

AI, Tax Risk, and Professional Judgment: Why Automation Alone Can Increase IRS Exposure

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By The Guillen Pujol CPAs Newsroom

Among the CFOs, business owners, and executives we work with every day, it is common to hear that AI-enabled accounting automation is seen as an effective way to reduce IRS audit risk. The assumption is intuitive and, on its face, reasonable. Yet today's regulatory and technological landscape reveals a more complex reality; when applied without professional judgment, automation can overlook material tax risks and, in some cases, increase exposure in an IRS audit.

This modernization is not limited to the private sector. In parallel, the U.S. tax authority has made substantial investments in data analytics to strengthen enforcement and risk-prioritization processes. Institutional reports from the [Taxpayer Advocate Service](#) confirm the IRS's shift toward increasingly analytical and predictive models, significantly raising the sophistication of its case-selection and segmentation systems—and, with it, the level of scrutiny faced by businesses relying on automated compliance without the oversight of experienced global CPA firms.

The point of friction is structural. Accounting automation is designed to maximize efficiency, data consistency, and speed. IRS risk models, by contrast, are built to identify anomalies, inconsistencies, and patterns that warrant closer scrutiny. When these objectives intersect without a layer of professional judgment, the outcome can be the opposite of what companies intend.

When automation is reduced to “organizing” numbers without a deeper strategic tax assessment, a business may present information that is technically sound yet vulnerable from a defense perspective in an IRS audit.

Where Automation Begins to Fall Short

AI tools process large volumes of data efficiently, exactly as designed. The limitation is not computational power, but the scope of analysis.

In practice, [tax risk rarely arises from obvious technical errors](#). More often, it emerges in situations where automation processes data correctly, but the resulting tax position has not been evaluated for substantive tax soundness, audit defensibility, or alignment with the company's operational reality.

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Below are three recurring scenarios in which AI-driven automation requires enhanced oversight.

When the Numbers Reconcile, but the Tax Reality Does Not

Automated systems validate expenses and deductions based on logical rules and numerical consistency. If an asset is recorded, an expense fits predefined parameters, and basic documentation exists, the transaction is approved.

Risk arises when this algorithmic validation is mistaken for tax validation. Certain expenses—such as vehicles, travel, or mixed-use assets—require qualitative judgment that goes beyond the numbers “adding up.” Concepts like exclusive use, proportionality, and direct business purpose cannot always be inferred from structured data alone.

From the system’s perspective, the expense is valid because a receipt exists. From the regulator’s perspective, it may be disallowed if its business purpose is not clearly substantiated. In these cases, automation can produce a position that appears orderly in the financial statements but lacks the conceptual support needed to withstand a detailed review. What the system treats as efficiency, an IRS auditor may view as insufficient justification or weak documentation.

When Automation Cross-Matches Data Without Context

Modern [compliance tools rely on systematic matching across multiple data sources](#)—reported income, third-party reports, informational returns, and data from disparate systems. This approach enables large-scale detection of discrepancies with remarkable efficiency.

A clear example is the IRS’s Automated Underreporter (AUR) program, whose operating framework (IRM 4.19.2) reflects a now fully digital process for identifying and managing discrepancies.

The effectiveness of these systems, however, depends heavily on how information is initially recorded, classified, and processed. In practice, non-standard formats, hybrid documentation, manual adjustments, or incomplete system integrations can cause data to be misinterpreted or excluded from automated analysis.

These issues rarely surface as immediate operational errors. Instead, they become silent discrepancies that later emerge as review triggers. The system does not determine the cause or explain the discrepancy—it

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simply flags it. That absence of context is precisely what can turn a minor variance into unnecessary and potentially costly scrutiny.

When the Structure Is International, but the Logic Remains Local

For companies with operations outside the United States or owners across multiple jurisdictions, automation introduces an additional layer of complexity. Most compliance tools are built around a single regulatory framework and function optimally within that context, but they do not always capture the nuances of cross-border structures.

Mid-year changes in tax residency, multinational entity structures, or the proper application of tax treaties require decisions that extend beyond preconfigured system rules. The same number can carry different tax implications depending on jurisdiction and timing.

In these situations, the objective is no longer merely to reconcile numbers, but to prevent incomplete interpretations from becoming structural tax issues. Misclassified or incomplete international reporting often demands extensive, coordinated review efforts that cannot be resolved through isolated corrections—and that frequently attract heightened scrutiny from tax authorities.

For this reason, in international structures, AI-driven automation must be supported by a strategic, holistic perspective rather than confined to the mechanical processing of individual data points.

Responsibility Cannot Be Automated

When tax risk is examined more closely, one critical distinction is often underestimated; using an AI-enabled tool is not the same as assuming professional responsibility for the outcome.

Accounting platforms perform precisely as designed, but that design has clear limits. Software does not evaluate the legal consequences of a decision, nor does it stand behind it. Responsibility ultimately rests with those who define the strategy and submit the information.

This is where professional guidance becomes decisive. Working with a specialized CPA firm adds a layer of judgment and due diligence that automation cannot replicate. The CPA's role—governed by Treasury Department Circular 230—is to ensure that each position has technical support, strategic coherence, and the

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capacity to be defended in an IRS review.

The Professional Judgment AI Can't Replace

At **Guillen Pujol CPAs**, we've watched solid international structures become surprisingly vulnerable simply because someone placed blind trust in an algorithm's "perfect" number-crunching

In a recent case we handled, an automated system green-lit deductions that checked every logical box—yet they lacked the substantive documentation required under Circular 230 and transfer pricing guidelines. The software's efficiency collapsed under the IRS's first serious review; it had crunched the data, but it couldn't build or defend a legitimate business purpose or legal position.

For over 35 years, we have guided global executives and their teams, we know real protection comes from blending cutting-edge digital tools with seasoned professional judgment—the kind that anticipates exactly what an auditor will probe, what questions they'll ask, and what evidence they'll demand to sustain the position.

Don't let an IRS notice be your first warning sign of exposure. Protect the integrity of your structure starting today.

To get started with zero commitment, we offer a no-cost initial discovery meeting focused solely on understanding your current setup and gathering the key details needed to prepare a tailored services proposal—no technical deep dives or advisory responses in this session.

Ready to take that first step? Fill out the [form here](#) to schedule your discovery meeting.

Integrating Speed with Professional Judgment

At **Guillen Pujol CPAs**, we view automation as a powerful tool when it is anchored in a clear strategic framework. Our approach combines [Strategic Business Planning](#) with [International Tax Consulting](#), ensuring that the operational tax structure is aligned before technology processes the data.

Editor's Note: This post is part of the '[GPCPAs Info Hub](#),' an initiative dedicated to empowering you with the knowledge and strategies needed to navigate the complexities of the U.S. tax system and financial strategies. Visit our [Information Hub](#), a curated resource offering the latest in tax, economic, and business news,

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