Today’s agenda

1. Digital mega-trends and implications

2. Building the digital playbook

3. Digital leaders vs. laggards
‘Digital playbook’ defined

A business strategy inspired by the capabilities of powerful, readily accessible technologies to deliver integrated business capabilities that are responsive to constantly changing market conditions

Source: MIT Sloan CISR Research: Designing Digital Organizations, Jeanne W. Ross et al; Oliver Wyman
The world has changed dramatically in just the last five years

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<tr>
<td>INTERNET PENETRATION</td>
<td>79%</td>
<td>84%</td>
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<tr>
<td>(% of U.S. adults)</td>
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<tr>
<td>SMARTPHONE USERS</td>
<td>40%</td>
<td>80%</td>
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<tr>
<td>(% of mobile subscriptions)</td>
<td></td>
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<tr>
<td>SOCIAL NETWORK USERS</td>
<td>50%</td>
<td>65%</td>
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<tr>
<td>(% of U.S. adults)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TABLET USERS</td>
<td>10%</td>
<td>45%</td>
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<tr>
<td>(% of U.S. adults)</td>
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Five disruptive digital mega-trends are revolutionizing organizations

Customer-centricity

More empowered consumers, shift to self-service

Mobile & social

Online access anywhere, at anytime

Data & analytics

Insight to target customers, tailor services and improve operations

Cloud computing

Distributed computing power over networks

Internet of things

Virtual representation of real-world objects in internet-like network structure

Expectations for the quality of public services have increased - the potential for improvements in operational efficiency is substantial
The needs of tax payers and the overall tax community continue to evolve - digital is certainly not a foreign concept

Taxation Future State - Taxpayer journey snapshots

Pre-filing

Middle school teacher

Digital taxpayer account management
Ability to tax information centrally through a secure online account

Filing

Third party services
Downloading tax information from the IRS using a third-party web application and filing taxes through third-party software

Taxpayer self-correction
Ability to identify and correct mistakes using secure, online resources and tools

Post-filing

Small business owner

Digital content management
Receiving communications from the IRS via email, mobile application, or text message regarding employment tax payments

Stakeholder outreach & education
Receiving digital notifications about potential events such as having a higher likelihood of being examined due to unusually high expenses

Virtual examination
Ability to conduct examinations virtually, allowing users to provide and receive the necessary information electronically

All in all, faster, better and cheaper
**Audience poll**

*Which of the following best characterizes where your organization is today in the shift to digital?*

Text **FTATECH16** to **22333** once to join

Choose one option (1, 2, 3, ... 6) and text your response to **22333**

**OR** go to **PollEv.com/ftatech16**

<table>
<thead>
<tr>
<th>Option</th>
<th>Examples</th>
</tr>
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<tbody>
<tr>
<td>1. Little/no progress</td>
<td>Multitude of manual and disjointed paper-based processes; legacy tech is pervasive</td>
</tr>
<tr>
<td>2. Some progress</td>
<td>Focus is on digitizing back-end legacy processes</td>
</tr>
<tr>
<td>3. Progressing</td>
<td>Emerging set of capabilities, yet don’t touch all aspects of the organization</td>
</tr>
<tr>
<td>4. Effective</td>
<td>Small portfolio of digital initiatives touching on all trends</td>
</tr>
<tr>
<td>5. Highly effective</td>
<td>Digital considerations are core to every decision and investment; data driven org.</td>
</tr>
<tr>
<td>6. Don’t know</td>
<td>Unclear where digital fits into the organizational picture</td>
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</tbody>
</table>
Which of the following best characterizes where your organization is today in the shift to digital?

- **Poll locked.** Responses not accepted.

- Little/No Progress
- Some Progress 21%
- Progressing 50%
- Effective 14%
- Highly Effective 14%
- Don't Know
Digital intent vs. digital capabilities
A framework for building the digital playbook

DIGITAL INTENT

Use Digital as a key driver to optimize operations and propose an end-to-end process transformation approach (e.g. ‘lean by Digital’)

Define the required capability and the evolution of the Technology and Data operating model

Build the digital agenda for business growth. Identify associated requirements and business case components.

DIGITAL CAPABILITIES

OPTIMIZE

VISION

ENABLE

DRIVE

Design the required vision, governance, operating and innovation model to leverage Digital potential
An effective digital playbook involves prioritizing among strategic choices and their enablers.
Digital capabilities come together to create streamlined taxpayer experiences, while improving compliance and efficiency

1. Upon incorporating a new business, Joe gets automatically pre-registered with profiled, default features for sales tax payment with the state tax authority.

2. Joe completes his account, inputting basic data points; most information is pre-populated based on agency's access to external data.

3. Shortly before the first filing deadline, Joe sees a social media post from the tax agency that incentivize him to file his return promptly.

4. Agency's open APIs and various messaging mechanisms allow Joe to submit and process his payments through different means.

5. Joe receives a digital notification that his return was processed; Joe gets access to ‘analytics’ on his tax payments.

6. The authority’s analytics engine parses Joe’s filing for indicators of patterns of fraud or error.

7. Joe misses his sales tax payment and a collection notification is automatically generated.

8. Joe chats virtually with an automated tax bot, who helps Joe submit his late payment online.

Illustrative taxpayer journey

How can I help you?

Efficiency
User experience
Technology
Data & analytics

© Oliver Wyman
Where digital efforts can make a real difference for state tax agencies

LEAN OPERATIONS
- Empowering front-line operators to make decisions & solve problems
- Real-time data collection, analysis
- Reduced administrative costs

DATA SHARING
- Collaboration across departments and agencies
- Deeper understanding of customer profiles & behavior

IMPROVED COMPLIANCE
- Automated fraud analytics
- ID theft prevention
- Tailored compliance resolution

ENHANCED TAXPAYER EXPERIENCE
- Intuitive and automated data collection platforms
- Predictive trouble-shooting
- Minimizing time-consuming human interactions

GREATER TRANSPARENCY
- Enhanced traceability
- Increased public understanding of taxation
Audience poll

Which potential challenges pose, or will pose, the biggest barriers to executing your digital strategy?

Text FTATECH16 to 22333 once to join

Choose one option (1, 2, 3, … 8) and text your response to 22333 (up to 3 times)

OR go to PollEv.com/ftatech16

<table>
<thead>
<tr>
<th>Option</th>
<th>Response</th>
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<th>Response</th>
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<tbody>
<tr>
<td>1</td>
<td>Budget</td>
<td>5</td>
<td>Concern over increased fraud/cyber risk</td>
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<tr>
<td>2</td>
<td>Organizational barriers</td>
<td>6</td>
<td>Changing policy or administration</td>
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<tr>
<td>3</td>
<td>Lack of skilled technical resources</td>
<td>7</td>
<td>No clear digital strategy or plan</td>
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<tr>
<td>4</td>
<td>Contractor procurement &amp; oversight</td>
<td>8</td>
<td>Other</td>
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Which potential challenges pose, or will pose, the biggest barriers to executing your digital strategy?

- Budget: 27%
- Organizational barriers: 15%
- Lack of skilled technical resources: 19%
- Contractor procurement & oversight: 3%
- Concern over increased fraud/cyber risk: 14%
- Changing policy or administration: 14%
- No clear digital strategy or plan: 5%
- Other: 3%

Poll locked. Responses not accepted.
## Digital leaders vs. laggards
What is your self-assessment?

<table>
<thead>
<tr>
<th><strong>Clarity of vision</strong></th>
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<tbody>
<tr>
<td><strong>Behind</strong></td>
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<tr>
<td>Fast follower strategy – wait and see approach</td>
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<table>
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<tr>
<th><strong>Digitize what you have</strong></th>
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<tbody>
<tr>
<td><strong>Behind</strong></td>
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<tr>
<td>Focus on automation and lean reengineering</td>
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<table>
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<tr>
<th><strong>Decouple old &amp; new technology</strong></th>
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<tbody>
<tr>
<td><strong>Behind</strong></td>
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<tr>
<td>Core systems complexity consumes &gt;30% of project budget and time-to-market</td>
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<table>
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<tr>
<th><strong>Put analytics on the front lines</strong></th>
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<tbody>
<tr>
<td><strong>Behind</strong></td>
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<tr>
<td>Fragmented, incomplete data; simple analytics a project</td>
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<th><strong>Free the digital team</strong></th>
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<tr>
<td><strong>Behind</strong></td>
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<tr>
<td>Digital in legacy IT and business; waterfall</td>
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<th><strong>Innovate without borders</strong></th>
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<tr>
<td><strong>Behind</strong></td>
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<tr>
<td>No clear agenda; internally focused; underfunded</td>
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Questions?

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THANK YOU