'Gray Areas'

Melanie Lauridsen of the American Institute of CPAs said the framework serves as a "practical starting point" for return preparers who are considering using AI tools, and she hopes it will help them ask the right questions about how the technology fits into their practice.

"Today, there is very little guidance specifically focused on the use of AI in tax preparation and tax services, and there has been no comprehensive framework established by regulators or lawmakers to help practitioners navigate this rapidly evolving environment," Lauridsen said in a statement.

The framework cautions that return preparers who rely on AI solutions without proper oversight risk could expose their firms to legal liability, eroded trust from clients, and reputational harm affecting future business.

"One of the biggest risks associated with AI in tax preparation is overreliance on technology that may produce inaccurate, incomplete, or unsupported results," Lauridsen said. "There are still many unknowns and gray areas, which is why any framework must be flexible and evolve alongside both the technology and the profession."

AI tools have been helpful for reviewing clients' compliance and conducting tax research, according to Laurence Bernstein of Florida-based firm Proseer, who said the technology has also proven useful as a canvas to think through complex tax issues or compare returns from different years.

However, Bernstein acknowledged that those results shouldn't be relied on without supervision, adding that AI is "not going to do it all for you. At the end of the day, we're all professionally responsible. This is our own output."

And while some clients prefer fast answers to their questions and understand the trade-off of using AI in the process, "you never want to push off AI-generated content as your own without disclosure," Bernstein said. ■

IRS Weighs Reporting Burden of Research Credit Business Component

by Edward Beeby

Sometime this year taxpayers may learn whether the IRS will move forward with expanded business component reporting requirements for research credit claims.

The question facing the IRS is whether the business component reporting of section G on Form 6765, "Credit for Increasing Research Activities," would make research credit exams more efficient or simply force taxpayers to create tax-specific records.

Speaking at a Tax Executives Institute conference September 10, David Hudson, senior adviser in the IRS Large Business and International Division, said the agency wants Form 6765 to help risk or de-risk returns and better target information document requests. But he acknowledged that many taxpayers don't track expenses in a way that matches the statutory business component framework. Officials are still considering whether the information section G would collect is useful enough to warrant the burden.

"We do have to make a decision fairly soon about what we're going to do because we're going to have major changes to a form," Hudson said. "We can't drop that halfway into the compliance season next year."

The pending Form 6765 decision comes after months of criticism from tax professionals, including the American Bar Association Section of Taxation, which urged Treasury and the IRS in September 2025 to postpone the revised form and issue broader reliance guidance on statistical sampling and research credit substantiation.

Taxpayers use Form 6765 to claim the section 41 research credit. Section G requests detailed information regarding business components associated with the research credit claim. The section is optional for all tax years beginning before 2026. For tax year 2026 and beyond, section G will be required unless the IRS changes its guidance.

In December 2024 the IRS released an updated version of the form that added section G and changed it from a two-page document into a four-page one. The agency released revised instructions for Form 6765 in February and extended the comment period on the draft form and instructions to March 31.

"We don't like to do it that late," Hudson said. "It probably won't be that long before we know." ■

In Flux: The Uncertain State of IRS Modernization

TAX NOTES INVESTIGATES

by Tyrah Burris and Emily Hollingsworth

When Terence V. Milholland joined the IRS in 2008 as the agency's first-ever chief technology officer, the IRS had been trying for years to get its 1960s-era sequential tape-based individual master file into a new database.

The IRS said that project would "improve customer service by making complete and current information about taxpayers available at one reference point."

The first attempt at the project, which was part of a business systems modernization program that began in 1999, faced cost overruns and delays. So has the second, and at the moment, there is no end in sight.

The IRS stopped working on the customer account data engine (CADE) in 2009 and began a successor project, called CADE 2. The agency was still working on CADE 2 when Milholland left in 2016.

"It had fits and starts, but where it ended up, I really don't know," said Milholland, who now works as an IT consultant. "If it hasn't been done, it needs to be done."

The IRS has spent decades and billions of dollars working to complete the modernization project, which it was planning to fully deploy by 2028.

But former IRS employees say the Department of Government Efficiency set back progress on CADE 2 and other modernization projects.

"My gut says that it probably all stalled. . . . If anything, it only just pushes modernization way back," said Rajiv Uppal, a former IRS chief information officer, who exited the agency in April 2025 through the deferred resignation program.

A lack of transparency from the IRS has the tax community wondering what its exact plans are for modernization. The IRS says it is working to retire systems like the individual master file, but it's unclear where those efforts stand.