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Motahhareh. Karami¹, Mojtaba.
Ranjbar^{1*}, Parviz. Saeedi²

1 Department of Management and Accounting,
Go.C., Islamic Azad University, Gorgan, Iran
2 Department of Management and Accounting,
Ali.C., Islamic Azad University, Aliabad Katoul, Iran

Corresponding author email address:
mojtaba.ranjbar7085@iau.ac.ir

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Designing a Model for Tax Policy Implementation Based on the Role of Artificial Intelligence

ABSTRACT

The irregular and nontransparent structure of the economy, together with financial and institutional constraints, has made it difficult for tax and statistical authorities to generate accurate and reliable data. The adoption and implementation of effective tax policies capable of contributing to a more equitable distribution of wealth among different segments of society are therefore of considerable importance. The purpose of this study was to develop a model for tax policy implementation based on the role of artificial intelligence (AI). The study employed a qualitative-inductive approach and the Strauss–Corbin grounded theory method. Data were collected through semi-structured interviews. Using the grounded theory method, data obtained from interviews with 22 managers, experts, and key specialists in the National Tax Administration were analyzed through three stages of open, axial, and selective coding. Seven overarching categories were identified within a paradigmatic model. These factors included causal conditions (the increasing complexity of the tax system; transition from traditional methods toward the sustainable financing of public revenues; the need for fairness and accuracy in tax collection; and increasing tax evasion and avoidance), the central phenomenon (AI-enabled tax policy implementation), contextual conditions (digital transformation in public governance; access to extensive and granular data; technological innovation and transformation in tax governance; and interorganizational communication and data exchange), intervening conditions (data quality and integration; transparency and explainability; information-security constraints; organizational and human resistance; and digital skills and literacy), strategies (a risk-based audit system; optimization of operational and training processes; enhancement of institutional accountability; development of a hybrid human–AI model; and informational synergy in detecting tax evasion), and consequences (a fairer tax system with greater compliance; operational efficiency accompanied by transparency; and the linkage between public trust and tax governance). The model demonstrates how environmental imperatives lead to the selection of a technological solution and identifies the challenges and outcomes associated with its implementation.

Keywords: policy, taxation, tax policy, artificial intelligence.

Introduction

Taxation is one of the principal instruments through which governments mobilize public revenues, finance collective goods and services, redistribute economic resources, and pursue broader objectives of socioeconomic development. The effectiveness of a tax system, however, depends not merely on the formulation of tax laws and policies but also on the capacity of public institutions to implement those policies consistently, accurately, transparently, and fairly. Policy implementation is a complex stage of the policy process in which formal decisions are translated into administrative action, and its outcomes are shaped by institutional structures, organizational capacities, administrative routines, stakeholder behavior, and the broader political and socioeconomic environment [1, 2]. Comparative research on policy performance similarly indicates that successful implementation is rarely attributable to a single institutional characteristic; rather, it

emerges from combinations of administrative capacity, governance quality, coordination, and context-specific conditions [3]. Consequently, tax policy implementation should be understood as a multidimensional governance process in which technical, organizational, legal, behavioral, and informational factors interact.

For emerging and developing economies, effective tax policy implementation is especially important because strengthening domestic revenue mobilization can reduce dependence on unstable sources of public finance and enhance governments' capacity to provide public services. Evidence from tax revenue mobilization episodes in emerging markets and low-income countries demonstrates that sustainable improvements in revenue collection generally require comprehensive institutional reforms rather than isolated changes in tax rates or individual administrative procedures [4]. Within this perspective, tax administration becomes a central component of fiscal governance because it determines how effectively statutory tax obligations are translated into actual revenues. At the same time, tax policy is expected to satisfy principles of fairness, neutrality, accountability, and proportionality. In the Iranian context, research on tax justice policymaking has emphasized that the development of a fair tax system requires the integration of institutional, economic, social, and administrative considerations [5]. Earlier analyses of value-added tax policymaking in Iran have likewise indicated that tax policy outcomes are influenced by the quality of policymaking processes, administrative arrangements, and implementation mechanisms [6].

The implementation challenge has become increasingly complicated because contemporary tax administrations operate within economies characterized by digital transactions, platform-based business models, electronic payments, complex corporate structures, cross-border activities, and large volumes of heterogeneous data. Traditional tax concepts that were originally developed around physical presence and geographically identifiable economic activities have increasingly been challenged by digitalized forms of commerce and business organization [7]. Even in comparatively harmonized legal environments, tax administration remains closely connected to the quality and coherence of the legal framework, as illustrated by the continuing importance of regulatory harmonization in areas such as value-added taxation [8]. These developments increase the informational burden placed on tax administrations and create new opportunities for taxpayers to exploit regulatory gaps, conceal economic activity, shift income, or structure transactions in ways that complicate conventional assessment and auditing practices.

Tax evasion and avoidance are therefore among the most persistent challenges facing modern tax systems. They reduce public revenues, undermine horizontal and vertical tax equity, distort competition, and weaken citizens' perceptions of the legitimacy of government institutions. In corporate taxation, the growing complexity of transactions and financial reporting creates particular challenges for identifying anomalous or strategically manipulated behavior. Research in Iran has demonstrated the potential of artificial intelligence for predicting corporate taxpayers' tax evasion by integrating economic characteristics, taxpayer information, and variables associated with tax auditors [9]. More recent scholarship has also examined the ways in which legal persons may themselves use artificial intelligence in tax-evasion practices, highlighting the increasingly dual role of advanced technologies as both instruments of regulatory enforcement and tools that can potentially facilitate sophisticated noncompliance [10]. This duality reinforces the need for tax administrations to develop more adaptive and technologically capable implementation systems.

Artificial intelligence has emerged as one of the most significant technologies available for addressing these challenges. The development of AI reflects a long evolution from rule-based computational systems toward machine learning, predictive

analytics, natural language processing, intelligent decision-support systems, and increasingly autonomous forms of data analysis [11]. More broadly, the historical progression from conventional data collection to algorithmic forms of knowledge production has fundamentally changed the relationship between information, decision-making, and institutional power [12]. In contemporary public administration, AI can process volumes and varieties of data that exceed the practical capacity of conventional manual analysis. This capability has encouraged governments to explore AI for classification, prediction, anomaly detection, resource allocation, fraud detection, service delivery, and administrative decision support [13, 14].

The application of AI within tax administration is particularly promising because taxation is inherently information-intensive. Tax authorities routinely collect data from declarations, invoices, banking systems, accounting records, customs databases, property registries, payroll systems, and other governmental and commercial sources. When these data are integrated and analyzed effectively, AI-based systems can assist in identifying high-risk taxpayers, detecting unusual transactional patterns, predicting noncompliance, prioritizing audit cases, and automating routine administrative procedures. Studies on the modernization of tax administration have shown that AI applications can contribute to more efficient risk assessment, more targeted enforcement, and improved administrative performance [15]. Research focused on European Union tax administrations similarly indicates the growing strategic importance of AI across different administrative systems, although the level of adoption, institutional readiness, and governance arrangements may vary substantially between jurisdictions [16].

A central argument in the emerging literature is that AI can strengthen tax compliance by shifting tax administration from predominantly reactive enforcement toward proactive, risk-based governance. Rather than auditing taxpayers randomly or relying primarily on individual auditors' experience, machine-learning systems can identify combinations of variables associated with noncompliance and allocate administrative attention accordingly. This capability may enhance the probability of detecting irregular behavior while reducing unnecessary scrutiny of lower-risk taxpayers. Recent studies have linked AI applications to improved tax transparency and lower opportunities for evasion through better data matching, automated monitoring, and anomaly detection [17]. Other research similarly emphasizes the role of AI in strengthening tax compliance and financial regulation by enhancing monitoring capacity, analytical accuracy, and regulatory responsiveness [18]. Systematic evidence on corporate tax risk management further indicates that AI is increasingly being examined as a means of identifying, assessing, and managing complex tax risks in organizational and administrative environments [19].

AI can also contribute to the broader objectives of tax-system efficiency and public revenue enhancement. Evidence from Iran suggests that artificial intelligence and modern financial technologies can strengthen tax-system transparency and efficiency by improving information processing, reducing administrative frictions, and supporting more integrated forms of fiscal oversight [20]. Related research associates AI adoption with improved tax revenues, stronger institutional quality, and economic growth, indicating that the consequences of digital tax administration may extend beyond administrative efficiency to wider dimensions of public-sector performance and economic governance [21]. At the macroeconomic level, AI has also been discussed as a potential instrument for reforming structural features of the Iranian economy by enhancing information quality, productivity, and decision-making capacity [22]. Such findings suggest that AI-enabled tax administration should not be viewed merely as a technical modernization project but as a component of broader governance and institutional transformation.

From the perspective of tax planning and regulatory compliance, artificial intelligence offers additional opportunities for continuous monitoring, predictive analysis, and optimization. AI-based systems can support the analysis of tax liabilities, identify compliance risks, detect inconsistencies, and improve the efficiency of regulatory processes [23]. At the policy level, scholars have argued for a new-knowledge approach to the relationship between artificial intelligence and taxation, emphasizing that AI changes not only administrative techniques but also the informational foundations on which tax rules and tax-policy decisions are developed [24]. Similarly, contemporary analyses of AI in tax administration emphasize the potential for enhancing compliance, transparency, and ethical governance through intelligent systems while simultaneously recognizing the need for institutional safeguards [25]. These developments make AI relevant across the entire tax policy implementation chain, from data collection and risk identification to auditing, taxpayer services, enforcement, review, and strategic policymaking.

Nevertheless, technological capability alone does not guarantee successful policy implementation. AI systems are embedded within organizations, and their effectiveness depends on managerial support, workforce capabilities, administrative culture, institutional coordination, and willingness to modify established routines. Organizational research demonstrates that policy arrangements and top-management support can significantly shape the relationship between technological or organizational practices and institutional performance [26]. In tax administrations, introducing AI may therefore require substantial investments in employee training, digital literacy, data science expertise, process redesign, and change management. Concerns regarding job displacement, loss of professional discretion, distrust of algorithmic outputs, or disruption of established work practices may generate resistance among employees. Research on AI-related developments in financial environments also identifies both opportunities and operational challenges associated with the adoption of intelligent technologies [27]. Effective implementation must consequently combine technological modernization with organizational adaptation.

Data quality represents another critical condition. Machine-learning systems depend on the accuracy, completeness, consistency, and representativeness of the data on which they are trained and applied. Fragmented databases, missing values, incompatible information systems, incorrect taxpayer records, and inconsistent reporting standards can significantly reduce algorithmic reliability. Moreover, methodological problems in machine-learning research demonstrate that data leakage and weak validation practices can produce apparently strong predictive performance that does not generalize to real-world settings [28]. For tax administrations, such errors are particularly consequential because algorithmic outputs may affect audits, assessments, enforcement actions, and taxpayers' legal and financial interests. The classification and governance of AI systems must therefore account for the context in which a system operates, the nature of its outputs, the degree of human involvement, and the risks associated with its deployment [29].

The use of AI in taxation also raises substantial ethical and legal concerns. Algorithmic decision-making can create problems related to opacity, explainability, discrimination, accountability, privacy, and procedural fairness. Zarsky's analysis of algorithmic decision-making highlights fundamental tensions between the efficiencies created by automated analysis and the need for transparency, fairness, and meaningful human oversight [30]. More recent ethical scholarship identifies bias, lack of explainability, privacy risks, responsibility gaps, and insufficient contestability as major challenges of algorithmic systems [31]. These concerns are particularly important in taxation because the exercise of fiscal authority directly affects citizens' property rights, legal obligations, and relationships with the state. Consequently, the legitimacy of AI-enabled

taxation depends not only on whether an algorithm improves predictive accuracy but also on whether its decisions can be justified, reviewed, challenged, and corrected.

Experiences in other areas of algorithmic public administration illustrate the potential consequences of failing to establish adequate safeguards. The Dutch SyRI case concerning digital welfare-fraud detection demonstrated how data-intensive public-sector systems can generate serious concerns about privacy, proportionality, transparency, and fundamental rights when automated risk assessment is implemented without sufficient legal and procedural protections [32]. Tax administration confronts comparable risks because it involves extensive integration of sensitive personal, financial, and transactional information. Legal scholarship on AI and tax law therefore emphasizes the need to reconcile technological innovation with principles of legality, transparency, due process, responsibility, and taxpayer protection [33]. From a broader ethical perspective, AI can serve socially beneficial purposes only when its development and deployment are accompanied by appropriate governance arrangements that align technological capabilities with human values and institutional responsibilities [34].

A further challenge concerns the balance between algorithmic rationalization and human judgment. AI systems can standardize decisions, identify statistical relationships, and reduce some forms of inconsistency, but excessive reliance on algorithmic optimization may also narrow the range of considerations incorporated into public decision-making. Research on AI, rationalization, and tax policy optimization has highlighted the limits of control associated with data-driven systems in the public sector and the possibility that algorithmic tools may reshape institutional priorities in ways that deserve critical examination [35]. This issue is particularly relevant in tax administration because not all cases can be resolved through statistical prediction. Exceptional circumstances, ambiguous legal interpretations, taxpayer-specific conditions, and disputes concerning fairness often require contextual understanding and professional judgment. A hybrid human–AI model may therefore be more appropriate than either purely manual administration or fully automated decision-making.

These considerations reveal that AI-enabled tax policy implementation should be conceptualized as an institutional and governance transformation rather than simply the introduction of a new information technology. The relevant questions extend beyond whether AI can predict tax evasion or accelerate administrative procedures. They include how data should be integrated, how risks should be identified, how human and algorithmic decision-making should be combined, how accountability should be maintained, how taxpayers should be able to contest automated assessments, and how organizational resistance should be managed. The effectiveness of AI adoption ultimately depends on the interaction among technological capability, institutional quality, regulatory structures, organizational readiness, ethical safeguards, and public trust. This perspective is consistent with the broader public-sector AI literature, which emphasizes that governments must rethink administrative processes rather than merely automate existing ones [13, 14].

Despite the rapid expansion of scholarship on AI and taxation, much of the existing research remains focused on particular technological applications, such as tax-evasion prediction, risk scoring, compliance monitoring, or administrative automation. Other studies primarily examine legal, ethical, or technical challenges in isolation. Consequently, a gap remains in understanding how the diverse factors surrounding AI adoption can be integrated into a coherent model of tax policy implementation. This gap is especially significant in contexts such as Iran, where tax administration is simultaneously affected by economic complexity, institutional constraints, fragmented data infrastructures, pressures to increase sustainable public revenues, concerns regarding tax fairness, and the need for digital transformation. Existing Iranian studies have generated

valuable evidence regarding tax justice, tax policymaking, AI-based tax-evasion prediction, tax-system efficiency, and macroeconomic reform [5, 9, 20, 22], but an integrated implementation model capable of linking causal conditions, contextual conditions, intervening factors, implementation strategies, and consequences remains insufficiently developed.

Accordingly, there is a need for an empirically grounded model that explains not only why tax administrations move toward artificial intelligence but also the organizational and institutional conditions under which this transition occurs, the barriers that may constrain implementation, the strategies required to integrate AI into administrative practice, and the consequences that may arise for compliance, fairness, efficiency, transparency, public trust, and tax governance. Such a model can contribute to public policy scholarship by connecting technological innovation with the policy-implementation process, while also providing tax administrators with a framework for designing AI adoption in a manner that is technically effective, organizationally feasible, legally defensible, and ethically accountable. The emerging international evidence regarding AI-enabled tax administration [16, 17, 25], together with growing attention to compliance, regulatory optimization, and AI-related tax risks [18, 19, 23], reinforces the importance of moving from fragmented technological applications toward a comprehensive policy-implementation perspective.

Therefore, the aim of this study was to develop a model of tax policy implementation based on the role of artificial intelligence.

Methodology

Given that the purpose of this study was to develop a model for tax policy implementation based on the role of artificial intelligence, the present research was applied-developmental in terms of purpose, cross-sectional in terms of the timing of data collection, and qualitative in terms of the nature of the data and research approach. To answer the research questions, library studies, a review of the literature and theoretical background related to the topic, and interviews were employed, while descriptive and inferential statistical methods were used to examine the research questions. The primary objective of the present qualitative study was to identify the variables and constructs associated with the conceptual model of tax policy implementation based on the role of artificial intelligence and to formulate an appropriate model. The adequacy of the sample size was determined through theoretical saturation (Glaser & Strauss, 1967, p. 65). In this study, a systematic approach to grounded theory was adopted, using three coding techniques—open, axial, and selective coding (Lee, 2001, p. 47)—as follows:

a. Open coding: Open coding is an analytical process through which concepts are identified and their properties and dimensions are discovered within the data (Strauss & Corbin, 1998, p. 49). At this stage, the initial categories of information concerning the causes of organizational rebellion were developed by segmenting the information. Following a systematic review of the interviews, the main categories, subcategories, and subsidiary categories were identified.

b. Axial coding: Axial coding is the process of relating categories to their subcategories and linking categories at the level of their properties and dimensions. It is referred to as axial coding because coding occurs around the axis of a category.

c. Selective coding: Following open and axial coding, the research findings take the form of a theory. Selective coding is the process of integrating and refining categories (Strauss & Corbin, 1998, p. 51). In the present study, after saturation was achieved and the concepts became repetitive across the interviews, selective coding was conducted. Its results are presented in the final section in the form of the discussion and conclusion.

In addition, the credibility criterion, which is used in evaluating grounded theory research instead of conventional validity and reliability criteria, was applied. Credibility refers to the extent to which research findings provide a trustworthy and believable representation of the experiences of participants, the researcher, and the audience regarding the phenomenon under investigation. Ten indicators have been introduced for assessing credibility, five of which were employed in the present study to enhance scientific rigor, validity, and reliability. The verification strategies used included researcher sensitivity, methodological coherence, sample appropriateness, recurrence of findings, and the use of informant feedback.

For this purpose, data were described and collected through observation of organizational actions related to the research topic and exploratory interviews with 22 qualified experts and specialists in the National Tax Administration. Participants were selected using purposive sampling, and semi-structured, in-depth interviews based on open-ended questions were conducted. The demographic characteristics of the participants are presented in Table 1.

Table 1

Demographic Characteristics of the Participants

No.	Field of Study	Degree	Position	Years of Service	Gender	Age
1	Accounting	PhD	Director General of Taxation	22	Male	50
2	Public Administration	PhD	Deputy Director-General	20	Male	48
3	Economics	PhD	Senior Tax Advisor	18	Male	47
4	Accounting	PhD	Head of Tax Department	17	Female	45
5	Management	PhD	Financial Planning Manager	19	Male	46
6	Tax Law	PhD	Senior Legal Expert	16	Female	42
7	Economics	PhD	Senior Tax Expert	15	Male	41
8	Accounting	PhD	University Professor and Tax Advisor	23	Male	52
9	Public Administration	PhD	Head of Tax Group	14	Female	40
10	Economics	PhD	Tax Policy Analyst	21	Male	49
11	Accounting	PhD	Senior Tax Auditor	13	Male	39
12	Financial Management	PhD	Tax Planning Expert	12	Female	38
13	Law	PhD	Tax Legal Advisor	20	Male	47
14	Economics	PhD	Senior Tax Data Analysis Expert	11	Male	37
15	Public Administration	PhD	Resource Development Manager	18	Male	45
16	Accounting	PhD	Senior Tax Auditor	12	Female	36
17	Economics	PhD	Tax Policy Expert	10	Female	35
18	Information Technology	PhD	Tax Systems Expert	9	Male	34
19	Financial Management	PhD	Head of Tax Analysis Unit	14	Female	40
20	Accounting	PhD	Taxation Researcher	16	Male	43
21	Economics	PhD	University Professor and Tax Administration Advisor	24	Male	53
22	Tax Law	PhD	Senior Tax Litigation Expert	13	Female	39

Findings and Results

To answer the research question, “What is the conceptual paradigm of AI-enabled tax policy implementation?”, the open and axial coding results for each component of the grounded theory model are presented below.

Causal conditions of AI-enabled tax policy implementation: Causal conditions are categories that influence the central phenomenon. Based on the interviews, the axial codes of “increasing complexity of the tax system,” “transition from traditional methods toward the sustainable financing of public revenues,” “the need for fairness and accuracy in tax collection,” and “increasing tax evasion and avoidance” were identified and linked to the broader selective code of causal conditions, as presented in Table 2.

Table 2*Axial Coding of Qualitative Data: Causal Conditions*

Axial Coding	Secondary Coding	Open Coding	
Increasing complexity of the tax system	Diversity of taxpayers	Individual taxpayers	
		Corporate taxpayers	
		Digital businesses	
	Diversity of economic activities	Multinational corporations	
		Service economy	
		Platform-based activities	
		Digital economy	
	Digital transactions	E-commerce	
		Electronic payments	
		Banking transactions	
		Online payments	
Difficulty of manual supervision	Digital wallets		
	Limited human resources		
	Time-consuming assessment procedures		
Extensive volume of data	Dependence on individual experience		
	Financial data		
	Transactional data		
	Commercial data		
	Behavioral data		
Transition from traditional methods toward the sustainable financing of public revenues	Inefficiency of traditional implementation methods	Random auditing	
		Assessments based on individual experience	
		Slow processes	
	Need for sustainable public revenue	Human error	
		High implementation costs	
		Fiscal pressure on the government	
		Reduced reliance on unstable revenues	
		Need to finance public services	
	Need for fairness and accuracy in tax collection	Standardization of procedures for taxpayers	Equal treatment of similar taxpayers
			Reduction of discrimination
		Improving accuracy in tax assessment and achieving fairness	More accurate determination of tax liabilities
Equitable allocation of the tax burden			
Increasing tax evasion and avoidance	Concealment of income	Failure to declare actual income	
		Hidden accounts	
		Income shifting	
	Incomplete reporting	Incomplete tax returns	
		Omission of part of income	
		Incomplete reporting of expenses	
		Manipulation of information	Document forgery
	Alteration of figures		
	Use of shell companies		
	Opportunistic behaviors	Exploitation of legal loopholes	
		Profit shifting	
Aggressive tax planning			
Reduced compliance	Failure to make timely payments		
	Delayed filing of tax returns		
	Unjustified objections		

Contextual conditions of AI-enabled tax policy implementation: Context refers to a specific set of characteristics associated with the phenomenon under investigation; in other words, it represents the setting in which events and occurrences related to the phenomenon take place. Context reflects the particular conditions within which action and interaction strategies occur. The contextual components of AI-enabled tax policy implementation include “digital

transformation in public governance,” “access to extensive and granular data,” “technological innovation and transformation in tax governance,” and “interorganizational communication and data exchange,” as presented in Table 3.

Table 3

Axial Coding of Qualitative Data: Contextual Conditions

Axial Coding	Secondary Coding	Open Coding
Digital transformation in public governance	E-government	Online services
		Electronic records
		Tax information systems
	Digital services	Tax service portals
		Digital interaction with taxpayers
	Data-driven governance	Data-driven decision-making
		Big data analytics
		Management dashboards
	Process automation	Automated processing
		Digital workflows
	Reduction of human intervention	
	Technology-enabled decision-making	Decision-support systems
		Algorithmic analysis
		Intelligent recommendation systems
Access to extensive and granular data	Transactional data	Banking data
		Sales transactions
		Electronic payments
	Electronic records	Tax records
	Tax returns	
	Audit reports	
Technological innovation and transformation in tax governance	Advances in machine learning	Classification
		Prediction
		Anomaly detection
		Pattern analysis
		Intelligent algorithms
	Need for intelligent tax governance	Data-driven decision support
		Risk analysis
		Prioritization of assessments
		Intelligent control
	Interorganizational communication and data exchange	System integration and institutional collaboration
Institutional collaboration		
		Integration of system infrastructures
Information synergy based on data integration		Data integration
	Information synergy	

Intervening conditions of AI-enabled tax policy implementation: Structural conditions are associated with the phenomenon and influence action and interaction strategies. They facilitate or constrain strategies within a specific context. Participants identified data quality and integration, transparency and explainability, information-security constraints, organizational and human resistance, and digital skills and literacy as the principal intervening conditions, as presented in Table 4.

Table 4

Axial Coding of Qualitative Data: Intervening Conditions

Axial Coding	Secondary Coding	Open Coding
Data quality and integration	Incomplete data	Information gaps
		Incomplete transactional data
		Absence of certain variables
	Data-entry errors	Human errors
		Incorrect data recording
		System errors
		System errors

Transparency and explainability	Information inconsistency	Discrepancies among databases
		Differences in data formats
		Lack of institutional coordination
		Noninterpretable algorithms
		Lack of decision transparency
Difficulty interpreting outputs	Black-box models	Model complexity
		Complex results
		Absence of interpretive reports
		Lack of explainability for taxpayers
		Lack of transparency in computational logic
Information constraints and security	Algorithmic opacity	Explainability challenges
		Disclosure of taxpayer information
		Unauthorized access
		Data-security threats
		Concerns about excessive surveillance
Legal and regulatory constraints	Information privacy and security	Absence of clear legislation
		Lack of algorithmic accountability
		Weak oversight
		Ambiguity regarding the right to appeal
		Fear of job displacement
Organizational and human resistance	Human factors	Employee resistance
		Distrust of algorithms
		Reliance on traditional methods
		Shortage of data specialists
		Inadequate training
Digital skills and literacy	Data-driven human-resource challenges	Lack of familiarity with AI
		Need for analytical capabilities
Challenges in familiarity with artificial intelligence		

Central phenomenon of AI-enabled tax policy implementation: In grounded theory, the “central phenomenon” refers to the concept or event that constitutes the principal subject of the study and around which the other categories and analytical relationships are organized.

Table 5

Axial Coding of Qualitative Data: Central Phenomenon

Axial Coding	Secondary Coding	Open Coding
AI-enabled tax policy implementation	Intelligent implementation	Application of AI analytical capabilities
		Use of AI predictive and control capabilities throughout all implementation stages
		Tax policy aimed at enhancing compliance
	Tax policy	Risk identification
		Improving fairness and enhancing the efficiency of tax governance
Fair and data-driven implementation		Reducing tax evasion

Strategies for AI-enabled tax policy implementation: Strategies are based on actions and interactions designed to control, manage, and provide feedback regarding the phenomenon under investigation. Strategies are purposeful and are undertaken for particular reasons. The strategies identified in this study include a risk-based audit system, optimization of operational and training processes, enhancement of institutional accountability, development of a hybrid human–AI model, and information synergy in identifying tax evasion, as presented in Table 6.

Table 6

Axial Coding of Qualitative Data: Strategic Conditions

Axial Coding	Secondary Coding	Open Coding
Risk-based audit system	Tax risk analysis	AI-based risk scoring
		Prediction of noncompliance
		Identification of high-risk taxpayers

		AI-based analysis of behavioral patterns
	Targeted auditing and assessment	AI-based prioritization of cases
		AI-based intelligent case selection
		Focus on sensitive cases
		Auditing based on the probability of error
Optimization of operational and training processes	Automation of operational processes	AI-based automated case processing
		Generation of alerts
		Intelligent report generation
		Reduction of assessment time
	Employee training and empowerment	Enhancement of analytical skills
		Training in the use of information systems
		Organizational culture development
		Acceptance of change
Enhancement of institutional accountability	Strengthening appeal and review mechanisms	Reconsideration of decisions
		Taxpayers' right to appeal
		Human review
		Multilayered oversight
	Establishing transparency and accountability	Recording decision audit trails
		Possibility of review
		Human control
		Algorithm documentation
Development of a hybrid human–AI model	Joint decision-making	Synergy between system-based analysis and professional judgment
		Dynamic interaction between the auditor and the system
	Human oversight	Continuous monitoring of intelligent system performance
		Establishment of ethical and legal protocols
	Final approval by an expert	Validation of system-generated outputs
		Acceptance of legal responsibility
	Intervention in sensitive cases	Handling exceptional cases and errors
		Management of high-risk or high-importance cases
		Direct expert intervention to correct system-generated decisions
Information synergy in identifying tax evasion	Integration of data and systems	Database connectivity
		Interagency data exchange
		Aggregation of information
		Creation of a 360-degree view of the taxpayer
	Detection of tax evasion and fraud	Anomaly detection
		Network analysis
		Detection of suspicious transactions
		Tracking hidden patterns

Consequences of AI-enabled tax policy implementation: Consequences are the outcomes that emerge as a result of strategies. They constitute the results of actions and interactions. Consequences cannot always be predicted and are not necessarily identical to those intended by individuals. Moreover, an outcome at one point in time may later become part of the conditions or factors influencing the phenomenon. Based on the interviews, the identified consequences included a fairer tax system with greater compliance, operational efficiency accompanied by transparency, and the linkage between public trust and tax governance, as presented in Table 7.

Table 7

Axial Coding of Qualitative Data: Consequences

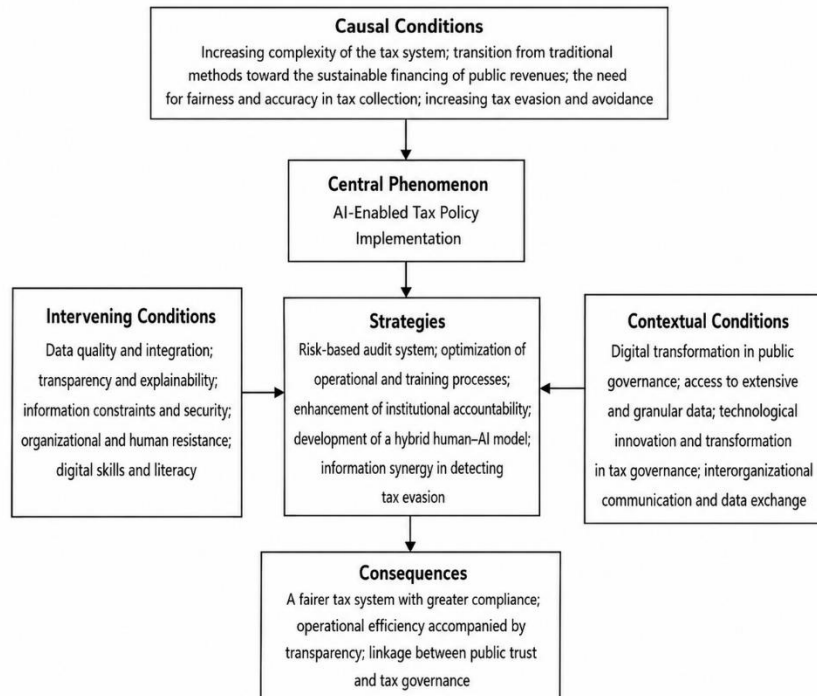
Axial Coding	Secondary Coding	Open Coding
A fairer tax system with greater compliance	Increased tax compliance	Timely payment
		Reduction in violations
		Increased cooperation
		Improved taxpayer behavior
	Enhanced tax fairness	Equal treatment of similar cases
		Reduced discrimination
		Fairer identification and assessment
		Equitable distribution of the tax burden

	Reduced tax evasion and avoidance	Rapid identification of violators
		Reduced concealment
		Effective control
		Reduced revenue leakage
Operational efficiency accompanied by transparency	Increased efficiency and effectiveness of implementation	Greater speed through AI
		Increased accuracy
		Resource optimization
		Cost reduction
	Strengthened transparency and accountability	Decision traceability
		Controllability
		Reduction of discretionary decision-making
		Enhanced reporting capacity
Linkage between public trust and tax governance	Increased public trust	Greater acceptance of the tax system
		Perception of fairness
		Satisfaction among compliant taxpayers
		Reduced government–taxpayer tension
	Enhanced tax governance	AI-enabled intelligent decision support
		Evidence-based policymaking
		National risk management
		Structural reform

Among the identified factors, the selective coding paradigm was developed. Accordingly, the linear relationships between the secondary codes and the study's axial codes—including causal conditions, contextual conditions, intervening conditions, strategies, and consequences—were determined. Figure 1 illustrates the coding paradigm or, in other words, the qualitative process model of the study.

Figure 1

Paradigmatic Model of AI-Enabled Tax Policy Implementation



Discussion and Conclusion

The present study aimed to develop a model of tax policy implementation based on the role of artificial intelligence. The findings produced a paradigmatic model comprising causal conditions, the central phenomenon, contextual conditions, intervening conditions, strategies, and consequences. The causal conditions included the increasing complexity of the tax system, the transition from traditional methods toward sustainable financing of public revenues, the need for greater fairness and accuracy in tax collection, and increasing tax evasion and avoidance. The central phenomenon was identified as AI-enabled tax policy implementation. Contextual conditions consisted of digital transformation in public governance, access to extensive and granular data, technological innovation and transformation in tax governance, and interorganizational communication and data exchange. The principal intervening conditions were data quality and integration, transparency and explainability, information and security constraints, organizational and human resistance, and digital skills and literacy. The strategies included development of a risk-based audit system, optimization of operational and training processes, enhancement of institutional accountability, development of a hybrid human–AI model, and information synergy in identifying tax evasion. Finally, the expected consequences comprised a fairer tax system with greater compliance, improved operational efficiency accompanied by transparency, and a stronger linkage between public trust and tax governance.

The first major finding concerned the causal conditions that create a need for AI-enabled tax policy implementation. Participants emphasized that the growing complexity of taxpayers, business models, electronic transactions, digital economic activities, and the sheer volume of available financial and behavioral data have reduced the adequacy of conventional administrative approaches. This finding is consistent with studies suggesting that the digitalization of economic activity has challenged tax systems originally designed around more stable and physically identifiable forms of economic presence [7]. It also corresponds with the broader observation that contemporary tax administrations increasingly operate in data-intensive environments where conventional manual analysis cannot efficiently process the scale, speed, and heterogeneity of available information [15, 16]. From this perspective, AI adoption is not simply a technological preference but an institutional response to increasing environmental and informational complexity.

Another causal condition was the need to move beyond inefficient traditional approaches toward more sustainable public revenue mobilization. Participants referred to random auditing, lengthy assessments, dependence on individual experience, high administrative costs, and the risk of human error as weaknesses of conventional tax administration. This finding is supported by evidence demonstrating that sustainable improvements in public revenue mobilization require institutional and administrative reforms rather than isolated fiscal measures [4]. It is also compatible with the broader policy-implementation literature, which argues that successful public policies depend on the administrative capacity to translate formal rules into coherent and effective operational practices [1]. The finding therefore indicates that AI can become part of a wider modernization strategy through which tax authorities seek to improve resource allocation, reduce processing costs, and develop more systematic approaches to fiscal administration.

The findings further showed that fairness and accuracy in tax collection constitute important drivers of AI adoption. Participants associated effective tax policy implementation with equal treatment of similar taxpayers, reduction of discriminatory practices, accurate identification of tax liabilities, and equitable distribution of the tax burden. This result aligns with research emphasizing the multidimensional nature of tax justice and the importance of institutional and administrative factors in creating equitable taxation [5]. It is also consistent with analyses of tax policymaking in Iran that highlight the role

of implementation arrangements in determining whether policy objectives are achieved in practice [6]. The results suggest that algorithmic systems may support tax fairness by standardizing selected administrative procedures and reducing arbitrary variation, although such benefits depend strongly on the quality and fairness of the underlying data and models.

Increasing tax evasion and avoidance represented another central causal factor. Participants referred to income concealment, incomplete reporting, manipulation of information, shell companies, exploitation of legal loopholes, aggressive tax planning, and delayed compliance. This result accords closely with previous Iranian research demonstrating the usefulness of AI in predicting tax evasion among corporate taxpayers using economic, taxpayer-related, and auditor-related variables [9]. It is also consistent with research on the use of AI in detecting tax evasion by legal persons [10] and with international evidence indicating that AI can strengthen tax transparency and reduce evasion through improved data analysis, automated monitoring, and anomaly detection [17]. Accordingly, the present findings reinforce the view that AI may help tax authorities move from predominantly reactive enforcement toward preventive and predictive approaches to noncompliance.

The second major dimension of the model involved contextual conditions. Digital transformation in public governance emerged as an essential context for AI-enabled tax policy implementation. Participants identified e-government services, electronic tax records, digital taxpayer interaction, management dashboards, automated workflows, decision-support systems, and algorithmic analysis as the broader infrastructure within which AI applications can become operational. This finding is highly consistent with public-sector AI research showing that effective use of AI generally depends on broader administrative digitalization rather than the isolated deployment of a single algorithmic tool [13, 14]. In the Iranian context, the finding also aligns with evidence that modern financial technologies and AI can enhance transparency and efficiency when integrated into the wider digital transformation of the tax system [20].

Access to extensive and granular data was another key contextual condition. Participants emphasized banking data, sales transactions, electronic payments, tax histories, declarations, and audit reports as important inputs for intelligent tax administration. This result reflects the historical shift toward data-intensive governance, in which institutional decisions are increasingly shaped by computational analysis of large and interconnected datasets [12]. However, the presence of large amounts of data is not sufficient in itself. Machine-learning systems require carefully validated and appropriately structured datasets, and methodological research has demonstrated that data leakage and weak validation can produce misleading estimates of predictive performance [28]. Therefore, the value of extensive data depends on its accuracy, relevance, integration, and appropriate governance.

The findings also identified technological innovation, particularly advances in machine learning, as a contextual foundation for AI-enabled tax governance. Classification, prediction, anomaly detection, pattern recognition, risk analysis, and intelligent prioritization were highlighted as central technological capabilities. These findings parallel previous studies describing the potential of AI for modernization of tax administration through intelligent risk analysis and targeted administrative intervention [15]. They are also consistent with the OECD framework, which emphasizes that AI systems should be understood in relation to their technological characteristics, operational contexts, outputs, and degree of human involvement [29]. The findings therefore suggest that technological progress expands the range of feasible tax-policy implementation strategies, but institutional design determines how such capabilities are ultimately used.

Interorganizational communication and data exchange were additionally identified as important contextual factors. Participants emphasized system connectivity, institutional collaboration, infrastructure integration, data integration, and

information synergy. This finding can be interpreted through public organization theory, which stresses that public-sector outcomes are shaped not only by individual organizations but also by relationships among institutions and by the publicness of their goals and constraints [2]. Successful tax administration requires information that is often distributed across banks, customs authorities, registries, companies, and other public agencies. The ability to integrate these sources can create a more comprehensive understanding of taxpayer behavior and reduce informational asymmetries that facilitate tax evasion.

The intervening conditions identified in this study demonstrate that AI implementation is constrained by significant technical, legal, organizational, and human challenges. Data quality and integration emerged as a major obstacle, including incomplete records, data-entry errors, inconsistencies among databases, differences in data formats, and weak institutional coordination. These findings reinforce concerns about the dependence of AI performance on reliable and representative data [28]. Poor-quality data can produce inaccurate risk classifications and potentially lead to inappropriate audits or enforcement actions. Thus, strengthening data governance must be considered a prerequisite for intelligent tax administration rather than a secondary technical activity.

Transparency and explainability also emerged as critical intervening conditions. Participants expressed concern about black-box models, complex outputs, opacity in computational logic, and the inability to explain decisions adequately to taxpayers. These findings strongly align with previous scholarship on algorithmic decision-making, which identifies opacity and limited explainability as fundamental threats to accountability and procedural fairness [30, 31]. The significance of these concerns is particularly pronounced in taxation because algorithmic decisions can affect financial obligations, audits, sanctions, and legal rights. Research on AI and tax law similarly stresses that innovation must remain compatible with legality, due process, transparency, and taxpayer rights [33]. Therefore, explainability should be treated as an institutional requirement for legitimate tax governance, not merely as a desirable technical feature.

Privacy, information security, and regulatory constraints were also identified as intervening factors. The participants referred to unauthorized access, disclosure of taxpayer information, data-security threats, excessive surveillance, insufficient legislation, weak algorithmic accountability, and ambiguity regarding taxpayers' right to appeal. This result is consistent with the lessons derived from algorithmic welfare-fraud detection systems, where extensive data integration without adequate legal safeguards raised serious concerns regarding privacy, proportionality, and fundamental rights [32]. The broader ethical literature likewise emphasizes that AI can produce public value only when appropriate accountability, privacy, and governance mechanisms are embedded in its use [34]. Accordingly, tax authorities must address both cybersecurity risks and the normative boundaries of data use.

Organizational and human resistance, together with limitations in digital skills and literacy, constituted another important set of intervening conditions. Fear of job displacement, resistance among personnel, distrust of algorithms, dependence on traditional practices, shortages of data specialists, and inadequate AI training were all identified. This finding supports the argument that technological adoption is shaped by organizational policies, management support, and employee readiness [26]. It also corresponds with studies highlighting both opportunities and challenges associated with the diffusion of AI across financial environments [27]. The findings imply that successful implementation requires a deliberate organizational transition in which employees are trained to work with intelligent systems rather than being positioned merely as passive recipients of technological change.

Regarding strategies, the study identified risk-based auditing as a central mechanism for operationalizing AI. Participants proposed AI-based risk scoring, prediction of noncompliance, identification of high-risk taxpayers, behavioral pattern analysis, and intelligent prioritization of audit cases. This result is supported by studies showing that AI can improve tax compliance through advanced monitoring and risk detection [17, 18]. It also aligns with the growing literature on corporate tax risk management, which emphasizes AI-based analytical capabilities for identifying and managing complex compliance risks [19]. Such risk-based approaches can potentially direct scarce audit resources toward cases with the greatest probability or magnitude of noncompliance.

Optimization of operational and training processes was another major strategy. Automation of case processing, generation of alerts, intelligent reporting, reduction of assessment time, and employee empowerment were proposed as complementary components. This finding reflects the broader potential of AI to enhance administrative efficiency rather than merely increase enforcement intensity. Previous research has linked AI and financial technologies to greater efficiency and transparency in Iran's tax system [20], while other studies have associated AI with improved institutional quality and revenue performance [21]. AI-based tax systems may therefore produce their greatest benefits when technological automation is accompanied by investment in organizational learning and workforce capabilities.

A particularly important strategy was the development of a hybrid human–AI model. Participants emphasized joint decision-making, synergy between algorithmic analysis and professional judgment, continuous human monitoring, legal and ethical protocols, expert validation of system outputs, and direct intervention in sensitive or exceptional cases. This finding addresses an important concern in public-sector AI research: algorithmic rationalization can increase consistency and efficiency but cannot fully substitute for contextual judgment and institutional responsibility [35]. A hybrid model may consequently preserve the analytical advantages of AI while retaining human responsibility for ambiguous, high-risk, or legally sensitive decisions. This approach is also compatible with ethical frameworks emphasizing meaningful human oversight as an essential safeguard in consequential algorithmic decision-making [31].

The final category involved consequences. Participants expected AI-enabled tax policy implementation to increase tax compliance, improve tax fairness, reduce evasion, enhance operational efficiency, strengthen transparency and accountability, increase public trust, and contribute to improved tax governance. These expectations are supported by studies linking AI with greater compliance and regulatory effectiveness [18], enhanced transparency and reduced tax evasion [17], and improvements in tax revenue and institutional quality [21]. They are also consistent with the argument that AI can support broader macroeconomic and institutional reform when it improves the quality and efficiency of governmental decision-making [22]. Nevertheless, the findings indicate that these positive consequences are conditional rather than automatic: fairness, trust, and efficiency will materialize only when AI systems are implemented with adequate data quality, explainability, security, legal accountability, organizational readiness, and human oversight.

The present study has several limitations that should be considered when interpreting its findings. First, the study adopted a qualitative grounded theory approach and relied on the perceptions and professional experiences of 22 managers, experts, and specialists associated with the tax administration; therefore, the resulting model reflects expert interpretations rather than statistically generalizable relationships. Second, purposive sampling may have resulted in greater representation of participants who were more familiar with or positively oriented toward technological transformation. Third, because AI adoption in tax administration is an evolving process, some of the identified conditions and strategies may change as

technologies, regulations, data infrastructures, and organizational capabilities develop. Finally, the study focused primarily on the perspective of tax-sector professionals and did not directly incorporate the views of taxpayers, private-sector accountants, technology providers, judicial authorities, or civil-society stakeholders.

Future studies should quantitatively test the relationships proposed in the paradigmatic model using larger and more diverse samples of tax administrators and other relevant stakeholders. Researchers could develop and validate measurement instruments for the causal, contextual, intervening, strategic, and consequential dimensions identified in this study and examine their relationships using structural equation modeling. Comparative studies across provinces, governmental agencies, or national tax systems could also determine whether the proposed model remains stable across different institutional environments. Further research should directly examine taxpayers' perceptions of algorithmic fairness, explainability, privacy, trust, and willingness to accept AI-assisted tax decisions. Longitudinal and experimental studies would also be useful for assessing whether the actual introduction of AI systems produces sustained improvements in compliance, administrative efficiency, fairness, and public trust over time.

Tax authorities should approach AI implementation as a comprehensive organizational transformation rather than as the purchase or deployment of isolated technological applications. Priority should be given to developing integrated and high-quality data infrastructures, establishing formal standards for data governance and cybersecurity, and creating transparent procedures for documenting and reviewing algorithmic decisions. Tax organizations should implement AI initially in well-defined areas such as risk scoring, anomaly detection, case prioritization, and routine administrative processing while maintaining human oversight over high-impact decisions. Continuous professional training should be provided to tax auditors, managers, legal experts, and technical personnel so that they can understand both the capabilities and limitations of AI. Clear appeal mechanisms, human review procedures, ethical guidelines, and responsibility frameworks should also be established to protect taxpayers' rights. Finally, interorganizational data exchange should be strengthened through secure and legally regulated mechanisms so that tax authorities can develop a comprehensive evidence base for detecting noncompliance while maintaining privacy, accountability, and public confidence.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

The study protocol adhered to the principles outlined in the Helsinki Declaration, which provides guidelines for ethical research involving human participants. Written consent was obtained from all participants in the study.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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