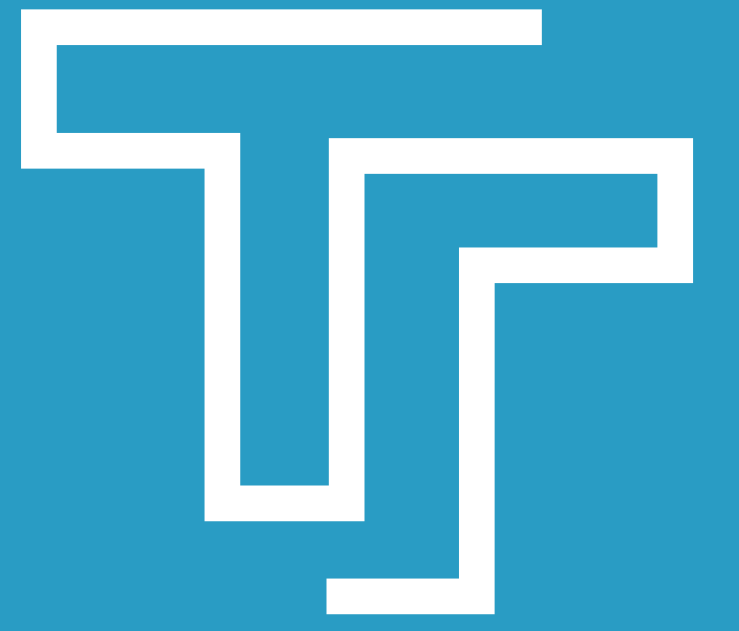




AI's Balancing Act

AI in Fintech Development Balancing Opportunity and Risk

Austen Little, TaxTec, 2026

Artificial Intelligence has rapidly become one of the most discussed technologies in financial services. Across the fintech sector, there is growing expectation that AI can automate not only administrative processes but also increasingly complex decision-making activities. In capital markets and financial services, that promise is particularly attractive – at first glance appearing to be a silver bullet for reduced costs, faster processing, enhanced scalability and improved operational performance.

While this is all undoubtedly true, we must remember that the financial services sector is also one of the most highly regulated and risk-sensitive global industries. In that environment, the assumption that AI can simply take over critical processes deserves much closer scrutiny.

Our experience developing TaxTec's withholding tax (WHT) reclaim platform provides a useful lens through which to examine both the opportunities and the dangers of AI adoption. While there are areas where AI can deliver genuine value, there are also important limitations that make full automation risky, unreliable and, in some cases, potentially non-compliant.

Why fully automating WHT reclaims with AI remains risky

Whether we're talking about large language models, machine learning systems or AI-driven workflow automation, the same fundamental challenges apply.

The first issue is data.

WHT reclaim processing relies on information drawn from multiple sources, many of which were never designed to work together. Data typically originates from custody systems, portfolio accounting platforms, transfer agents and a wide range of supporting documentation, including tax vouchers, contracts, certificates of residence and broker statements.

The reality is that much of this information is fragmented, non-standardised and often incomplete. If an AI model is trained on inconsistent data, missing beneficial owner information or inaccurate tax rates, it can produce incorrect reclaim calculations, yet present them with complete confidence.

Since the 1970s, IT in financial services has raised the warning flag of "garbage in, garbage out". This remains just as relevant in the age of AI. If anything, the danger has escalated. The difference is that errors can now be generated at scale, creating significant financial, regulatory and reputational risk.



The second challenge is the extraordinary complexity of the global tax landscape.

Withholding tax rules vary not only by jurisdiction but also by security type, investor classification, treaty entitlement and local administrative procedure. Even experienced tax professionals recognise that reclaim processes differ dramatically from one market to another.

Compounding the problem, these rules are constantly evolving. Initiatives such as the EU's FASTER framework, together with major domestic reforms such as Germany's new digital filing requirements, demonstrate how frequently tax authorities update procedures, data requirements and evidential standards.

An AI system built around today's rules can become outdated surprisingly quickly. Maintaining accuracy requires ongoing specialist intervention, continuous monitoring and regular updating of the underlying knowledge base. At that point, the vision of a fully autonomous solution starts to lose much of its appeal, while the risks of non-compliance and reputational damage remain.

A third issue concerns explainability.

Tax authorities, regulators and courts generally expect decisions to be supported by clear legal reasoning, factual evidence and a documented audit trail. With this in mind, regulators are highlighting concerns about deploying AI that cannot adequately explain how it has reached a particular conclusion.

This becomes particularly problematic when an AI model determines that a treaty provision applies or recommends a specific tax treatment. If the rationale behind that conclusion cannot be reconstructed and defended, organisations may find themselves exposed during audits, disputes or litigation. In highly regulated environments, a correct answer is often not enough; organisations must also be able to demonstrate how that answer was reached.

Regulatory expectations create another significant challenge.

Financial regulators (e.g. FCA, EU AI Act, prudential supervisors) are paying increasing attention to AI deployment across financial services. Enforcement risk is highest where AI causes customer harm, operational failures or breaches of regulatory obligations. Therefore, areas such as model governance, customer outcomes, accountability, operational resilience and conduct risk are now firmly on supervisory agendas.

Industry debates about AI applications consistently highlight concerns over model explainability, data privacy, over-reliance on automated outputs and the dilution of human oversight.

Some of the most prominent reported challenges in the supervision of AI in finance relate to distinctive characteristics of AI innovation... challenges include model risk management, validation and compliance assessment of increasingly complex AI systems, as well as limitations related to model explainability. They also include limited transparency and associated considerations around assessing robustness and upholding the fairness of model outputs; alongside governance and data management challenges.

Source: OECD, Supervision of artificial intelligence in finance (2026)

AI agents that automatically determine treaty eligibility, interpret beneficial ownership rules or file claims without such meaningful human oversight are a pipe dream – not least because they would almost certainly attract scrutiny from compliance teams, internal auditors and regulators alike.

What would be the practical consequences of machine-driven errors?

In contrast to many consumer applications, withholding tax reclaims often involve very substantial sums of money, multiple investors and protracted time periods. Introduce even a relatively small error rate and you will likely see significant aggregate exposure.

Over-claiming may result in penalties, interest charges, regulatory investigations and reputational damage. Under-claiming can lead to permanent tax leakage and potential fiduciary concerns for institutions acting on behalf of clients. In practice, many custodians and asset managers have a very low tolerance for this type of risk, regardless of how sophisticated the technology appears.

Finally, there are important data governance considerations.

Tax information is among the most sensitive categories of financial data. Regulations governing privacy, tax secrecy, banking secrecy and cross-border data transfers can significantly constrain how AI solutions are deployed.

The idea of simply connecting sensitive investor data to a public cloud-based large language model may sound attractive from a technology perspective, but it can quickly create compliance concerns, particularly when data moves across jurisdictions. Any viable AI architecture in this space must therefore be designed with strong governance controls, careful data handling practices and, in many cases, self-hosted infrastructure.

Where AI can add real value

While these challenges make fully autonomous decision-making difficult to justify, that does not mean AI has no role to play. On the contrary, there are several areas where AI can deliver substantial benefits while operating within a much more manageable risk framework.

We believe from our practical experience of financial services systems development that AI works best as a decision-support tool rather than a decision replacement technology.

In our sphere, we have found that one of the most fertile applications is document ingestion and data extraction.

WHT reclaim processes generate major volumes of documentation and document driven processes, often across multiple formats and languages. We deploy AI to classify incoming documents, extracting key information and re-presenting it as structured data for review.

To give specific examples from the world of WHT reclaim processing, appropriate AI agents can reliably identify and extract:

- International Securities
- Identification Numbers
- Payment dates
- Gross and net amounts
- Tax rates
- Investor identifiers

When combined with appropriate human scrutiny, there is a significant reduction of manual effort without deferring responsibility for tax decisions to the machine.

AI can also play an important role in improving data quality.

Before claims are calculated or submitted to the relevant authority, AI agents can identify missing information, spot inconsistencies between different data sources and detect unusual patterns that demand further (human) investigation.

Examples include:

- Missing residency or beneficial ownership information.
- Mismatches between custody records and tax vouchers
- Tax rates that do not align with treaty expectations
- Potential duplicate claims

This type of detection of anomalies is very much in step with how tax authorities themselves increasingly use AI to identify risks and irregularities.

Another valuable use case is AI acting as a research assistant.

Rather than making decisions, AI helps tax specialists navigate complex bodies of information. Drawing on unstructured data from tax treaties, local regulatory guidance, procedural manuals, etc., AI is able to dramatically reduce the time required to locate and retrieve relevant information.

In this scenario, the technology accelerates research and information retrieval but leaves human specialists responsible for interpretation and authorisation.

Workflow management is the next area where AI provides meaningful support.

By analysing factors such as claim value, limitation periods, claim completeness and historical success rates, AI helps prioritise processing queues more effectively. It can propose which cases to process first, which require specialist review and which should wait until additional information is sourced.

Once again, the AI is enhancing workflow efficiency rather than determining the underlying legal or tax position.

As tax authorities continue to digitise their operations, AI will also assist with portal interactions and status monitoring.

Many jurisdictions are introducing increasingly sophisticated electronic filing systems ((e.g. German BZSt BOP interface for mass reclaim submissions)). Managing submissions often involves complex data schemas, validation rules and ongoing status monitoring.

AI will support the mapping of internal data to required filing formats, interpret error messages and rejection notices, and feed information into operational dashboards. Human teams can then manage final submissions and decide on any corrective actions required.

Finally, AI offers considerable potential in analytics and forecasting.

Historical reclaim data is analysed to identify trends, forecast recovery timelines and estimate future success rates. These insights are also used to identify markets where tax leakage is consistently higher or to model the potential impact of treaty changes and regulatory reforms.

All of these applications of AI support strategic decision-making without introducing risk into individual reclaim determinations.

Adopt a logical, balanced approach specific to your business

In conclusion, a different perspective on AI from the current noise is instructive. The debate around AI in financial services is often presented as a choice between embracing automation and resisting innovation. In reality, the most effective approach is more subtle.

For complex, regulated processes such as withholding tax reclaims, AI is an enabler rather than a replacement for human expertise. And its contribution can be huge. In particular, value comes from enhancing productivity, improving data quality, accelerating research and streamlining workflows, while leaving critical legal, tax and compliance decisions firmly under human control.

The warning bell?

The future of AI in fintech is undoubtedly promising. The challenge is knowing where automation adds value - and where human decision-making remains indispensable.



If you would like to talk with TaxTec about the automation and withholding tax reclaims, please contact the author at austen.little@taxtec.com