

april

How Embedded Tax will Shape the Future of Financial Services: A Roadmap for CEOs, CPOs, and Product Managers

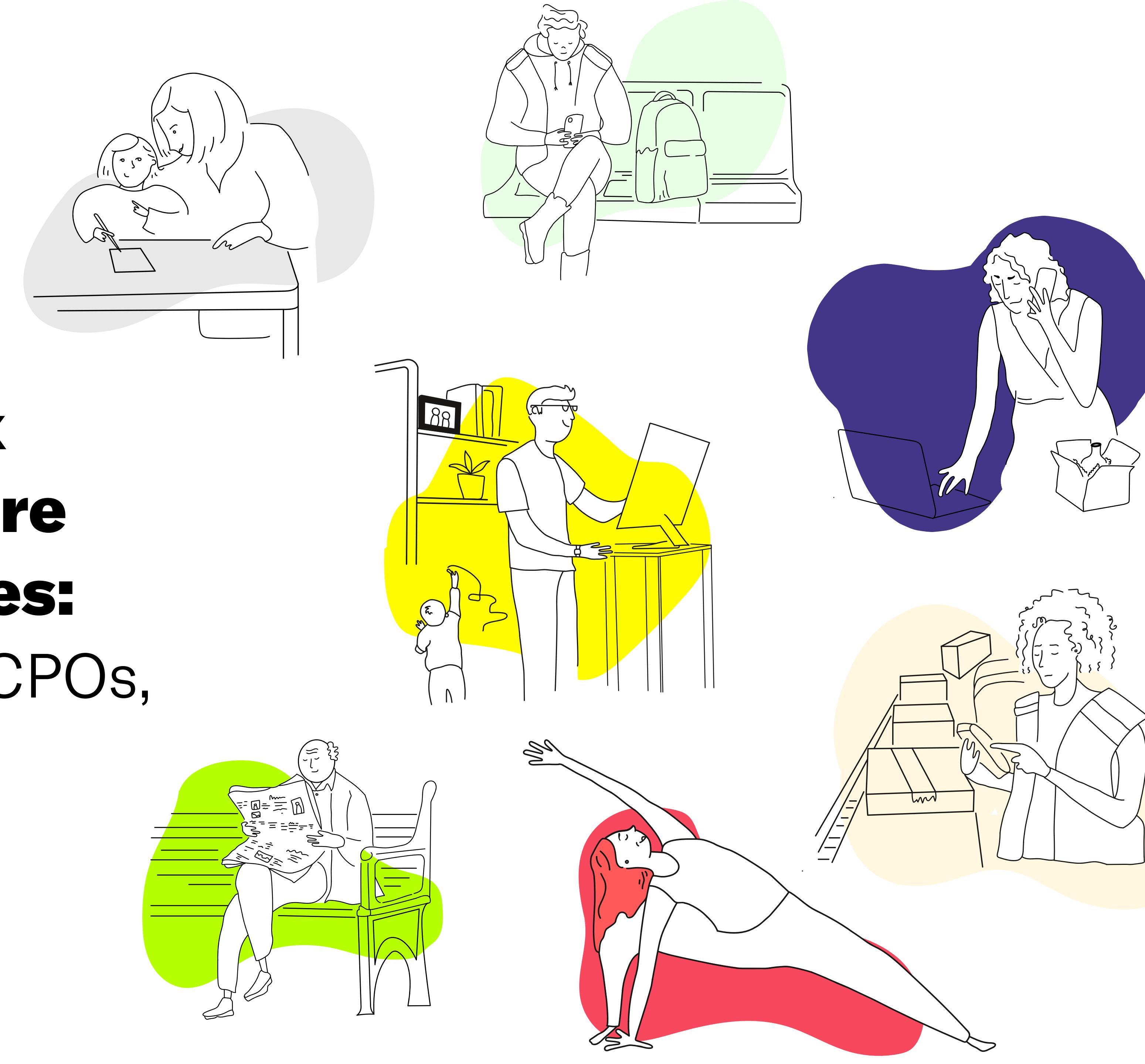


Table of Contents

<u>Introduction</u>	→ 03
<u>Key Findings</u>	→ 04
<u>Top-rated tax benefits</u>	→ 07
<u>Additional findings</u>	→ 12
<u>Taxpayer Personas</u>	→ 13
<u>Overview</u>	→ 14
<u>The Definitive Delegator</u>	→ 18
<u>The Financial Optimizer</u>	→ 19
<u>The Stubborn DIYer</u>	→ 20
<u>The Household CFO</u>	→ 21
<u>The Naive Upstart</u>	→ 22
<u>The Sidegig Dynamo</u>	→ 23
<u>The Refund Racer</u>	→ 24
<u>Methodologies</u>	→ 25

Why 2023 will be the year of Embedded Tax

As we enter 2023 amid concerns of inflation and potential recession, Americans are seeking ways to stay in the black on their households' balance sheets. One of the largest annual line items is taxes, which has often been overlooked by consumers and financial institutions.

The tax category has largely been focused on the moment of filing - a historical audit of your financial life in the past year. However, to truly maximize your return, tax planning should be conducted as a year-round activity.

A new fintech category, called embedded tax, aims to change this by integrating tax planning and filing experiences into everyday financial apps. This allows Americans to easily optimize their returns or minimize tax bills in real-time.

The goal of this report is to explore the potential for this new approach and gauge taxpayers' willingness to embrace the world of possibility created by the paradigm of embedded tax.

We conducted a survey on 4,621 Americans.
Our sample mirrored the census as closely as possible.

We described a hypothetical embedded tax product and asked them which of the following 20 functional, emotional and transformational benefit statements were most important and least important to them.

Our Key Findings

1

Taxpayers *do* want more opportunities to engage with their taxes year round.

2

Data accuracy and privacy are top-of-mind; there is a need to educate the market on how technology can solve these problems.

3

The inequity of the tax system is seen as a priority to solve, and there is a willingness to try new products.

Top Ranked Tax Product Benefits

Breakdown by Tax Product Needs

All
Estimating
Filing
Optimizing

Reduce the time I spend filing taxes, from hours to minutes

898

Ensure I've entered my information **correctly** and accurately when filing my taxes

1,318

Help me feel **confident** that I'm getting the **maximum return** and filing with accuracy

1,615

Let me file for **free**—federal and state returns

1,271

Give me easy to understand **guidance** along the way as I file my taxes

936

Never share my information with another company, even with apps I already use

1,012

Give me an **advance** on my refund; deposit it into my account weeks early

503

Calculate my **estimated quarterly payments** on my 1099 income

382

Provide game-changing **tax advice** to all Americans, not just the wealthy few

503

Give me a **tax estimate** and **recommendations** to minimize my bill when I buy or refinance a house

353

Give me a **full picture** of my tax situation ahead of the filing process so there are no surprises

949

Serve me **tax tips** within the apps I use to manage money to help me make the most of my situation

477

Integrate where I track my expenses so I can **estimate my refund year round**

391

Help me feel momentum towards my financial goals with **tax optimized decision making**

393

Help me feel **in the know** as to how my financial decisions will have tax implications

613

Give me a deal on **loan rates** based on my tax return information, not my credit score

254

Help me **optimize** my investment decisions based on tax implications

436

Offer **24/7** support for help with a tax expert with questions and concerns

452

KEY FINDING

Taxpayers *do* want more opportunities to engage with their taxes year-round.

According to the IRS, the average American spends **9 hours** on their individual tax returns. And yet, reducing time spent on taxes from hours to minutes was ranked only 7th. It's not that people don't want to spend time on their taxes – they just want that time to be spent understanding the tax system and how it applies to their situation.

RANKED #5/20

21%

Of all respondents put this statement in their top 3 most important:
Give me a full picture of my tax situation ahead of the filing process so there are no surprises.

This means many people are genuinely interested in spending more time understanding and acting upon their personal tax situation, prior to the tax season. Optimizing their paycheck was #10 out of 20.

RANKED #6/20

20%

Of all respondents put this statement in their top 3 most important: **Give me easy to understand guidance along the way as I file my taxes.**

KEY FINDING

Data accuracy and privacy are top of mind.

Consumers need education on the potential for technology to minimize the risk of human error and produce a more accurate return.

RANKED #2/20

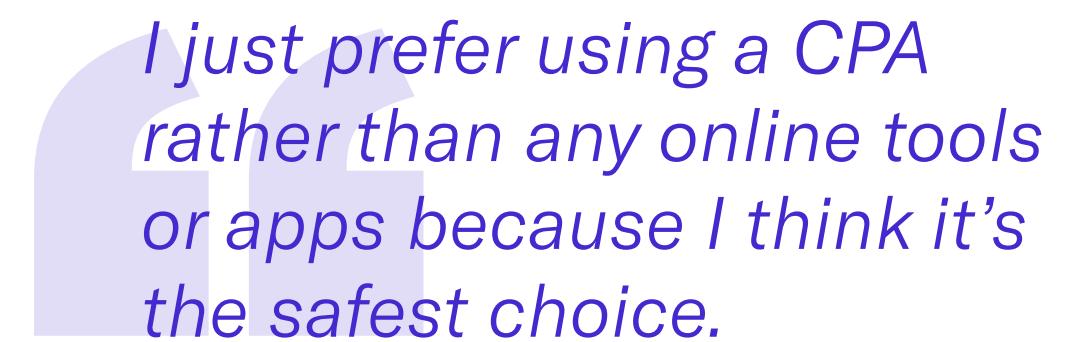
29%

of all respondents put this statement in their top 3 most important: **Ensure I've entered my information correctly and accurately when filing my taxes.**

Despite this, some consumers may be hesitant to use technology due to concerns about data privacy and accuracy. Data sharing, data privacy and accuracy in the face of complex tax situations were commonly self-reported in open-ended questions.

However, it's important to note that the fear of data errors is often perpetuated by companies that profit from audit protection upsells. In reality, the most reliable way to gather and input data is through technology like APIs.

Additionally, a mobile-first experience can reduce the chance of accidental errors by using specifically trained OCR image capture.



I just prefer using a CPA rather than any online tools or apps because I think it's the safest choice.

In other words, consumers need more education around how technology can reduce the risk of inaccuracies when tax filing.

KEY FINDING

The inequity of the tax system is seen as a priority to solve, and there is a willingness to try new products.

26%

Of all respondents said that **nothing would prevent them from trying a new tax product.**

saw that this benefit statement was ranked in the top 50% overall.

Americans believe there is a better way to approach taxes, and many expressed excitement about the idea of an integrated tax product that could support them not just when it came to filing, but to year-round engagement with opportunities to estimate and optimize their tax situation.

RANKED #7/20



Provide game-changing tax advice to ALL Americans, not just the wealthy few that can afford a professional.

Additional Findings



Taxes are a solitary chore.

Although 52% of our sample was married or in a domestic partnership, only 30% said that choosing a tax software was a joint decision between them and their partner.



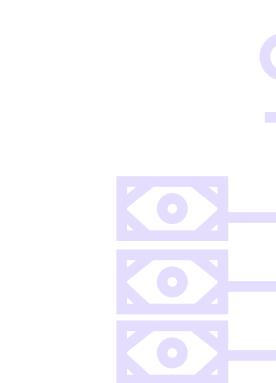
Gen Z and Millennials are more likely to use DIY tax software.

56% of people under the age of 35 are using DIY tax software, you're less likely to use DIY tools if you're over the age of 35.



Females are more likely to use tax preparation services.

52% of women in the survey used CPAs, in-person services, or friends/family to file their taxes in 2021. Men were more likely to use DIY software.



Taxpayers with multiple income streams were more likely to use DIY tax software.

55% of respondents that had both W-2 income as well as income from another source (consulting, gig work, real estate, investments, etc) use DIY tax software to complete their return in 2021.

LET'S GO DEEPER

**Which taxpayers have needs
that are not being met by
existing software?**

Meet our Personas

We used statistical clustering to group people who consistently ranked certain tax product benefit statements as most important or least important.

This factor analysis identified unique patterns within the data set and distinguished **7 unique approaches** to taxes.

The Definitive Delegator

Doesn't engage with DIY, prefers a human to handle all things tax

The Stubborn DIYer

Sticks with what they know, even if they grumble through it

The Naive Upstart

Recently started filing, they don't know what they don't know

The Refund Racer

It's all about getting their refund money as soon as possible with as little hassle and cost possible

The Household CFO

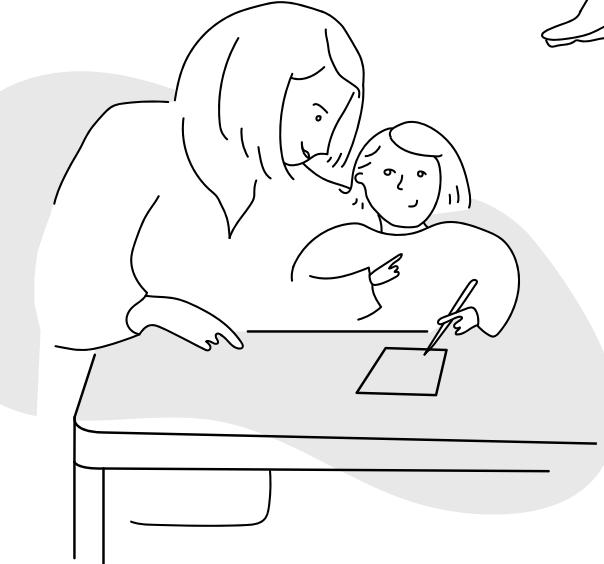
Longs for a full view of their household's financial picture, and hates being surprised by a tax bill

The Side-Gig Dynamo

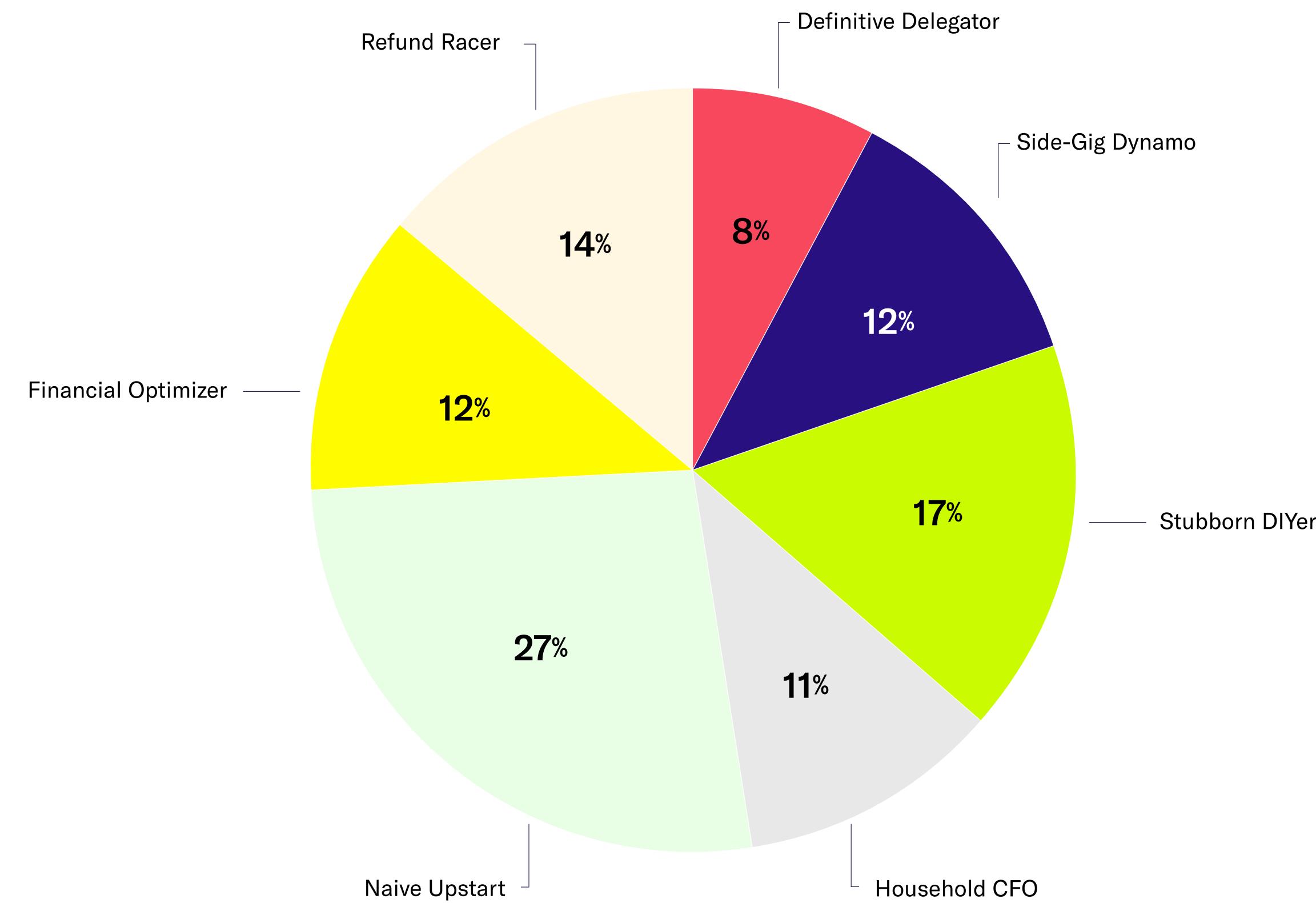
Has multiple income sources and platforms to manage their finance so filing can be a real headache

The Financial Optimizer

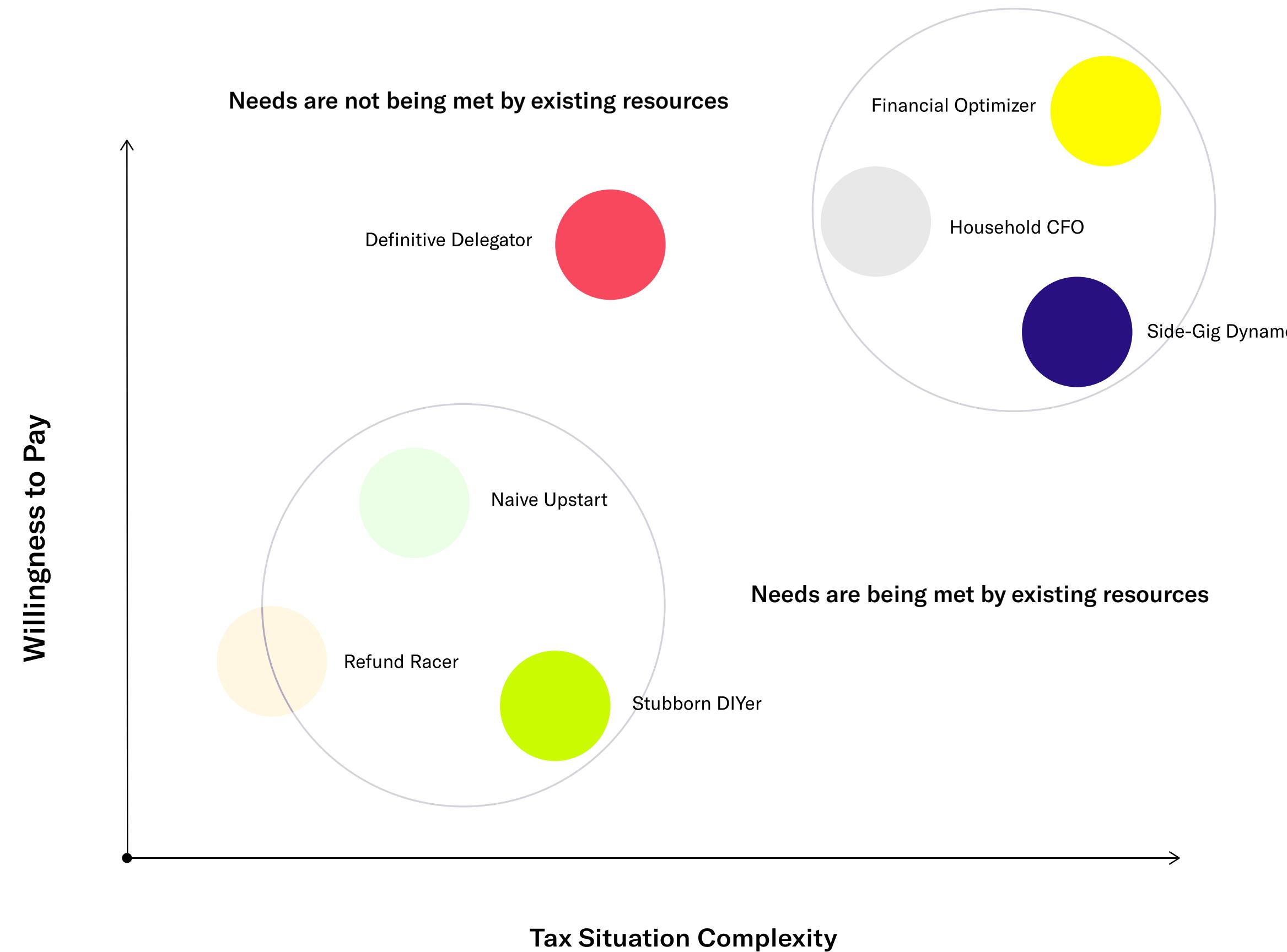
Has it all figured out, but still can't wrap their head around how to optimize their tax situation



Breakdown of personas in the US



Analyzing persona product needs



We built personas based on demographic, psychographic, and financial profile skews and analyzed their likely tax situation to contextualize their unique product needs.

The Definitive Delegator

Doesn't engage with DIY, prefers a human to handle all things tax.



It would just make me very nervous for an accountant not to do my taxes.

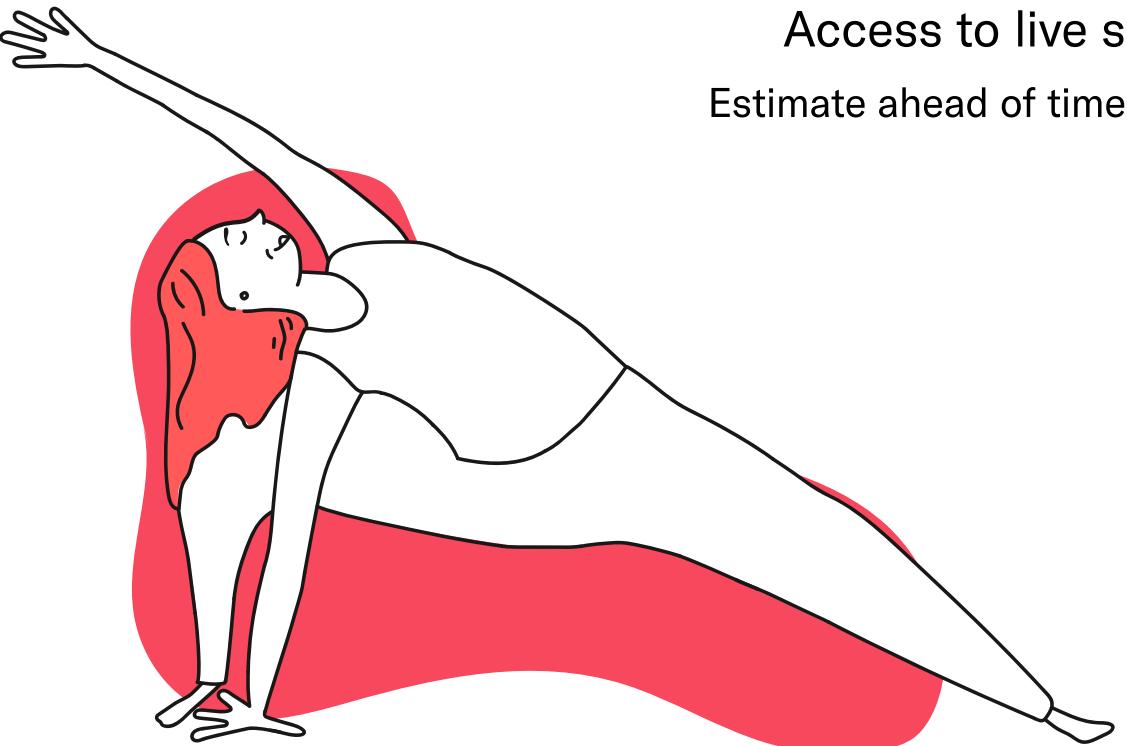
Breathe in, breathe out.

The Delegator is all about staying zen. She's an empty nester and relishes the peaceful oasis her home has become now that her kids have flown the coop. Nowadays, she lives her life unencumbered by the little things.

When it comes to her finances, the less she knows the better. Really. Taxes, blech. Just the word gives her the heebie-jeebies.

There are many things in her life that are worth her energy, and taxes are not one of them. They're for sure best left to the professionals.

Every year, her husband collects the forms and sends them to their CPA. She just signs on the dotted line. Namaste.



- 🎂 Likely to be over 35
- 💍 Likely to be married
- 🎓 College educated
- 🔒 Very data sensitive

- 💵 Higher income
- 🏷️ Less likely to be a price comparison shopper
- 📷 Less likely to use social media

UNIQUE TAX PRODUCT NEEDS

Never share my information (31.2)

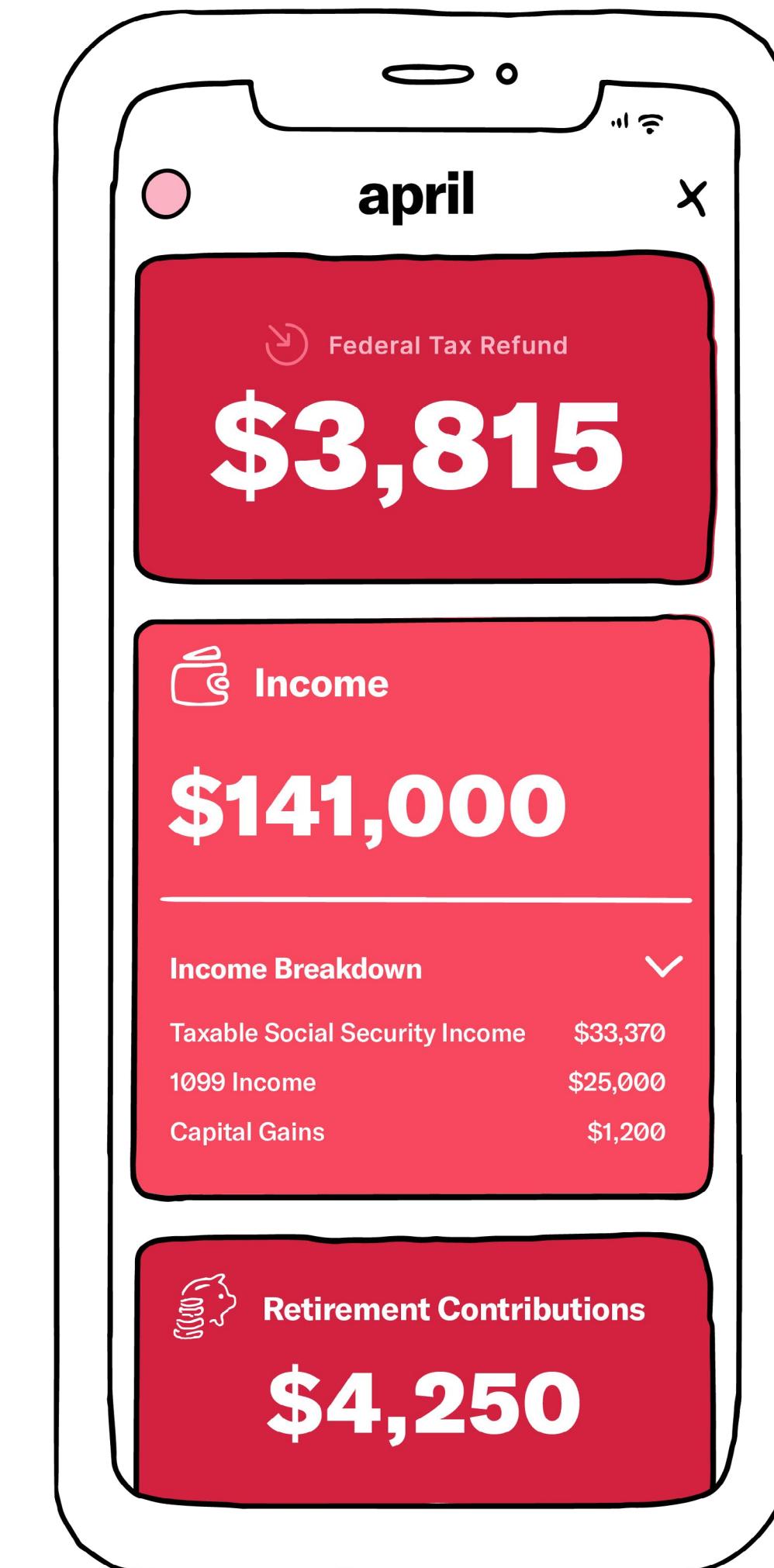
Ensure my data is accurate (20.4)

Confidence in maximum refund (15.6)

Access to live support (9.9)

Estimate ahead of time, no surprises (7.3)

TAX SITUATION SNAPSHOT



HOW TO ENGAGE

- Create content that maps from taxes (something they don't care about) to things they do care about (e.g. pop culture, news, personal care and wellness)
- Emphasize live support availability

The Financial Optimizer

Has it all figured out, but still can't wrap their head around how to optimize their tax situation.



I need to trust that the software is capable of handling complex tax breakdowns and write offs.

The Optimizer begins his day with a 6 AM HIIT workout, followed by reading the news and checking social media. He takes a green juice and apple cider vinegar shot, and reads four newsletters that break down stocks to consider buying. He sends a few texts to his friend group to gauge their thoughts on the latest earnings reports.

At 8:05 AM, he drops off his children at school and uses side streets to beat the morning traffic. Back at home, he sits down at his desk and focuses on work.

Despite his organized routine, he has been struggling with a financial dilemma. He has been seeking advice from his financial advisor on what to do with his crypto holdings, considering selling them at a loss to offset gains from selling stock options from a former tech company. However, he is not sure if the tax situation would work in his favor.



- 💍 Likely to be married
- 🎓 College educated
- 👶 Likely to have 1-2 kids
- 📺 Watches cable TV

- 📊 Higher income
- ☀️ Optimistic about their financial future
- 📷 Active on Instagram and Facebook

UNIQUE TAX PRODUCT NEEDS

Confidence & accuracy in refund (28.6)

Estimating tax situation (11.6)

Making tax-optimized investment decisions (6.8)

Feeling in the know about their taxes year-round (6.3)

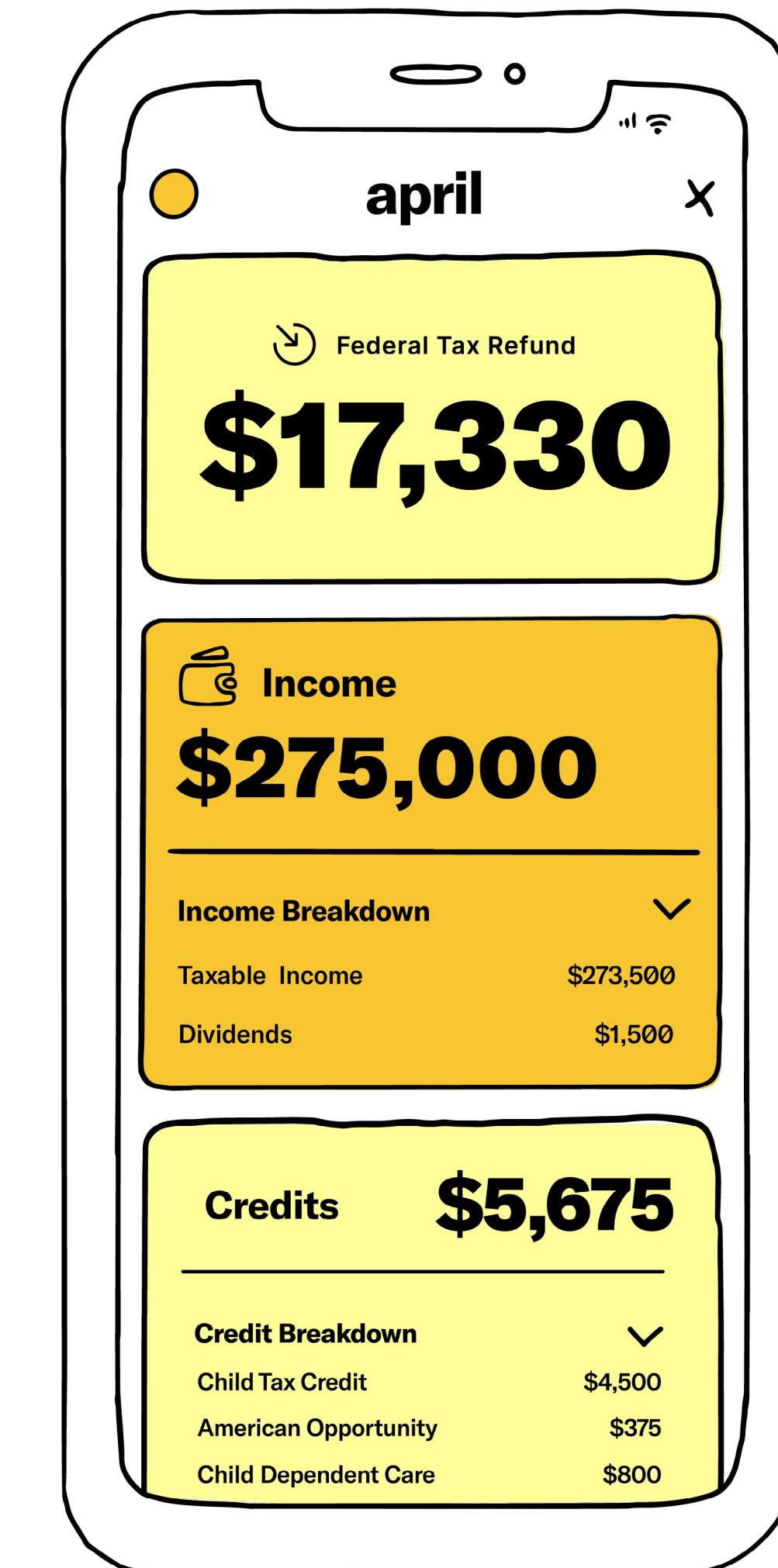
Easy to understand guidance (6.1)

As the year-end approaches, he wants to ensure that he does not owe a large amount in taxes. However, the tax system feels like a complex puzzle, with new twists and turns appearing every time he thinks he has it figured out.

HOW TO ENGAGE

- Support them with surfacing opportunities and help them understand tax loss harvesting by providing real-time tax estimation tools on the platforms they use for investment and crypto trading.
- Optimize their paycheck against the credits and deductions they qualify for: They don't want to lose out on the opportunity to invest the money they're overpaying in taxes.

TAX SITUATION SNAPSHOT



The Stubborn DIYer

Sticks with what they know, even if they grumble through it.

I do not use banking apps on my phone, so I would be reluctant to share my tax and personal data over my phone as well. I prefer using a computer.

The DIYer picks up his paper copy of the Wall Street Journal, pours himself a cup of coffee, and heads to the local park. He opens up the paper and reads: *Getting Ready For A Tough Tax Season*. The DIYer groans.

He flips to the crossword puzzle as his flip-phone buzzes. It's his daughter.

She wants him to get a new phone so he can Facetime his grandkids, but his flip-phone is doing him just fine. He doesn't need the internet everywhere he goes. Or at all, really. If it wasn't for his consulting gigs he wouldn't even have an email address.

On the other hand, his wife is on her iPhone all the damn time. She's been really into this really noisy game lately that makes a lot of BA-DINGS and DOO-DAH noises. That's why he came to the park.

The DIYer has always taken care of the finances in the household. This tax season, he will use the same service he always uses.

-  Likely to be married
-  Larger employer or government job
-  Lives with spouse but not kids



UNIQUE TAX PRODUCT NEEDS

File for free (28.7)

Data accuracy (21.4)

Maximum refund (15.7)

Never share my data (13.4)

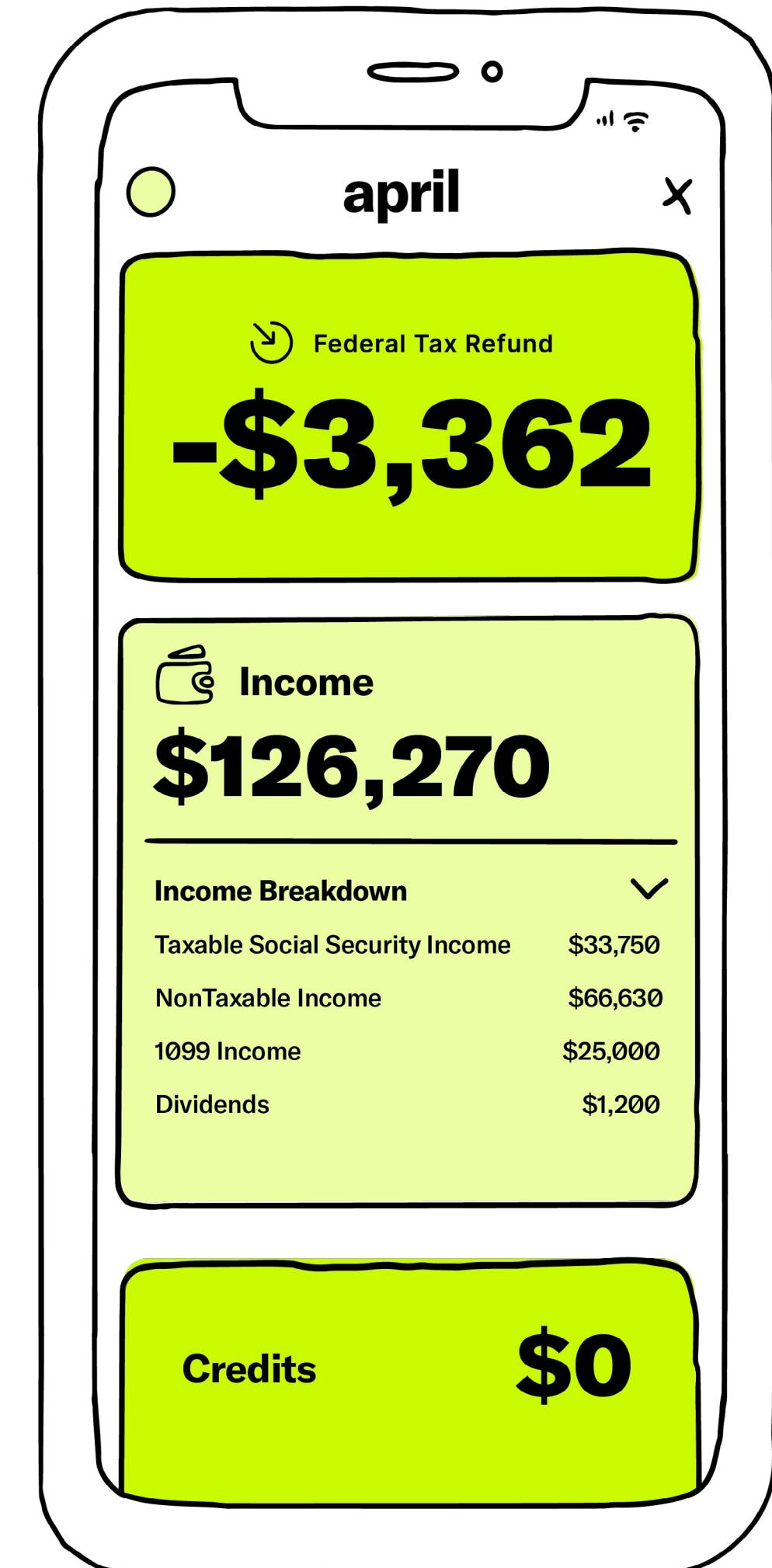
Guidance along the way (6.1)

His taxes aren't all that complicated, so why bother paying for someone to do them? They make it too damn difficult these days. What's some fancy CPA going to tell him...

HOW TO ENGAGE

- Highlight the ability to file taxes on a laptop, as they're less likely to want to use their phone to engage with a mobile tax experience
- Show product screens that show how the experience is helping them better understand their tax situation - tool tips, calculation break downs, and knowledge based articles

TAX SITUATION SNAPSHOT



The Household CFO

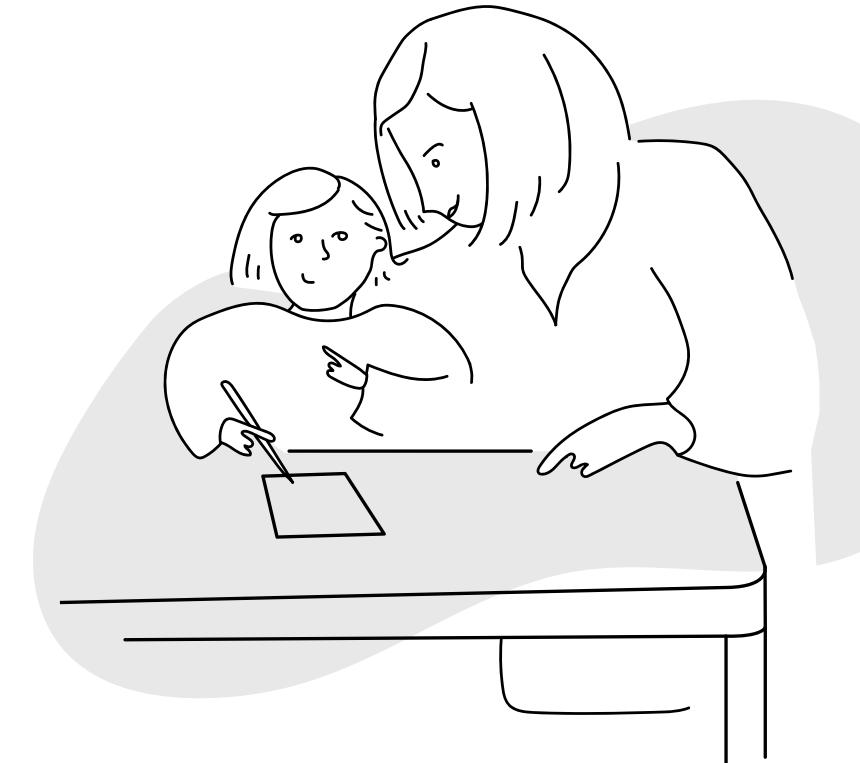
Longs for a full view of their household's financial picture, hates being surprised by a tax bill.

I hate hidden criteria like simple refunds only being free. It's so annoying to go through getting all your state information put in and boom, suddenly there is a fee.

The Household CFO is out to dinner with friends after work. When the bill arrives, she grabs it and begins tallying up everyone's total to the last cent. No point in making people pay for things they didn't eat when you can easily just calculate the exact amount, right?

When she gets home, she asks her daughter if she finished her homework. She didn't, so she helps her with a tricky math problem. This was fun for the Household CFO, given that she was a college minor in Math.

Afterward, the Household CFO checks the mail and sorts it into the mail sorter in the mudroom. There's finance stuff, insurance stuff, bills, more bills, and — Oh, the first W2 has come in! Nice.



Likely to be 26-35

Female skew

Less likely to have graduate degree

Somewhat data sensitive

Less likely to be white; Hispanic skew

Likely to have children living with them

Very likely to spend time on streaming services

UNIQUE TAX PRODUCT NEEDS

File for free (25.8)

Maximum refund (21.2)

Estimate refund (6.7)

Paycheck optimization (5.7)

Game changing tax advice to all Americans (4.2)

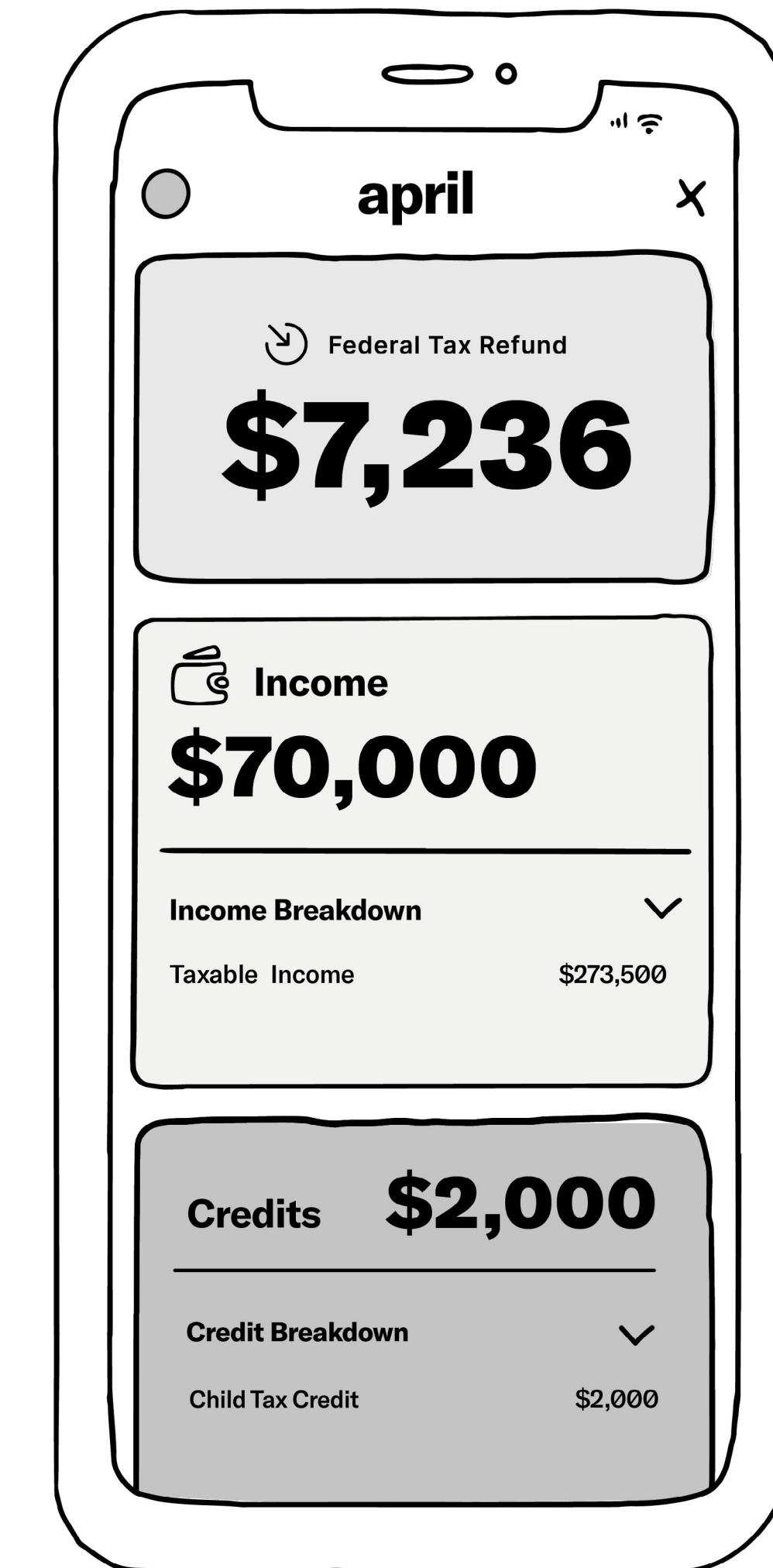
You know, she pretends to dread tax season, but secretly, she kind of loves the process of putting everything together in one place.

Last year, she and her husband moved because her husband got a new job. This got them a lot of unexpected credits back. This year, she's a bit apprehensive and thinks they may owe money. But she's kept a savings account ready, so it's not a big deal. It's insane though that there's no way to predict your tax bill.

HOW TO ENGAGE

- Promote tax estimation experiences that show the holistic view of a household's finances, pulling in data from two income sources
- Show what potential credits and deductions could apply to a tax situation and who qualifies for particular programs, especially related to children dependents

TAX SITUATION SNAPSHOT



The Naive Upstart

They don't know what they don't know about taxes, but they're not about to let their friends find out.

I really don't have much experience and knowledge with filing taxes, so I'm not sure, but it sounds too good to be free?

The Upstart talks a big game to his friends about finances, but truthfully... he knows very little. But he's trying! Lately he's been reading tons on

Reddit. Last week he even went deep on a few YouTube channels. His Mom and Dad never really had enough money to necessitate understanding any of this money stuff, or how to make it grow, or invest it, or whatever, so everything he knows is self-taught. There's so much information out there that it's hard to know who or what to trust.

And when it comes to taxes, he knows that some people pay more than others, and that rich dudes are always finding ways to get out of paying taxes, but he's not really sure how that applies to him or what he can do about it.



- 🎂 Very likely to be under 35
- ♂ More likely to be male
- 🎓 Likely to have high school degree
- 🔒 Not data sensitive

- 👤 Less likely to be white
- 🏡 Likely to live with roommates
- 📷 Active on social media

UNIQUE TAX PRODUCT NEEDS

No unique product needs

These thoughts are on his mind big time this year, because he just started making real money. Like real, adult, post-college money. It's more money than his parents were making at his age, combined.

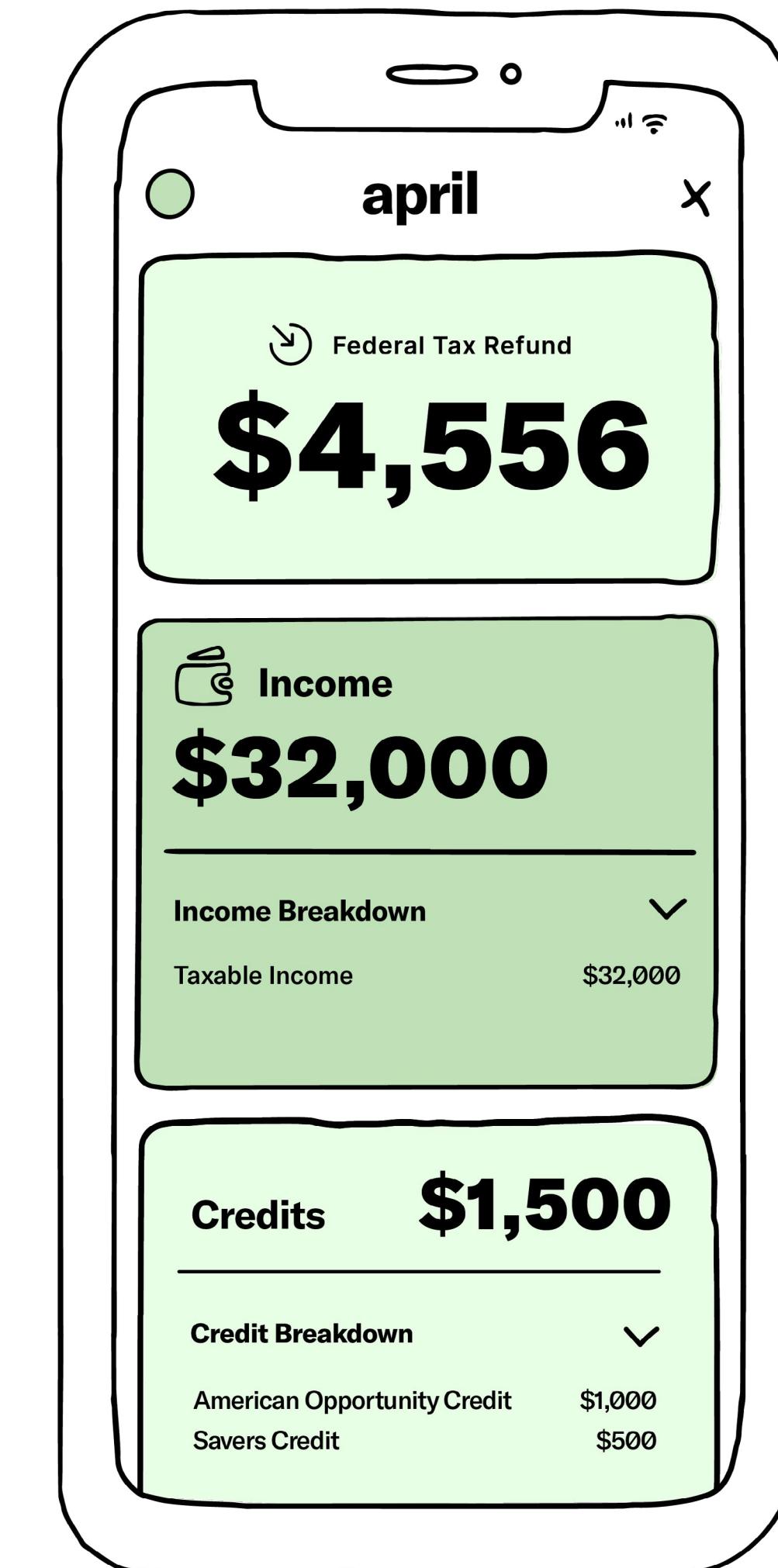
So, needless to say, he's a bit worried about what that means for taxes. He hopes he doesn't owe money to the government.

And he can't ask his friends about any of this... 'cause then they'd know that he doesn't know anything about money. Does everyone figure this out on their own? Or did everyone have parents that knew how taxes worked? Why didn't they teach this in school? *Where's his vape?*

HOW TO ENGAGE

- Short form video content is the best way to engage this segment who may have a short attention span but a desire to learn more
- Crypto specific content will be relevant to this segment who is more likely to have crypto holdings than stock investments

TAX SITUATION SNAPSHOT



The Sidegig Dynamo

Has multiple income sources and platforms to manage finances so filing can be a real headache.

I'd really have to do some research before determining if it was the right fit for our needs. It depends who it came from - some companies would work great. Others, not so much.

This is the first time all year that The Dynamo and her husband were able to make the trip out of the city and visit her sister. It's just been so hard to find time with her busy schedule. She's an adjunct professor of fine arts and runs a pottery studio where she sells local work and teaches classes. To make matters worse, she had to spend a month fixing up her AirBnB earlier this year. It's been hectic.

That's why she's got like fifteen different programs to manage all her work. But none of these programs work together. Like, at all. Sigh. She prides herself on her ability to pick up new tech, but there's so much happening at once that it feels impossible to take a step back and get the full picture on her life. Sigh, again.

 Likely to be 26+

 Keeps up with change

 Likely to have graduate degree

 Tech-friendly, doesn't mind sharing data



 Middle income: 75-200k

 Lives with spouse, no kids

 Likely to have income from inheritance, real estate, or investments

UNIQUE TAX PRODUCT NEEDS

File for free (39.6)

Data accuracy (22)

Time spent (8.9)

Guidance along the way (5.7)

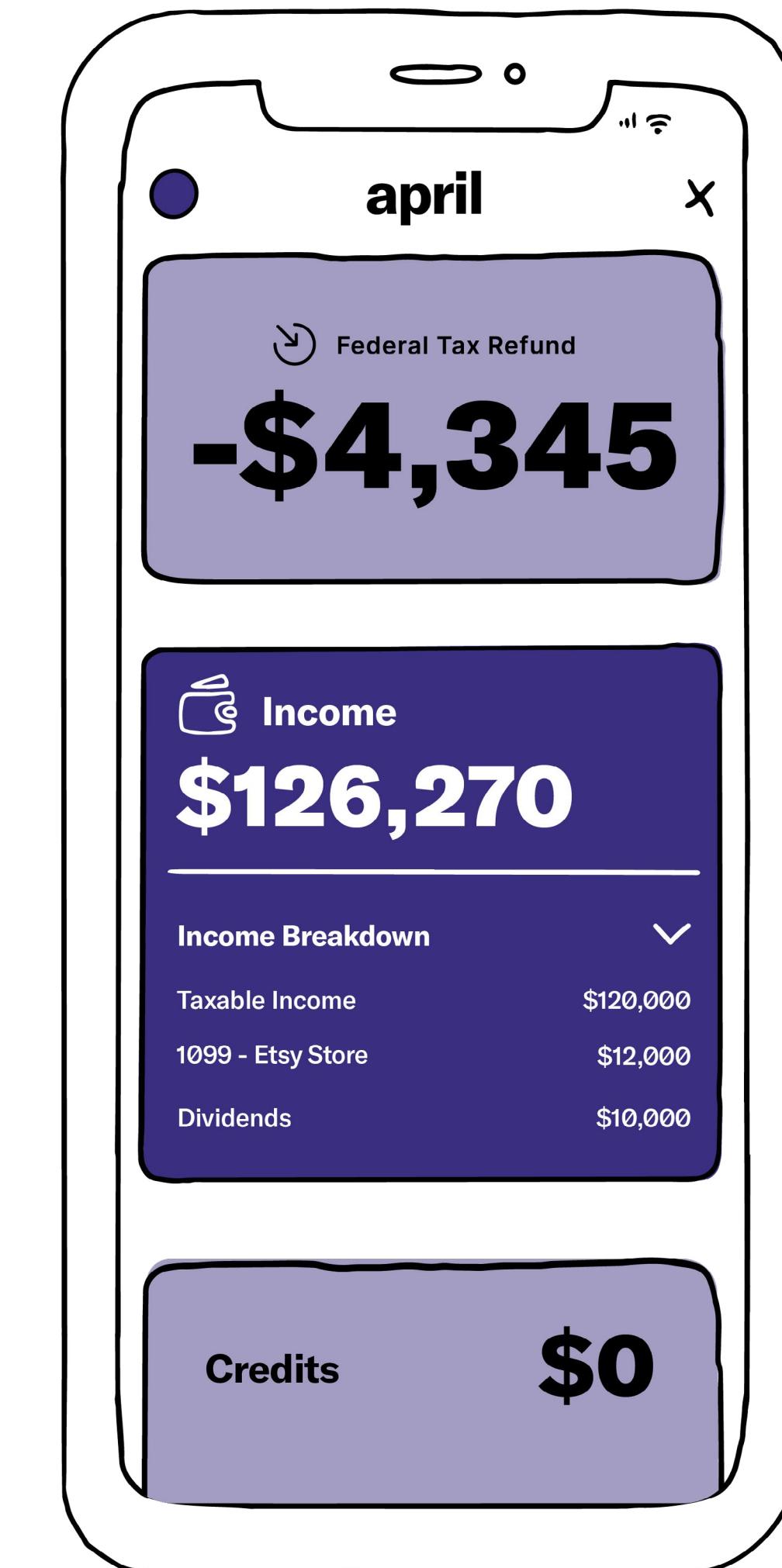
And that's exactly why she dreads taxes. It's a chore and a half. All of these programs spit out different forms, and getting them all in one place is usually a day-long affair. To make matters worse, she usually has to do them every quarter in order to make estimated payments on the income that's not being pre-taxed. There's gotta be a better way...

HOW TO ENGAGE

→ Highlight the data integrations available and OCR image capture process to show how easy it will be to input tax form data, saving hours of time

→ Long form content is best for this segment, they are likely to do due diligence on any software and will desire to go deeper on product information

TAX SITUATION SNAPSHOT



The Refund Racer

They rely on their refund and need it as quickly as possible.

I think it would be a really good product that many Americans would love to use. Time is money - so the less time we spend on taxes is more time we can use to make more money!

The Racer is grateful that this is the last hour of her shift. She was planning on driving for a few hours in the early morning, and she still needs to call her boyfriend and double check to make sure he can pick her daughter up from preschool at noon tomorrow.

As she makes her way toward the exit to clock out, the Racer starts to think about her car. It has had a Check Engine light on for weeks, but she can't afford getting it fixed right now. She knows she has to gather all her forms together to start that process but when is she going to find the time?

After she gets home, she checks on her sleeping baby and gets into bed. She scrolls through TikTok for a little bit to get her mind off things, and after swiping for a while, sees an ad for free tax filing. The money is so close, yet so far away. She'll make time tomorrow, she promises herself. After swiping away the ad, her eyes start closing on her so she puts the phone down and nods off.

- ⌚ Likely to be 26-50
- ♀ Female skew
- 🎓 High school or 2 year degree
- 🔒 Not data sensitive

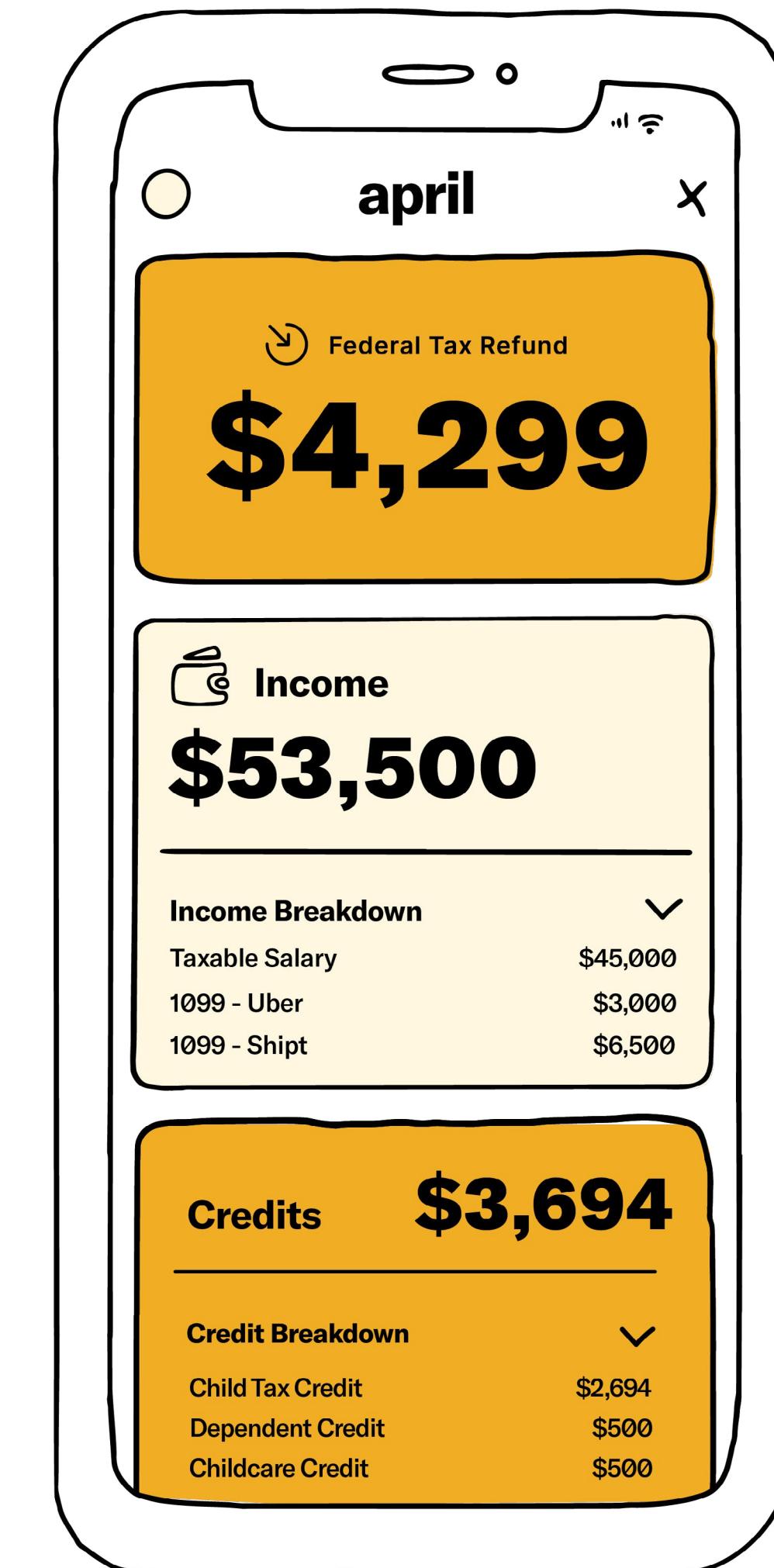
- 👤 Likely to be unmarried
- 💵 Likely to be making less than \$75k
- 👤 Likely to be employed, do freelance work or gig work, or all of the above



UNIQUE TAX PRODUCT NEEDS

- File for free (45.4)
- Advance on my refund (12)
- Reduce time spent (5.6)

TAX SITUATION SNAPSHOT



Research & Methodology

Research Goals

To find a segment(s) amongst the US taxpayer population that has a unique set of needs that is not being currently met by existing tax software.

We want to understand their outlooks, beliefs, behaviors, and sentiments towards taxes, finances and generally their life, as well as which other brands they're currently using for their financial needs.

Methodology

We used a max-diff against a statistical clustering analysis to find cohorts of people that ranked the statements in a similar way.

Each cluster will represent a unique need profile. We ran statistical analysis of 4, 5, and 6 and 7 clusters to see which cluster solution aligns best with a set of unique and distinct cohorts.

Once aligned on the 7 statistical cluster solution, we analyzed the rest of the data set through the lens of each cohort, noting particular demographic and psychographic skews from the gen pop sample and understanding if the cohort also have similar financial profiles or use the same apps or brands for various products.

We looked at the aggregate analysis of the data and cut the data according to various measures (demographic, financial apps used, psychographics).

Sample

N = 4,621 | Goal was to match census data as closely as possible, only those planning on filing taxes in 2022 and have primary or shared responsibility for deciding how to file their taxes.

01 Age	02 Relationship	03 Education	
18-25	15%	Single, never married	36% Less than HS 1%
25-35	34%	Domestic partnership	10% HS degree 33%
36-50	25%	Married	42% 2-year degree 20%
50+	26%	Separated Widowed Divorced	2% 2% 8% 4-year degree 30% Graduate school 15%
04 HHI	05 Ethnicity	06 Veteran Status	
Up to \$25K	12%	AAPI	7% Yes 11%
\$25K-\$50K	25%	Black/AA	16% No 89%
\$50K-\$75K	22%	White	68%
\$75K - \$100K	15%	Hispanic	14%
\$100K - \$150K	14%	Indigenous	1%
\$150K - \$200K	6%		
Over \$250K	4%		

This content is provided for informational purposes only and should not be construed as tax, legal, financial, or other professional advice. Rules and regulations vary by location and are subject to change, so please consult with an expert if you need specific advice.