

FTA Annual Meeting

New Era in Benefits-Funded Operations

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Topics

- The Results – review of the current use of benefits-funded modernization projects
- Best practices – lessons learned on what has worked
- Next generation – opportunities to capitalize on new ways of doing business

Why Benefit-based deals work for Tax Agencies

Win/Win Structure	Tax Agency View	Vendor View
Project Funding	+	+
Project Management	-	+
Staffing	+	-
Schedule	-	+
Successful Results	+	+
Contract Term	+	+
Scope Increases	+	+
Risk	+	-

Current Approach

- One – time capital / system improvements
- Major reengineering projects
- Outsourcing of collections for fee
- Successes in tax agencies
 - California FTB
 - Kansas
 - Virginia
 - Arizona

Best Practices – relevant examples

- **California FTB**
 - Strategic plan
 - Pre-qualified partner list
- **Kansas**
 - Integrated management approach
- **Virginia**
 - Flexibility to respond to dynamic legislative changes
- **Arizona**
 - Stakeholder involvement throughout the process

Looking Forward – Variable Self-Funded Operations

Having access to resources, technology and infrastructure on an as needed basis at a level that can be justified and funded through the results they achieve

Key Attributes of VSFO

- Business strategic plan with measurable objectives
- Business case to support increased “variable” budget
- Strategic sourcing opportunities add capabilities to your business model
- Build capabilities over time using a project oriented management approach
- Support from budget office, executive branch and legislative committees

Capitalizing on Self-Funding Success to Fund Tax Agency Operations

“If a vendor can generate \$100M by putting in some DW technologies and new applications – imagine how much a tax agency could generate”

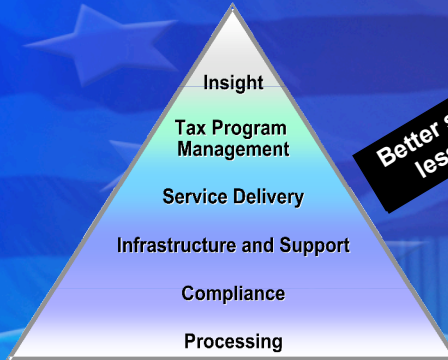
“What if all initiatives in a Tax agency could be approached like an Amnesty Program”

“We can justify adding new Auditors and Field Agents by explaining the ‘return per Auditor’ – but do we really want the oversight imposed to continually prove it”

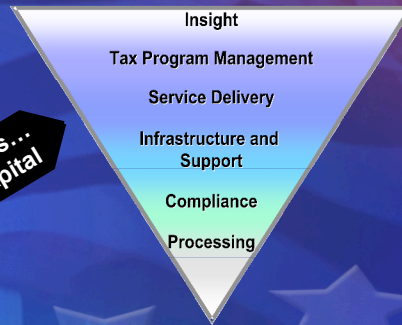
“When does a Tax Agency stop being treated as a cost center and begin to be viewed as a revenue agency”

Given societal, industry trends and budget constraints, the role of revenue agencies must shift from *performing* tax administration functions to *managing a network* of public and private service providers

... From a Tax Agency that is on the critical path and "DOES"



Better skills...
less capital

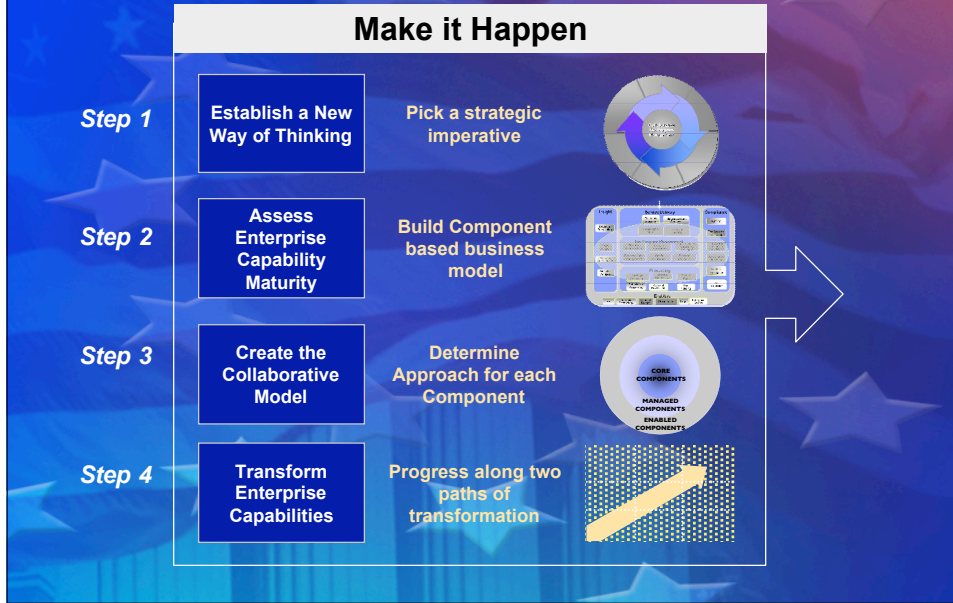


... To a Tax Agency that provides "Oversight"

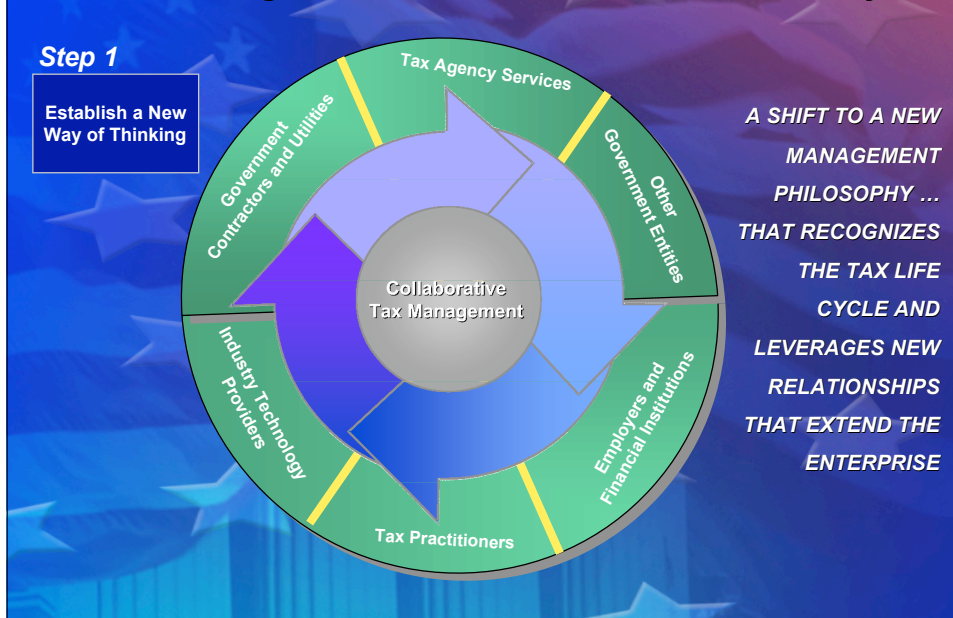
The traditional ways of looking at tax administration need to give away to a new business model – one that is variable, self-funded and built on an integrated network of providers

- **e-Filing**
 - Is not just about Processing improvements ...
 - ... it is a new way to conduct contemporaneous Audits
- **Internet Sales**
 - Is not just about Voluntary Compliance ...
 - ... It is a new way to provide marketplace governance
- **Discovery**
 - Is not just about Audit Selection and Segmentation ...
 - ... It is about Collaborative Field Operations
- **Collections Enforcement**
 - Is not just about Prioritization ...
 - ... It is about Autonomous monitoring of economic events

There are a lot of disciplined methods to enable a tax agency to define a new business model and then seek the permission and funding to enable it to be successful



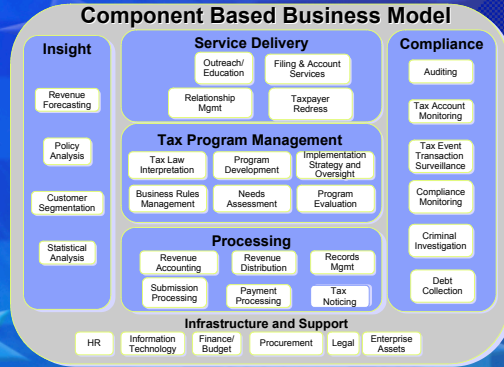
The first step is to think differently about how the agency can be leveraged to fulfill the tax administration life-cycle



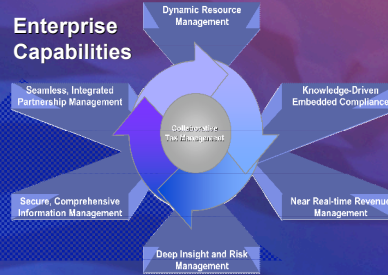
The practical next step will be to construct a component based business model and align the internal roles and capabilities to what you want to get from outside providers

Step 2

Assess Relative Enterprise Capability Maturity



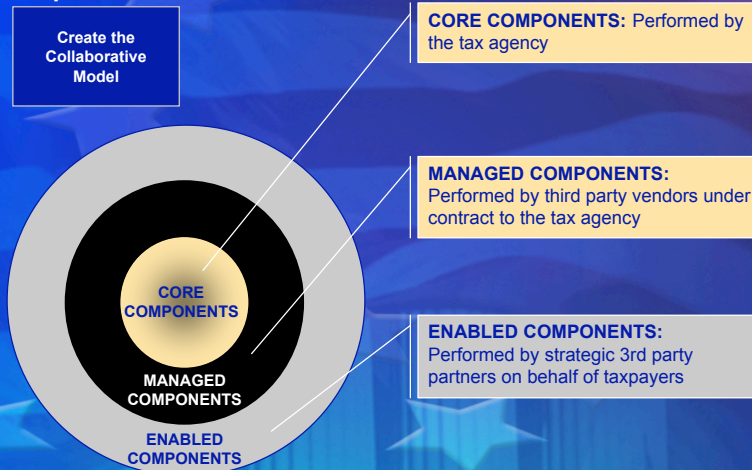
Enterprise Capabilities



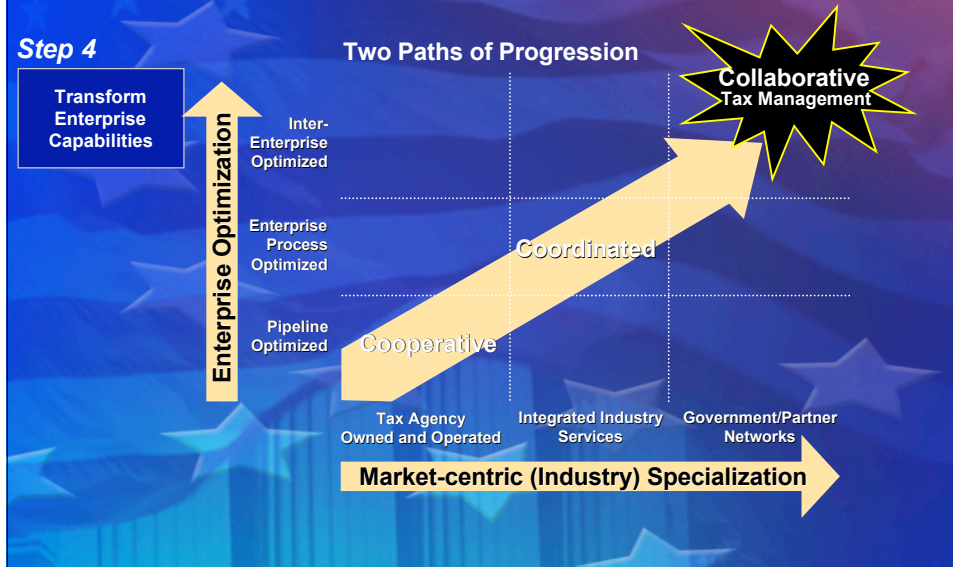
Organizational collaboration depends on defining what you want to do and do well, what you can contract for, and what service components can be leveraged from existing marketplace providers

Step 3

Create the Collaborative Model



The Tax agency must progress along two dimensions – increase inter-agency cooperation and at the same time ‘view the world like a taxpayer’



This new environment will create a whole new emphasis on implicit self-funded operations

