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Municipal Finance Law Since 1971

The Future of Tax Policy: A Public Finance Framework for the Age of AI.

Summary

- AI threatens traditional tax bases by reducing demand for human labor.
- The main burden of taxation will have to shift away from labor.
- Smart AI taxation requires distinguishing final services from productive capital investments.
- In the longer term, it may become desirable to tax the resource accumulation of AGI systems.

As artificial intelligence transforms our economy, policymakers worldwide are grappling with how to adapt our systems of taxation and public finance for an automated future. Common proposals—which we explore in more detail below—range from taxing robots and computing power to levying fees on AI-generated tokens and digital services. Yet without a coherent framework for evaluating these options, we risk implementing policies that could hinder innovation and undermine competitiveness while failing to address the fundamental fiscal challenges ahead.

Our recent research provides a framework for addressing these challenges by examining how taxation systems should evolve as AI transforms production and employment. We find that timing is key: Certain reforms make sense now, as AI is starting to displace labor, that would complement innovation and economic growth, while others could undermine efficiency and would be counterproductive until AI systems become far more autonomous. Understanding this distinction is crucial for policymakers seeking to manage the economic transition and maintain fiscal sustainability while fostering the innovation that will drive future prosperity.

Continue reading.

The Brookings Institution

by Anton Korinek and Lee M. Lockwood

January 8, 2026

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