplete customer data
- It can summarize business activities, product lines, customer types, sales channels, and geographic footprint
- Helps organize discovery and prepare risk summaries
- AI does not know relevant business facts unless they are provided accurately and completely
 - The bad data trap
 - Example: AI flags potential nexus thresholds but may not recognize exempt transactions or state-specific nuances that affect registration obligations.



Contracting and Engagement

- AI can support the drafting and planning stages of an engagement.
 - Generates first drafts of engagement language and AI-use disclosures
 - Compares contract provisions across clients to identify inconsistencies
- Determine whether clients should be notified of AI use or given an opportunity to opt out.
- Set expectations for how AI will be used during the engagement.
- Establish who owns the final review and conclusions.



Managing Responsibilities

- Client agreements should clearly address confidentiality and data handling.
- Review procedures should reflect how AI-assisted work will be validated.
- Enterprise tools may offer stronger safeguards, but users still need to understand their limitations.
- Questions involving ethics, professional judgment, or client reliance require human involvement.
- AI does not change the practitioner's standard of care or responsibility for the final work product.



Taxability & Compliance Analysis

- One of the best use cases for AI is as a research assistant and additional safeguard to spot issues early. It can efficiently:
 - Summarize state taxability guidance and regulations
 - Compare how states treat similar products, services, and exemptions
 - Flag items for further review
- It cannot serve as a final authority on taxability
 - Can't reliably distinguish between subtle state-specific rules
 - Hallucinations in legal research
 - Making final calls on ambiguous taxability issues



Exemption Certificate Management

- AI can identify missing, expired, incomplete, or inconsistent exemption certificates across customer records.
 - It can also assist with certificate review by comparing form fields, customer data, exemption reasons, and state-specific documentation requirements.
 - AI may help research whether certain customer types or transactions are likely to qualify for exemption, supporting outreach and follow-up.
- Some states require sellers to verify information beyond simply accepting a certificate, making human review essential.



Tax Engine & Solution Design

- AI excels at investigating solutions and preparing for transition
 - Organizes business requirements for engine implementation
 - Compares current-state and future-state compliance workflows
 - Creates import file templates or structured data files for configuration
- Identifying where tax engine design may need special treatment
 - Exemptions or industry-specific rules
 - Customer types
 - Sourcing
 - Bundled items
- AI cannot currently replace deterministic tax software for rate calculation or jurisdiction assignment



Tax Engine Implementation

- When it comes to the tax engine, AI is best at implementation documentation and tasks like mapping analysis
 - Converts taxability decisions into structure configuration documentation
 - Drafts mapping files, import templates, rule summaries, and implementation notes
 - Reviews product catalogs and supporting product mapping
 - Creates training materials or internal guides for implementation teams
- Humans still own the configuration decisions



The Downstream Effects of Bad Data

- Even small product mapping errors can create large compliance and audit risks
- AI can help classify products at scale, but it relies on product descriptions, attributes, and naming conventions provided by the business
 - If a sock company names product colors "Chocolate," "Caramel," or "Strawberry," AI may incorrectly associate those items with food-related categories rather than apparel
 - Incorrect classification can lead to products being mapped to the wrong taxability code, causing tax to be over-collected or under-collected across multiple states
- Once inaccurate product mappings are loaded into a tax engine, the error can affect calculations, testing results, return filings, audit documentation, and more unseen risks.



Testing & Validation

- AI's strength lies in scale and root-cause analysis
 - Expands testing beyond small transaction samples
 - Examines expected tax results to actual tax engine outputs
 - Prioritizes high-risk items for human review
- If expected result is flawed, AI may reinforce the wrong conclusions. It cannot:
 - Replace deterministic calculation testing.
 - Know whether the expected result is right if the test data is wrong.
 - Resolve disputed or ambiguous taxability outcomes.
 - Certify that the system is ready for go live.



Staff Development & Training

- The benefits of AI for training
 - Creating training materials, checklists, job aides, FAQs, and process guides
 - Supporting role-based training
 - Generating realistic practice scenarios
 - Helping new team members summarize internal documentation
- The cons? Overreliance can weaken staff development and increase the burden of manager review
 - Can't replace foundational tax training
 - Mentorship, manager review, and hands-on exposure is still paramount



Go Live

- AI can support readiness and early monitoring, but go-live decisions require human accountability.
- Use it to manage documentation, summarize open issues and unresolves risk areas, support communication, and monitor/triage post-go-live problems



Compliance Operations

- AI may make compliance teams more efficient, but it can also create false confidence if outputs are not reviewed
 - Assists with return filing workflows by organizing data, identifying missing information, and flagging unusual variances
 - Supports reconciliation between tax engine data, invoicing systems, ERP data, and balance sheet accounts
 - Drafts filing summaries, issue summaries, and detailed workpapers



Notice Management

- AI can review notices, identify key issues, and summarize requests from taxing authorities; can also categorize by risk level
- Drafts response outlines and gathers supporting compliance documentation
- Identifies patterns across multiple notices that may indicate broader compliance issues
- Keep the human in the loop because notice handling often requires facts, judgement, and communication with taxing authorities



Ongoing Maintenance & Audit Defense

- Compliance requires a combination of AI, deterministic software, documented procedures, and human review.
- Develop list of procedures to build around the tax collection and filing process; determine procedures AI can take first pass on
 - Monthly reconciliation between invoicing and tax collection software, trends and variances
- Use AI to run analytics over large datasets in audit (e.g., to help flag issues)
- How does AI impact a state's willingness to waive penalties?
 - Will the standard of "reasonable cause" change with the use of AI?
- Nexus studies / VDA
 - How can AI streamline nexus studies and determinations?
 - Does AI eliminate the need for personalization in registration / VDAs?



Best Practices

- AI does not change professional responsibility – practitioners remain responsible for conclusions
- Define clear objectives and use high quality data
- Prioritize privacy protections and incorporate ethical considerations
- Start with pilot projects to ensure you can play for deployments & scalability.
- Invest in training along the way so all teams understand usage
- Address AI hallucinations
- Maintain an AI inventory





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