



AI and the Future of Taxation Rethinking Government Revenue When Machines Replace Workers

Dr.A.Shaji George

Independent Researcher, Chennai, Tamil Nadu, India.

Abstract – This article explores a question at the core of any modern economy that doesn't often get much attention until it is a crisis. Who will pay taxes and how will governments pay for services that societies rely on if AI takes over millions of jobs. For most of modern history labour has contributed about two thirds of national income and governments have based their revenue systems on that, by taxing income, payrolls and social security contributions. AI is poised to lead to a decline in the incomes of workers and an increase for the owners of capital, thus reducing the source of public revenues. The article illustrates the worker tax arrangements in India, the USA, Europe, Middle East and South Asia. It then examines three policy options being discussed by economists increased consumption taxes, direct taxes on capital and wide-spread public ownership via sovereign wealth funds and index investing. It offers policymakers, companies and individuals practical frameworks, real case studies and implementation strategies. The main theme is that there is no one tax that will address the issue. Rather, what is required are societies with a hybrid approach that will tax profits, consumption, and automation and distribute the ownership of AI resources more broadly. It's not all about money. It's a prosperity that's shared.

Keywords: AI tax policy, AI job replacement, Future of taxation, Robot tax, Sovereign wealth funds, AI and income tax, Universal basic ownership, AI economy inequality.

1. INTRODUCTION

Let's think about a nation, a few decades from now, in which most of the common tasks are performed by software and machines. AI agents are the backbone of customer service. Trucks drive themselves. Language models write legal documents, algorithms read X-rays and warehouses move goods with virtually no human interaction. There is still a lot of value being created by the economy. More than ever. But here's the awkward one that economists, finance ministers and the general public are beginning to wonder. Who is paid the wages if the machines do the work, and who pays the tax.

This is not an SF movie. This change is already in progress. Whether you're a company making the chips, such as NVIDIA, or a company making the models, like OpenAI and Anthropic, the companies behind the development of the advanced AI systems are creating unprecedented wealth at an unprecedented pace, a feat not often witnessed in the annals of economics. The riches are authentic and they are increasing. It's not about whether or not AI creates value. It clearly does. But the question is who benefits from that value, and what will happen to the public finances relying on human paychecks.

The division has been fairly constant throughout the modern era. The workers labour have received about two-thirds of the national income, and the owners of business, machines, and investments capital have received the other one-third. Governments constructed their whole tax regime on that basis. Wages are the source of income tax, payroll tax and social security contributions. Earning is collecting for governments. It is a simple and reliable system and is used for funding schools, hospitals, pensions, roads and defence.

Now imagine that equilibrium to tip. AI could have a significant impact on the labour share, as it may reduce the share of income going to workers and increase it for machine owners. Income would go to capital and those that own capital are relatively small in number and wealthy. The single largest source of revenue for the government would start to decline. Income tax, in many countries the main source of public financing, would be affected, as would be also the demand for public assistance, such as unemployment benefits and retraining.

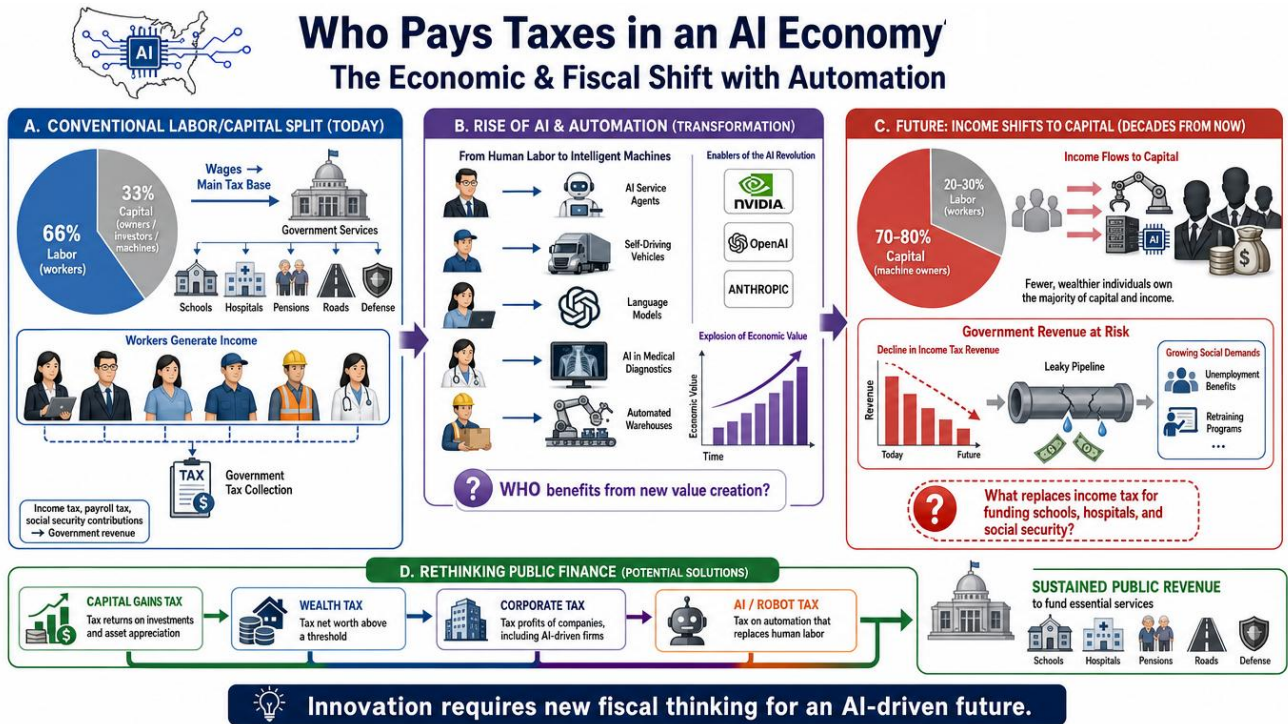


Fig -1: Who Pay Taxes in an AI Economy

So, it becomes a question of practicality and urgency. When less people are earning income, what takes the place of the income tax. This article answers that question in detail. It examines current tax collection practices, what AI poses as a danger to, and what are realistic solutions to.

2. OBJECTIVES

In this article, there are five distinct purposes.

1. First, it seeks to clarify in layman's terms the reasons behind the emergence of artificial intelligence to pose a serious challenge to government revenue collection which has been in existence for more than a hundred years.
2. Second, it aims to identify the reality of labour-based taxation in the main geographic areas of the world, to give readers an idea of what is at stake and why the effects will vary from country to country.
3. Third, it aims to provide a critical assessment of the three major policy options under consideration, considering their advantages and disadvantages and not advocating any one solution.

4. Fourth, it provides governments, businesses and citizens with concrete models and recommendations on how to prepare for this change, instead of be surprised by it.
5. Fifth, it helps to pinpoint areas of lack of thought and indicates where future research and policy experimentation should take place.

The overall goal is to make an economic concern tangible to readers, discuss it and do something about it, whether in a finance ministry or a boardroom, or their own savings accounts.

3. BACKGROUND

3.1 How We Came to Tax Work

To appreciate the issue of AI with tax systems, it is important to appreciate the need for labour in the tax system in the first place. The imposition of taxes on wages is relatively new. Throughout much of human history, governments have obtained revenues from tariffs on trade, land taxes, taxes on certain commodities, such as salt, alcohol, and customs fees at the borders. The income tax, the modern type that is deducted from your wages each month, was only established as a permanent and dominant element in the twentieth century. The federal income tax was instituted as a permanent tax in 1913. It was tried in the United Kingdom before but was a key factor during and after the world wars. Why was it so. Wars and the expansion of welfare states required vast amounts of money and the ever expanding wage earning class provided a wide, stable, and visible source of money.



Fig -2: The Evolution of Tax Systems

This was due to an important deep structural characteristic of industrial economies. Production required labour. Factories needed workers. Offices needed clerks. Economies expanded, jobs expanded and wage base expanded. Governments could collect tax directly from salary checks, making it easy and difficult to

evade. Overlaid on this were payroll taxes and social security contributions, frequently with direct connections between labor and benefits to provide pensions and health care. The entire situation formed a virtuous circle. They worked, earned, and paid in. Governments invested in services to enable people to work and to earn more.

This was strengthened by the stability of the labour share of income. For a long time, economists viewed the ratio of labour to capital as one of macroeconomics' great constants, a 2:1 ratio. It persisted for decades for decades, and across the nations. Tax systems were all subtly structured on the basis of the constant. All budgets, pension promises, and long-term fiscal plans were based on the assumption of continuous wage flows and continuous taxation. However, in economics, things that are constant are not necessarily forever. These are typically just relationships that haven't yet been broken. Indeed, the labour share started to decline in many advanced economies over the last 20 years, even before the advent of AI. It was eroded by automation, globalisation, superstar companies and intangible assets such as software and intellectual property. The share of workers was slightly reduced, and the share of capital was increased. AI is poised to make this a much faster shift than it is now and has the potential to accelerate the trend dramatically.

4. CURRENT TRENDS

4.1 The Wealth Is Already Moving

It is not hard to see the signs today, if you look for them.

Take the stock exchange as an example. Several tech firms that are related to AI have become very large in terms of market capitalization. The company that made the chips that power AI training became one of the most valuable companies in the world in a remarkably short time NVIDIA. The gains have been concentrated at the top. A few companies and their owners have reaped a lot of the new wealth. This is the real time capital share growth.

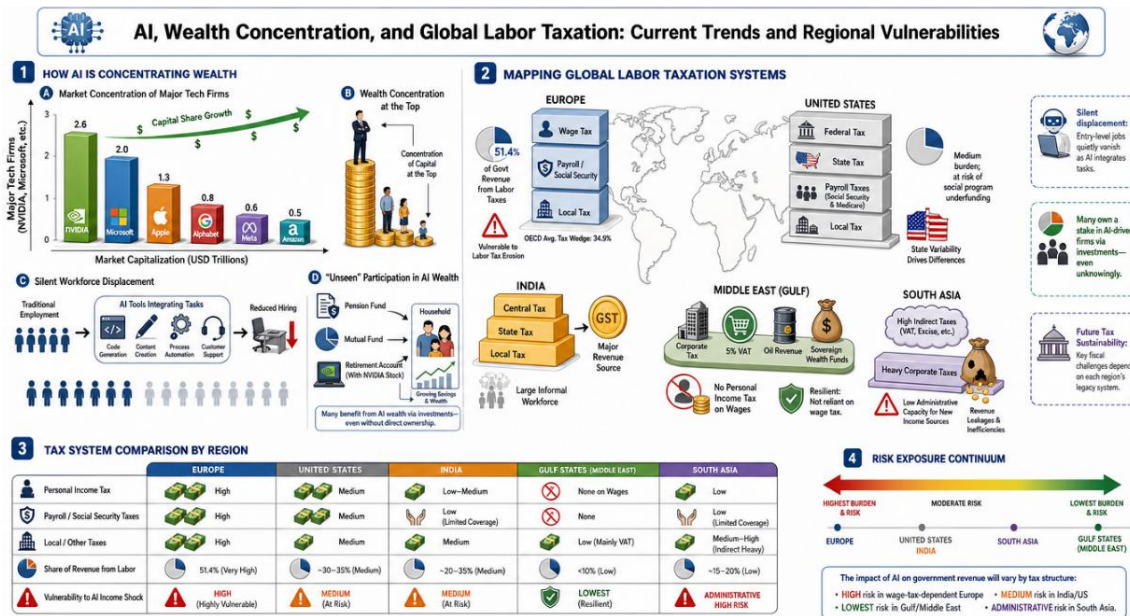


Fig -3: AI Wealth Concentration and Global Labor Taxation



Meanwhile, businesses in a variety of sectors are saying that they can achieve more with less. AI tools are used for coding, writing, designing, analysing and customer interaction. Often, early adopters don't fire people, but rather hire less, making the impact less apparent in the headline unemployment figures. The eviction takes place in silence without doubt. Some professions are seeing a decline in entry-level jobs. Jobs that used to warrant a position are integrated into software.

The critical and all too easily overseen aspect of all this is that there is a twist. In fact, many common individuals are already a part of the AI revolution without realizing it. If you have a pension fund, a mutual fund, or a retirement account that's tied to the overall market, you are almost certainly a fractional owner of NVIDIA, Microsoft, and the other companies that are benefiting from the AI craze. The higher their value, the higher your retirement account balance. This is significant, as it indicates that there is a mechanism in place for the distribution of AI wealth. It is integrated in the economic system. The question remains whether that mechanism will be available to all or to those who already have savings to invest.

Let's now draw a map of the actual taxing of labour around the world, as the AI shock will have different consequences depending on the revenue collection system in each region.

4.2 The global pattern

Workers' taxes are levied in three principal ways in most countries. Personal income tax levied on wages. Payroll or social security contributions, which are usually divided between the employer and employee. Sometimes local taxes are associated with employment or residency. The OECD has a measure to reflect the full impact of these, known as the tax wedge, which illustrates the difference between the amount paid by the employer and the net amount received by the worker. In 2025, the average tax wedge for a single average worker was approximately 34.9 percent of the labour costs in OECD countries. That is, the government receives over one-third of the wages of any worker, in one way or another. It's a tremendous amount of money and it's all predicated on people having jobs.

4.3 India

There is a three tier tax system in India Central, State and Local. Collecting personal income tax and customs duties is done in the central government. Local taxes and other levies are collected by states and local bodies for property-related taxes. The revenue from workers is from personal income tax and a significant portion of overall revenue is derived from indirect taxes, particularly the Goods and Services Tax (GST), which is levied on goods and services nationwide. What is interesting about India is that its formal income tax base is relatively small. Much of the workforce is in the informal sector and thus benefits from low or no income taxes. This implies that India is already highly dependent on consumption taxes and this could be a benefit as labour income fades.

4.4 The United States

There is a multi-layer tax system in the US consisting of federal, state and local taxes. Federal income tax, payroll taxes for Social Security and Medicare, and in many states, state income tax, as well as local property or sales tax, are levied on workers. While federal taxes are the largest component of the worker tax burden, the location of residence can make a big difference in a worker's tax bill. Some states do not have an income tax, and others have a high income tax. Importantly, Social Security and Medicare are paid for by payroll revenues. When employment decreases, these programmes are at risk of being underfunded at a time when an ageing population is in need.

4.5 Europe and the EU



European tax collection is primarily done at the national level and not by the EU. The taxes for workers are normally a combination of income tax and high social security payments. Labour taxes are a very large proportion of total revenues. As per the mentioned report, labour taxes in the EU represented 51.4 per cent of the total tax revenues. That's a lot of money. In the bloc, more than half of all government revenues are based on the taxation of work. Europe is thus one of the most vulnerable areas with respect to the shrinking labour share, as much of the fiscal model in Europe is based on a working and tax paying population.

4.6 The Middle East

The situation in the Gulf states is quite different. Most of them, including the UAE, do not have any personal income tax for individuals. The UAE, on the other hand, charges a 5 percent VAT, excise taxes and corporate taxes. Historically these economies have financed themselves on the basis of oil and gas revenue and to an increasing extent, on the basis of sovereign wealth funds and consumption taxes. So, in one way, the Gulf model might be more appropriate for an AI-driven future, as it never relied on taxing wages as its main source of income anyway. It has also experience with SWFs which provides a template for the later described ownership approach.

4.7 South Asia

In South Asian countries, the indirect tax collection is generally more important, and the indirect tax collection efficiency is generally lower than in high-income regions. Personal income tax is in place but exemptions, informality and administrative restrictions reduce the base. Corporate taxes and consumption taxes are a very heavy burden. This renders the region susceptible in a different manner. These governments have less administrative capacity to rapidly shift to new sources of income tax revenue if AI erodes the formal jobs that do generate income tax revenue.

4.8 The simple summary

The top worker-tax burden is typically found in the European and other OECD countries with high income tax rates and high social contribution rates. In India and the US, there is a medium burden, which depends on income and place. Many Middle East countries, particularly the Gulf, have the lowest income-tax rates on wages. The important point is that the nature of the problems caused by the same AI shock will vary significantly based on the nature of a country's construction. Europe is at stake of losing its biggest revenue source. It may go unnoticed in the Gulf. The capacity problem is the problem that India and South Asia have.

5. THE CHALLENGES

5.1 What AI Actually Breaks

With an understanding of the landscape, let's now examine what AI poses as a risk to and why remedying AI is more difficult than it appears.

5.2 The shrinking wage base

The most obvious issue is a simple arithmetic one. The less wages that are earned, the lower the income tax. The fewer people an employer has on the payroll, the less payroll tax that falls. Social security and pension contributions are reduced, as they come out of wages. However, if AI takes over a significant portion of employment, then all three of these decrease at the same time. They don't come one by one in a manner

that allows governments to make adjustments. They fall together, and they fall hardest in the areas which are most reliant on them.

5.3 The rising demand for support

The challenge is exacerbated by the fact that spending pressure tends to increase when revenues are decreasing. There is a need for income support, retraining and health care for the displaced workers. Those who are no longer paying income tax may begin to raid public funds. The fiscal scissors effect is at work. One blade is declining revenues. The other is the increased need. The gap is the deficit and can be significant if it grows rapidly when they close.

Challenges Broken by AI: Economic, Fiscal, and Societal Impacts

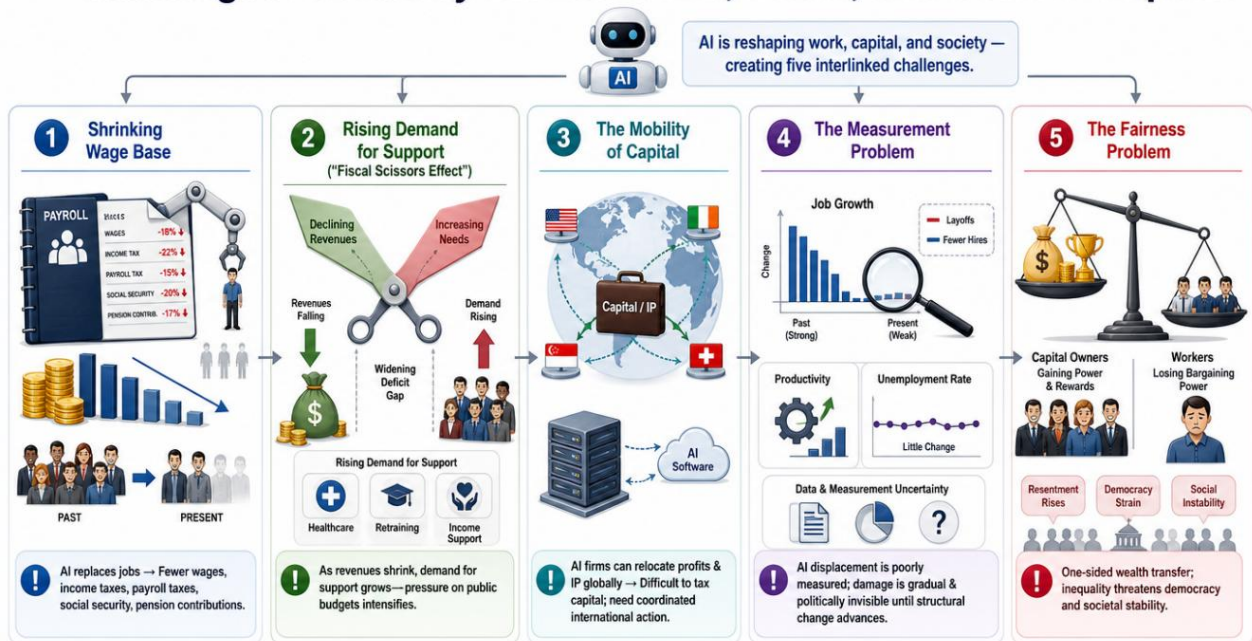


Fig -4: Challenges Broken by AI Economic, Fiscal, and Social Impacts

5.4 The mobility of capital

When governments react, they're faced with a hard-to-solve problem they want to tax capital and corporate profits more. Capital is mobile. AI firms, their IP and profits can be moved from country to country to where taxes are lowest. A software model is not required to be located in a specific country. It's the same issue that has been plaguing the attempts to tax multinationals tech companies for years. One country could simply see the capital walk out the door if it taxes capital too aggressively. This is precisely what coordinated action at international level is important, and that is why it is difficult to achieve, for example through the introduction of a global minimum corporate tax, agreed by many countries.

5.5 The measurement problem

There's a more subdued challenge, too. AI displacement is poorly measured at this time. If a company doesn't lay off its employees, but instead hires fewer, the impact is disguised in sluggish job growth. Productivity improvements can result in profits well before they can be seen in the unemployment statistics. This makes it politically challenging to take action, as the damage is spread out over time and is less

noticeable, whereas the benefits are more concentrated and more noticeable. When the tax base is finally seen to be eroding, the structural change could be well under way.

5.6 The fairness problem

Lastly, is it fair. And that is the crux of the issue. Such a one-sided transfer of wealth to a few capital owners at the expense of ordinary workers, who lose their jobs and their bargaining power, is not only a fiscal issue. It is a social and political one and it is one that is socially and politically determined. This is a level of inequality that puts a strain on democracy, can cause resentment and can destabilize societies. The tax issue cannot thus be separated from the much larger question of the sharing of the benefits of AI.

6. SOLUTIONS AND FRAMEWORKS

6.1 Three Roads Forward

The diagnosis is accepted by economists in general. They disagree, but they do so productively, in the matter of the cure. There are three broad strategies under consideration. None is not a complete answer in itself. Together they make up a menu, from which most countries will probably select a mixture.

Three Roads Forward: Tax and Ownership Solutions for the AI Economy

Integrative Economic Frameworks for AI-Driven Societies

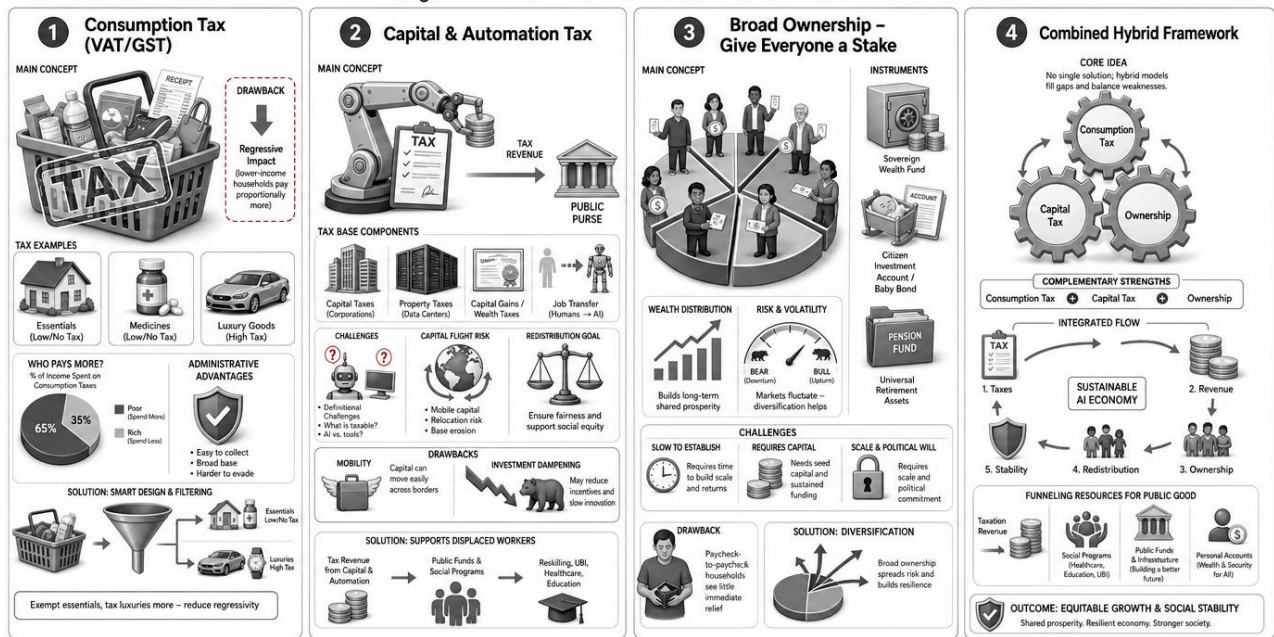


Fig –5: Three Roads Forward Tax and Ownership Solutions for the AI Economy

6.2 Option one: Tax on what people consume

The first is to make increased efforts to rely on consumption taxes like VAT and GST. The reasoning is simple. AI capitalists may be the ones to gain income, but even they spend money. They purchase properties, vehicles, high-end products, services and experiences. A consumption tax collects money at the time of purchase, and doesn't matter where the money came from. It doesn't matter if your earnings were from a salary or from owning shares of an AI company. It is a tax that is applied when spending.



There are some benefits to this approach. Consumption taxes are difficult to evade, easy to administer, and are not as sensitive to a decline in the wage base. They are already in a good position as they are heavily relied upon by India and the Gulf states. The idea here is to set consumption as the foundation stone of a post-labour tax regime.

But there's a major drawback. Regressive by nature, consumption taxes are applied to the purchase of goods and services. The poor spend a higher percentage of their income than the rich, and thus a flat consumption tax has a greater impact on the poor. For those workers that have been displaced, an increase in VAT on all their purchases is insult to injury. The solution is to be careful in designing consumption taxes such that essentials such as food, medicine and housing are taxed at lower rates or even exempted while luxuries are taxed at higher rates. This makes the regressive border smoother, but more complex and provides space for lobbying and loopholes.

6.3 Option two: Tax capital directly

The second concept is to impose a tax on capital where the income is generated. The shift of returns to the owners of machines and intellectual property means that taxing those returns, by corporate profit taxes, capital gains taxes, dividend taxes and perhaps wealth taxes, follows the money to its new home. Taxation of capital is also a form of redistribution since most of the capital returns go to the rich. It is taking what the gains are focused on and distributing money that can be distributed more widely.

The most popular and talked about one is the robot tax or AI tax. The concept, proposed by some such as Bill Gates, is to impose a direct tax on automation, so that if a machine replaces a worker it pays a tax similar to that paid by the worker. The appeal is self-evident, and politically poignant. The robot or, more precisely, its owner should contribute to the public purse if the robot has taken the job of the human.

The idea behind this is that capital and automation is the new tax base, rather than labour. There's property and asset taxes to consider, as AI infrastructure is physical. Data centres, server farms and automation equipment take up space, use a ton of power, and, unlike software, can't easily move out of the country. Data Centre is anchored in location. That makes it a sure shot target.

Again, it's a weakness in mobility and complexity. It is difficult to establish a definition of "robot" or "AI system" for tax purposes. Is a spreadsheet macro considered. Does a self-checkout machine. High capital taxes could end up dampening the very investments that lead to productivity and growth. But capital can move, if there's no international coordination. The robot tax is also philosophically challenged. Taxing automation could deter the productivity gains that lead to societies becoming wealthier. The counter argument is that the revenue helps to finance the shift for displaced workers, which in turn is important to the economy's health.

6.4 Option three: Give everyone a stake

The third one is the most interesting and is the most transformative. This isn't an after-the-fact tax on the AI economy, it's a change in ownership of the AI economy. If the issue is that AI wealth is concentrated in the hands of a few capital owners, then the answer is to increase the share of ownership of the machines, to everyone.

This can be done in two ways. One is the sovereign wealth fund. A government may purchase as well as keep equity in productive companies, such as AI companies, on behalf of all its citizens. The profits go to the public treasury or to the people as dividends. The best example is in Norway. It has accumulated its sovereign wealth fund from oil revenues, and now has vast holdings on behalf of a relatively small



population of people in thousands of companies worldwide. In effect, the fund gives all Norwegians a share of the world's capital. Similar funds are operated by the Gulf states. The mechanism is to use a part of the national resources, be it oil money, tax revenues or borrowing, to establish a permanent stake in the productive economy, including AI.

The second type of personal ownership is in the form of index funds and pensions. Many individuals already have an indirect stake in AI companies, as mentioned above, via their retirement accounts. The aim is to extend and to make more universal this. Even if citizens don't have money to invest, policies could make sure that everyone has a stake in the market. Some proposals establish a "baby bond" or "citizen investment account" for every baby born, funded by the state and that grows over the course of a lifetime. Others invest some of the compulsory pension funds in general capitalization of the economy.

The beauty of this method is that it is tackling the root cause and not the symptom. But if workers are owners as well, it does not matter that income is transferred from labour to capital both go to the same people. Windfall from AI is not a gift to citizens, but to them as a return on assets they have created. As this article has highlighted, the tools are already available. Pension funds and index funds, and sovereign wealth funds, are well-established products, and well known. The problem is that there is a lack of scale and political will.

The problem with the weakness is that it takes time to establish ownership and capital is needed up front. A sovereign wealth fund requires capital to invest, and a faltering government might not have the capital to invest. Broad personal ownership won't do much for people who are living paycheck to paycheck unless the state is actively putting money into those accounts, but it will do a lot for those who can save. And focusing the nation's savings in equity markets is risky. There are both bear and bull markets. If the AI boom slows down, a country that has staked its future on its AI stocks is at risk. The diversification and wise governance are necessary.

6.5 A combined framework

The truth of the matter is that no one road is enough. The most feasible model is a hybrid model. Consumption taxes offer a fixed base of income that's not wage-related. The capital, corporate and automation taxes go with the income to its new owners and finance the social transition. The broader ownership issue, through sovereign wealth funds and universal investment accounts, is tackling the more fundamental distribution issue, allowing citizens to directly benefit from AI's dividends. Each tool fills in a gap in other tools. Ownership and capital taxes make up for regressive consumption taxes. Capital is mobile and consumption taxes and physical asset taxes offer stability. Ownership is a process and so consumption and capital taxes are used to pay for the present, while ownership is developed for the future.

7. PRACTICAL APPLICATIONS

7.1 What Each Group Can Actually Do

If people can't act on the framework, it is of no use. Here are some steps in the direction of thinking for the three groups most impacted.

7.2 For governments and policymakers

The first step in the practical action is to make the correct measurement of the shift. Governments should invest now to have better information on the adoption of AI, task automation and the labour share of income in each sector. If you can't see it, you can't manage it and the statistics right now don't reveal the change. Having clear metrics provides the data to support timely policies, not panicking.

The second step is to expand the tax base before the crisis not after. Those countries that rely more on income tax, particularly in Europe, should shift slowly towards taxes on consumption and capital, but provide targeted relief for low income citizens. This is a gradual process that can be done over years rather than under fiscal pressure, and will be much less painful.

The third step is to establish or further develop a sovereign wealth fund. Even a modest fund, with a small portion of the annual revenues and compounded over decades can become a significant national asset. For instance, India might start a citizens fund which would have a diversified equity portfolio of the world and domestic equities, so that the citizens get some of the upside of AI. This is already done in the Gulf states and is a tried and tested model to study.

International co-ordination is the fourth step. Capital and profits from AI can be easily transferred from one country to another, making it impossible for any single country to effectively tax on their own. There is a need to strengthen and expand existing measures, such as the global minimum corporate tax, and apply them to AI-specific profit shifting. The other choice is to have a race to the bottom where everybody loses.

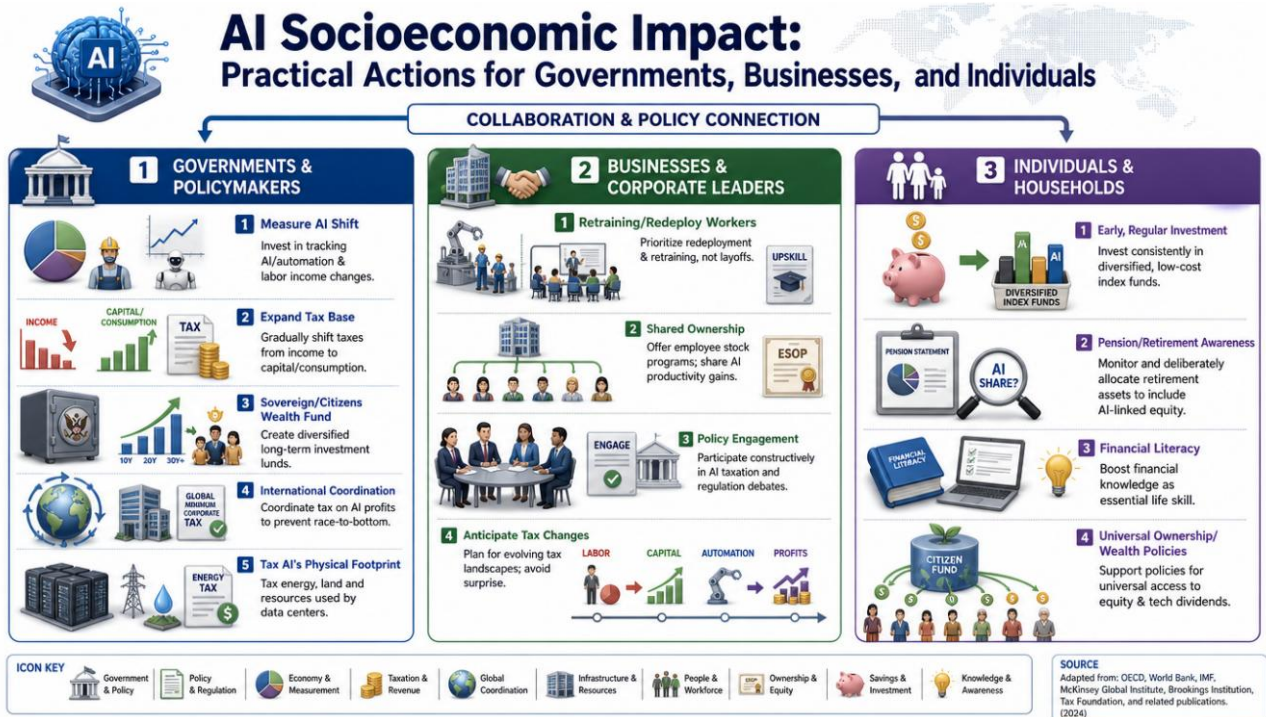


Fig -6: AI Socioeconomic Impact Practical Actions for Government, Business and Individuals

The fifth step is to put a tax on the physical footprint of AI. Data centres are land, water and electricity guzzlers. They are unable to move and they can be seen. Sensible taxes on energy consumption, land value and data centre operations capture revenues which cannot escape to other countries and provide incentives for efficiency and sustainability.

7.3 For businesses and corporate leaders

But there's more for companies than just paying whatever taxes arise. Forward-looking companies should take note that there is no customer without income Consumer purchasing power is lost in mass



displacement and this eventually has a negative effect on the businesses that have created the displacement. Engagement not avoidance is the call of enlightened self-interest.

In practice, transition options can be implemented that are based on retraining and redeployment of workers instead of simply cutting workers. They can delve into the concept of shared ownership, like employee stock ownership plans, where employees become shareholders, thus reaping the rewards of improved productivity through AI. They are able to be involved in policy discussions in a constructive way, instead of simply lobbying to reduce their own tax. They can also look forward to a tax landscape that will undoubtedly change to one of profits, capital and automation, and not be surprised.

7.4 For individuals and households

The most important thing that this article has been pounding into your skull is the insight that is most important to ordinary people. When the economy is such that the capital is taking a larger portion of the income, you don't just want to be a worker, you want to be an owner. The old saying, "just get a good job, and get paid a wage" is important, but no longer enough.

In a nutshell, this involves investing early and regularly, even in small amounts, in low-cost, diversified index funds that reflect the growth of the entire economy, including AI. It involves knowing what you have in your pension or retirement account, as you might already have a stake in the AI revolution and want to ensure you're investing in it on purpose and in a diversified way. It's about making financial literacy a fundamental part of life. At the collective level, it is about policies that increase ownership for all, because no one wants to live in a society in which only the already rich own the machines.

The message is political as well as personal to those who don't have as much to invest. The instruments that can make it possible to extend ownership to those who are unable to build it out of their own savings are universal ownership schemes, citizen wealth funds and well-designed social dividends. The demand for and shaping of such policies is in itself a practical action.

8. LESSONS FROM HISTORY HAVE WE BEEN HERE BEFORE

But a disconcerting question must be asked before accepting that Artificial Intelligence will forever reduce the tax base. Are past technological mass unemployment forecasts being realised. There is both good news and bad news in the historical record and we must sit with both.

As the comforting tale goes, the story is well known. With each major wave of technology, jobs have been lost and jobs have been created, no one could have foreseen. In the early 1900s, the Luddites of England destroyed the machines they saw as threatening their way of life when mechanized looms were introduced. There was a decline in weaving jobs. However, the textile sector increased so much that overall employment increased. The car put stable hands, blacksmiths and carriage makers out of work, but generated many more jobs in manufacturing, road construction, transportation and tourism. The personal computer was supposed to make office jobs disappear, but the decades since it came on the scene have witnessed an increase in jobs, not a decrease. In both instances, increased productivity lowered costs, created purchasing power, and led to the demand for totally new types of human labor. The fallacy that there is a fixed amount of work to be done around is referred to as the "lump of labour fallacy" by economists. Those who have fallen victim to it have been punished time and time again in history.

But there is a strong argument against that, and that is why intelligent economists aren't just brushing aside the fear of AI. Previously, technologies were used to enhance human capabilities. They had to be told what

to do, they replaced muscle, and then replaced routine calculation. The tractor did not make the farmer more productive, it made him a farmer. AI is not just a matter of degree, it's a matter of kind. It attacks cognition the very thing that humans relied on when machines took over the physical and or routine tasks. The escape route from the past through analytical, creative, judgment-based work that absorbed displaced workers in all previous transitions could become narrower if AI can do it. There may be fewer spaces remaining for human labour to fall back.

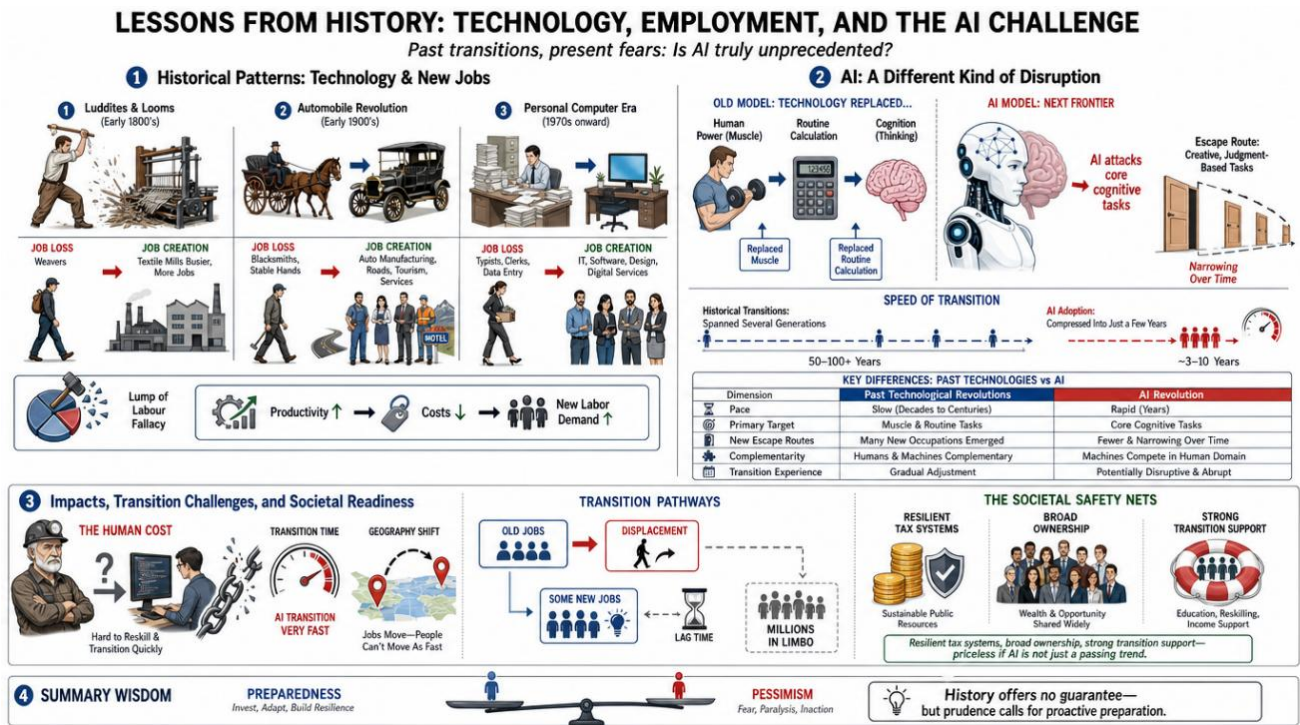


Fig -7: Lessons From History Technology, Employment, and the AI Challenge

Like most things the truth is in the timing and the distribution and not the absolutes. Although AI may end up creating as many jobs as it takes away, the transition itself can be a long and harsh one for those who are caught up in it. A coal miner at 50 years old isn't a software engineer at 51. The new jobs can be in a different location, require different skills and may not come for a few years after the old jobs have vanished. The overall numbers can be good and millions of lives can be ruined in between. This is why the tax and ownership issues are important, no matter which long-term scenario turns out to be the case. AI will result in permanent displacement or just a painful transition, but the societies must have a revenue cushion to help them through, and a mechanism to distribute the gains.

Also, there's a measurement caution in the historical comparison. Previous transitions took place over generations and institutions, education systems and labour markets had time to adjust. By contrast, the adoption of AI seems like it is taking place at a much quicker speed. A technology which infiltrates the whole global economy in a few years, instead of decades, leaves little space for a gradual adjustment. Scale is not the only factor that could make a transition a disruptive shock speed is also important.

The truth is that history does not offer a promise of doom nor does it promise a soft landing. It indicates that man's ingenuity has always found new outlets, but it also indicates that there are features here that

are truly unprecedented. Wisdom is in preparing for the worse, and hoping for the better. If AI is yet another passing trend, the costs of building resilient tax systems, broad ownership and strong transition support are relatively low, but if it is not, it could prove priceless. Being prepared for the worst when the facts are not clear is not being pessimistic. It is prudence.

9. FUTURE PROSPECTS SEVERAL POSSIBLE WORLDS

There's no denying that no one knows how this will play out. There is no destiny in the future. This is a matter of choices we make now. It's possible to draw a few reasonable scenarios.

In this first case, governments take no real action until they are compelled to by the crisis. Labour share declines, income tax revenue decreases, deficits increase and public services are seriously strained. The level of inequality increases significantly, social tension increases and reform is late, rushed and contentious. This is the road of least resistance and the one that is most likely to be taken if leaders don't consider AI to be a current issue.

In the second scenario, societies make gradual and wise adaptations. They shift taxes from investments to consumption, establish sovereign wealth funds, expand the base of taxation and work together internationally to tax mobile income. The change is somewhat rough but okay. AI brings about real prosperity, and that this will lead to a mass impoverishment is not true, as ownership and revenues grow as well. This is the positive route and it's possible with foresight.



Fig -8: Future Prospects Several Possible Worlds

In the third scenario, AI does not cause the same level of disruption to jobs as feared, for at least a time being. There is some consolation to be drawn from history. Many jobs were lost in the past technological revolution; many new jobs were created that no one could have foreseen. The auto put stable hands out of work and provided millions of jobs in manufacturing, selling and roads. AI could still create countless new

classes of human labor. Otherwise, the tax base remains in a different form and doesn't collapse. The truth is that no one knows if either of these forces will be the predominant one and on what timescale.

Most likely is a combination. For some industries, it will be an extensive displacement, for others, it will be an opportunity. The labour share will probably continue to decline but it will be a gradual decline and not a crash. The results will vary hugely, depending on the starting position within each country, and on the policy decisions made. Already consumption tax-based, the Gulf states might make the transition relatively easy. Europe, which is most reliant on taxes on labor, is hardest hit. India and South Asia are not only dealing with a capacity challenge but also have an opportunity to leapfrog and create modern tax and ownership systems that are resilient to AI, instead of trying to retrofit old systems.

What is clear is that the link between work, income and tax that which has remained stable for 100 years is in a state of radical transformation. The societies that will prosper are the ones that will know that this is on the horizon and will do something about it.

10. GAPS IN CURRENT THINKING AND FUTURE RESEARCH

There are some key issues that have not been sufficiently examined, and those issues should be identified.

Firstly, there is a lack of good empirical measurement of real-time displacement by AI. The vast majority of job loss statements are projections and or anecdotal. The need is to have rigorous data collection on the impact of AI on the labour share, both at the sector and country level, and on an ongoing basis. This is the basis of 'blind' policy.

Secondly, there is no solution to the design of a viable robot or AI tax. What is the unit of taxation. How can you discourage the bad productivity without discouraging the good productivity and still get revenue. These are indeed tough questions which require economic modelling and small-scale policy experiments, instead of slogans.

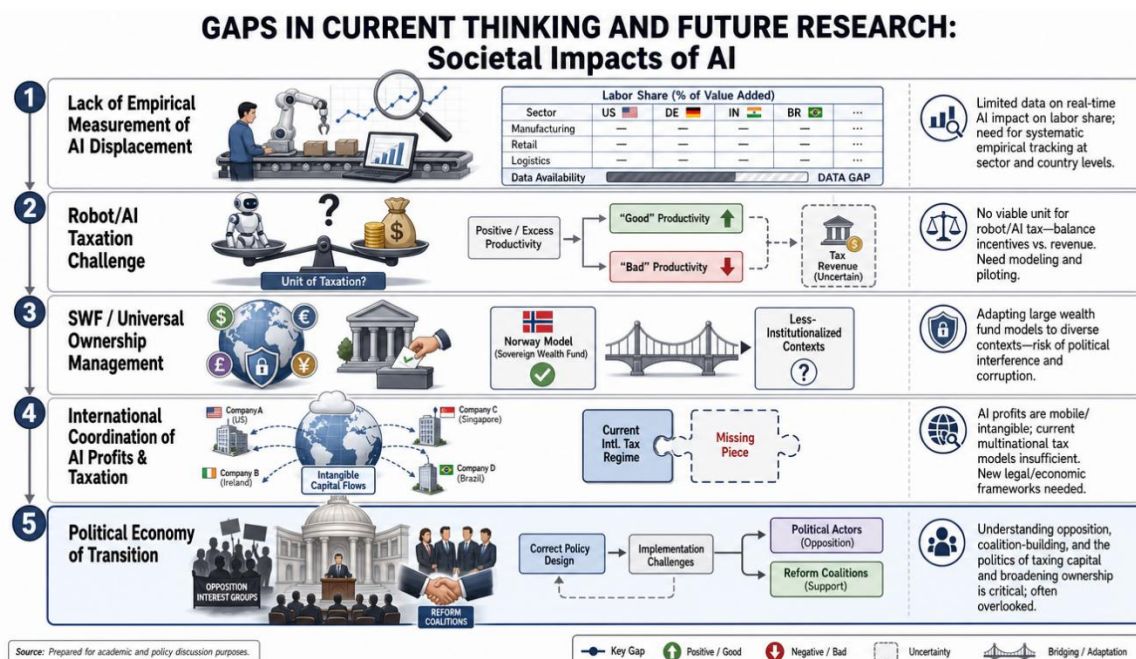


Fig -9: Gaps in Current Thinking and Future Research



Third, the management of large SWFs and universal ownership schemes pose issues that warrant further research. How to avoid political interference, corruption or reckless risk taking of citizens money Norway has solutions that are suitable for Norway, but may not be readily applicable to less-institutionalized countries. There is limited research on the adaptation of these models to the various governance contexts.

Fourth, a new approach must be found to the international coordination problem. While current models for multinationals taxation are a good first step, AI profits are mobile and intangible, and could need new approaches that we have yet to develop. This is an area ripe for discussion by both economists and lawyers.

The political economy of the transition, and this is the fifth and most important, has been overlooked. But knowledge of the correct policy does not equal the ability to implement the policy. Who will oppose these changes and for what reason. What are the possibilities of forming reform coalitions. As well as understanding the economics, it is important to understand the politics of taxing capital and of broadening ownership.

11. CONCLUSION

As AI becomes more prevalent, there is a question that everyone is impacted by, whether they use AI directly or not. Who will receive the income if the machines do the work and who will pay the tax that supports our common life together. Over the past 100 years governments have been taxing labour, and using the regular income of wages to pay for schools, hospitals, pensions and defence. AI poses a danger to this foundation because it reduces income, payroll and social security income for the workers while increasing the income of the capital owners at the same time when the need for public support might be increasing.

The bottom line is that there is no one solution. The realistic way forward is a mixture of three approaches. Consumption taxes give a guaranteed bottom line for revenues. The tax on capital and corporate profits and on automation goes with the income and is used to finance the transition. But, with broad ownership sovereign wealth funds and universal investment accounts the most fundamental problem is solved, and citizens can reap the benefits of AI, not just be taxed to make up for its lack. The most significant thought is hopeful. The means to share AI riches are available. Pension funds, index funds and sovereign wealth funds are tried and tested tools. The lack of scale and political will is the problem. The future does not just happen to us. It's a decision that we make. The societies that plan ahead, in a thoughtful and equitable manner, will reap the benefits of the AI revolution instead of a concentration of wealth and a decline in the public good.

REFERENCES

- [1] Brownlee, W. E. (2020). Tax and fiscal regimes in the united states. *The Oxford Handbook of American Political History*, 311–338. <https://doi.org/10.1093/oxfordhb/9780199341788.013.23>
- [2] Cameron Nunn (2015). Juveniles as human capital: Re-evaluating the economic value of juvenile male convict labour. *Labour History*, 53. <https://doi.org/10.5263/labourhistory.108.0053>
- [3] Gaube, T. (2005). Financing public goods with income taxation: Provision rules vs. provision level. *International Tax and Public Finance*, 12(3), 319–334. <https://doi.org/10.1007/s10797-005-0500-1>
- [4] James C, I. (1955). Sources of government revenue. Stanford Univ. Pr.. <https://doi.org/10.58837/chula.taic.2275>
- [5] O'Mahony, M., Vecchi, M., & Venturini, F. (2018). The labour share of the national income: The role of capital in its many forms.



- [6] (2022). Creating evidence driven practices to enhance human care services for unhoused and low-income pet owners. *Journal of Nursing & Healthcare*, 7(3). <https://doi.org/10.33140/jnh.07.03.06>
- [7] Akyüz, Y. (2017). *Policy response in advanced economies*. Oxford University Press. <https://doi.org/10.1093/oso/9780198797173.003.0001>
- [8] Cosh, A. (1987). Retention ratio. *The New Palgrave Dictionary of Economics*. https://doi.org/10.1057/978-1-349-95121-5_1655-1
- [9] Hull, H., & Scalia, R. (2021). UAE international tax. *IBFD*. <https://doi.org/10.59403/3byxz92>
- [10] (2010). Income tax, federal. *Encyclopedia of U.S. Political History*. <https://doi.org/10.4135/9781608712380.n381>
- [11] (2016). Taxing wages: Tax wedge decomposition (edition 2016). *OECD Tax Statistics*. <https://doi.org/10.1787/9217f71b-en>
- [12] (2020). The future of the future of work. *The Future of Work and Employment*, 102-102. <https://doi.org/10.4337/9781786438256.00014>
- [13] (2024). Principles of income tax. *Irish Income Tax 2024*, 21-30. <https://doi.org/10.5040/9781526530219.ch-003a>
- [14] Aizenman, J., & Jinjark, Y. (2010). De facto fiscal space and fiscal stimulus: Definition and assessment. <https://doi.org/10.3386/w16539>
- [15] Briefs, U. (1981). Computerization and employment annotations with regard to the relationship between technology, productivity and employment. *Computers in Industry*, 2(4), 259-266. [https://doi.org/10.1016/0166-3615\(81\)90073-7](https://doi.org/10.1016/0166-3615(81)90073-7)
- [16] Chung, K., Ma, H., & Chan, Y. (2025). Measuring creative displacement anxiety in the age of generative AI: Scale development and validation. *IASDR 2025: Design Next*. <https://doi.org/10.21606/iasdr.2025.46>
- [17] Imparato, D. (2024). UN tax pillars to address capital concentration (through inheritance levies) and wealth flight (through exit taxes) - implications for the EU. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.4890515>
- [18] Kenworthy, L. (2025). Does income inequality degrade democracy?. Is Inequality the Problem?. <https://doi.org/10.1093/oso/9780197817094.003.0003>
- [19] Popper, H. A. (2017). Gauging international capital mobility. *Issues in International Capital Mobility*. <https://doi.org/10.4324/9781315123875-ch1>
- [20] T.H.W., Z. (2002). Green tax reform, marginal revenue of wage income taxes, and the wage curve: A brief note. <https://doi.org/10.26481/umamer.2002014>
- [21] Waller, P. (2017). Electronic payment mechanisms in social security: Extending the reach of benefit and contribution transactions. *International Social Security Review*, 70(2), 3-30. <https://doi.org/10.1111/issr.12133>
- [22] (2021). The scope of tax haven impact and the ways in which that impact is felt. *Outlaw Paradise*, 39-60. <https://doi.org/10.5040/9781978722163.ch-2>
- [23] (2024). The ethical and regulatory challenges of AI and their impact on income inequality. *Educational Administration: Theory and Practice*, 30(8). <https://doi.org/10.53555/kuey.v30i>
- [24] Antillon, M., Huang, C. I., Crump, R. E., Brown, P. E., Snijders, R., Miaka, E. M., Keeling, M. J., Rock, K. S., & Tediosi, F. (2022). Cost-effectiveness of sleeping sickness elimination campaigns in five settings of the democratic republic of congo. *Nature Communications*, 13(1). <https://doi.org/10.1038/s41467-022-28598-w>
- [25] Auten, G., & Splinter, D. (2020). Top income shares and the difficulties of using tax data. *United States Income, Wealth, Consumption, and Inequality*. <https://doi.org/10.1093/oso/9780197518199.003.0006>
- [26] Bahgat, G. (2017). *Sovereign wealth funds in the persian gulf states*. Oxford University Press. <https://doi.org/10.1093/oxfordhb/9780198754800.013.19>
- [27] Farrar, S. (2020). Capital investment and the UK corporate tax system. *Tax and Optimal Capital Budgeting Decisions*. <https://doi.org/10.1201/9780429435812-2>
- [28] Gao, X. (2024). The norway government pension fund global: The world's largest sovereign wealth fund. *The Palgrave Handbook of Sovereign Wealth Funds*. https://doi.org/10.1007/978-3-031-50821-9_26
- [29] Huber, W. D. (2024). Wealth, wealth tax, and wealth-y tax. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.4974591>
- [30] Slemrod, J., & Yitzhaki, S. (2000). Tax avoidance, evasion, and administration. <https://doi.org/10.3386/w7473>



- [31] (2012). Index. Stochastic Methods for Pension Funds, 449-458. <https://doi.org/10.1002/9781118562031.index>
- [32] (2017). Server storage I/O and data infrastructure fundamentals. *Software-Defined Data Infrastructure Essentials*. <https://doi.org/10.1201/9781315369426-2>
- [33] (2022). Research department - general economic conditions - meetings of the university economists - commonwealth bank conference of economists - consensus of opinion of the economists and their individual comments - 1952. https://doi.org/10.47688/rba_archives_2006/18221
- [34] Chin, E. (2010). Purchasing power. <https://doi.org/10.5749/9780816691173>
- [35] Choueifaty, Y., Froidure, T., & Reynier, J. (2013). Properties of the most diversified portfolio. *The Journal of Investment Strategies*, 2(2), 49-70. <https://doi.org/10.21314/jois.2013.033>
- [36] Cowan, D., Carr, H., & Wallace, A. (2018). Experiencing shared ownership. *Ownership, Narrative, Things*. https://doi.org/10.1057/978-1-137-59069-5_6
- [37] Giovannini, A. (1987). International capital mobility and tax evasion. <https://doi.org/10.3386/w2460>
- [38] Goldberg, D. S. (2013). Tax consumption instead of income. *The Death of the Income Tax*. <https://doi.org/10.1093/acprof:oso/9780199948802.003.0009>
- [39] Jamal, M. A. (2017). The 'other arab' and gulf citizens. Oxford University Press. <https://doi.org/10.1093/oso/9780190608873.003.0006>
- [40] Klingert, S., Niedermeier, F., Dupont, C., Giuliani, G., Schulze, T., & de Meer, H. (2015). Renewable energy-aware data centre operations for smart cities - the dc4cities approach. *Proceedings of the 4th International Conference on Smart Cities and Green ICT Systems*. <https://doi.org/10.5220/0005430600260034>
- [41] Powell, L. (2024). The consumption of energy by data centres: Implications for the global south. <https://doi.org/10.64503/orfo>
- [42] George, D. (2026b). Self-Driving Networks: AI automation for Enterprise IT. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.19335608>
- [43] Shanan, T. (2026). Chapter 16: The implementation of the global minimum corporate tax in israel. *WU - Tax Law and Policy Series*. <https://doi.org/10.59403/qbrxz016>
- [44] (1969). Redeployment and retraining. *An Exercise in Redeployment*. <https://doi.org/10.1016/b978-0-08-013422-2.50023-x>
- [45] (2020). 8. show me the money! citizen benefit from sovereign wealth. *Citizens' Wealth*. <https://doi.org/10.12987/9780300222111-011>
- [46] George, D. (2025b). Cyber resilience in an AI-Driven world: a Strategic framework. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.18002783>
- [47] (2022). WHAT IS a SOVEREIGN WEALTH FUND?. *Sovereign Wealth Funds*. <https://doi.org/10.2307/j.ctv2tjdhjj.5>
- [48] George, D. (2025a). The AI Job Revolution - How emerging roles are reshaping the future of work and creating new career pathways. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.17211185>
- [49] APELLA, I. (2024). The fallacy of the lump of labour theory: Evidence for latin america. *International Labour Review*, 163(1), 49-71. <https://doi.org/10.1111/ilr.12396>
- [50] George, D. (2026a). The Agent Economy: How autonomous AI systems are restructuring knowledge work, capital allocation, and the architecture of enterprise value. *Open MIND*. <https://doi.org/10.5281/zenodo.18555677>
- [51] George, D. (2026c). Architectural Convergence in Security Operations: a technical framework for AI-Augmented Threat Detection, Automated response, and Organizational cyber resilience. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.19986642>
- [52] Berg, M., & Bruland, K. (1998). Culture, institutions and technological transitions. *technological revolutions in europe*. <https://doi.org/10.4337/9781035335299.00010>
- [53] George, D., Dr.T.Baskar, & Siranchuk, D. (2025). Examining university obsolescence claims in the conversational AI era. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.17715188>
- [54] Publication, A. R. R. (2026). Securing Tomorrow: How 6G networks and AI are reshaping the cybersecurity landscape. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.18299699>
- [55] Cerf, V. (2020). Challenge for society of scale and speed of technological change. *Unimagined Futures - ICT Opportunities and Challenges*, 555, 1 - 4. https://doi.org/10.1007/978-3-030-64246-4_1



- [56] George, D., Shaji, T., & Siranchuk, D. (2025). AI personalized Learning The hidden cost to children's critical thinking. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.17963271>
- [57] Coates, J. F. (1984). Social impact assessment: Experimental methods and approaches. *Technological Forecasting and Social Change*, 25(3), 293. [https://doi.org/10.1016/0040-1625\(84\)90007-6](https://doi.org/10.1016/0040-1625(84)90007-6)
- [58] George, D., George, A., Devi, D. H., & Shahul, D. (2025). The Birth of the AI Baby: A technological paradigm shift in Human Reproduction and IVF. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.15284446>
- [59] Coates, J. F. (2016). Historical lessons from technological disruptions: Will the storm always pass?. *Technological Forecasting and Social Change*, 113, 85-88. <https://doi.org/10.1016/j.techfore.2016.10.032>
- [60] George, D., & George, A. (2025). The AI Job Revolution - How emerging roles are reshaping the future of work and creating new career pathways. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.17009242>
- [61] Giandrea, M. D., Cahill, K., & Quinn, J. (2013). Self-employment transitions among older american workers with career jobs.
- [62] George, D., Dr.T.Baskar, & Dr.M.M.Karthikeyan. (2026). India's M.A.N.A.V vision: Redefining global AI governance through Human-Centric principles and strategic sovereignty. Zenodo (CERN European Organization for Nuclear Research). <https://doi.org/10.5281/zenodo.18730381>
- [63] Katke, K., Kamat, A., & Kalal, M. (2017). Impact of demonetization on indian automobile industry: A special reference to car industry. *International Journal of Scientific Engineering and Research*, 5(3), 71-74. <https://doi.org/10.70729/ijser151277>
- [64] Korczyński, M. (2004). Back-office service work: Bureaucracy challenged?. *Work, Employment and Society*, 18(1), 97-114. <https://doi.org/10.1177/0950017004040764>
- [65] Martínez-Vergara, S. J., & Valls-Pasola, J. (2020). Business strategies and disruptive technologies. *Disruptive Technology*. <https://doi.org/10.4018/978-1-5225-9273-0.ch001>
- [66] Pamisetty, V. (2022). Ai-powered decision support systems for enhancing tax compliance and public revenue management. *International Journal of Science and Research (IJSR)*, 1490-1504. <https://doi.org/10.21275/ms2212143253>
- [67] Peel, F. (2019). Flight of the luddites: Local reminiscences. *The Risings of the Luddites*. <https://doi.org/10.4324/9780429053078-13>
- [68] Vijil, M. (2021). Determinants of labor demand growth and private sector productivity. World Bank, Washington, DC. <https://doi.org/10.1596/35128>
- [69] Westover, J. H. (2026). Polymathic leadership in industry 5.0: Bridging human ingenuity and technological transformation. *Human Capital Leadership Review*, 29(4). <https://doi.org/10.70175/hclreview.2020.29.4.6>
- [70] (2009). The evolution of the linen industry prior to mechanisation, 1700–1825. Ireland and the Industrial Revolution. <https://doi.org/10.4324/9780203879337-8>
- [71] (2020). The impact of rapid technological change on sustainable development. UN. <https://doi.org/10.18356/e7663910-en>
- [72] (2024). Deciphering deception - the impact of AI deepfakes on human cognition and emotion. *Journal of Advances in Artificial Intelligence*, 2(1). <https://doi.org/10.18178/jaai.2024.2.1.101-107>
- [73] Goetzmann, W., & Massa, M. (1999). Index funds and stock market growth. <https://doi.org/10.3386/w7033>
- [74] Hallur, J. (2024). Social determinants of health: Importance, benefits to communities, and best practices for data collection and utilization. *International Journal of Science and Research (IJSR)*, 13(10), 846-852. <https://doi.org/10.21275/sr241009065652>
- [75] Isynuwardhana, D., & Octavia, R. A. (2024). The effect of managerial ownership, institutional ownership, foreign ownership and tangibility on capital structure. *Studies in Systems, Decision and Control*. https://doi.org/10.1007/978-3-031-49544-1_48
- [76] Katterbauer, K., & Cleenewerck, L. (2025). Patents, profits, and machines: How AI is reshaping innovation and taxation. *Financial Law Review*. <https://doi.org/10.4467/22996834flr.25.010.22577>
- [77] Koichuev, T. (2024). Kyrgyzstan: Economic crisis and transition strategy. *Central Asia in Transition: Dilemmas of Political and Economic Development*. <https://doi.org/10.4324/9781003578789-5>
- [78] Salisu, M., & Taher, N. (2012). Putting sovereign wealth funds to good use: Strategic options for swfs in the GCC region. *The GCC Economies*. https://doi.org/10.1007/978-1-4614-1611-1_23



- [79] Waterman, R. (2021). 'about the human heart': Anecdotal evidence (2018). Wendy Cope. <https://doi.org/10.3828/liverpool/9781800859524.003.0006>
- [80] (2014). UNU-WIDER government revenue dataset – version 2021. UNU-WIDER Government Revenue Dataset. <https://doi.org/10.35188/unu-wider/grd-2021>
- [81] (2017). Mass public orientations and implications for policy institutionalization. China's Economic Development and Democratization. <https://doi.org/10.4324/9781315260464-21>
- [82] Cameron, & Cameron. (2025, April 3). Hooked on fossil fuels? Analyzing the Gulf States' dependency on hydrocarbons. Gulf International Forum. <https://gulfif.org/hooked-on-fossil-fuels-analyzing-the-gulf-states-dependency-on-hydrocarbons/>
- [83] Economics Observatory. (2024, October 28). What share of the economic pie goes to workers? – Economics Observatory. <https://www.economicsobservatory.com/what-share-of-the-economic-pie-goes-to-workers>
- [84] Mgbajikwe, C. (2025, December 2). Nvidia reached a \$5 trillion valuation: Here's how it happened. TechCabal. <https://techcabal.com/2025/10/30/how-nvidia-became-the-worlds-first-5-trillion-company/>
- [85] Redistribution – Econlib. (2018, June 27). Econlib. <https://www.econlib.org/library/Enc/Redistribution.html>
- [86] Tax Foundation. (2026, March 18). Historical income tax Rates and Brackets, 1862–2025. <https://taxfoundation.org/data/all/federal/historical-income-tax-rates-brackets/>
- [87] Vieira, H., & Vieira, H. (2018, April 17). The labour share of the national income: the role of capital in its many forms – LSE Business Review. LSE Business Review – Connecting business research with policy, practice and public debate. <https://blogs.lse.ac.uk/businessreview/2018/04/18/the-labour-share-of-the-national-income-the-role-of-capital-in-its-many-forms/>
- [88] What is a payroll tax and how does it work? (2025, July 29). <https://www.fidelity.com/learning-center/personal-finance/payroll-tax>