



Australian Government
The Treasury

TSY/AU

Options for mandatory adoption of electronic invoicing by businesses

November 2020



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Consultation Process

Request for feedback and comments

Interested parties are invited to comment on the issues raised in this paper by 18 January 2021. While submissions may be lodged electronically or by post, electronic lodgement is preferred. For accessibility reasons, please submit responses sent via email in a Word or RTF format. An additional PDF version may also be submitted.

Publication of submissions and confidentiality

All information (including name and address details) contained in formal submissions will be made available to the public on the Australian Treasury website, unless you indicate that you would like all or part of your submission to remain confidential. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain confidential should provide this information marked as such in a separate attachment.

Legal requirements, such as those imposed by the *Freedom of Information Act 1982*, may affect the confidentiality of your submission.

Further consultation process

The Treasury will also consult broadly with industry representatives and other interested parties on the topics discussed in this consultation paper. This may involve conducting targeted consultation with these stakeholders on specific issues where more information and views are required.

Closing date for submissions: 18 January 2021

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The principles outlined in this paper have not received Government approval and are not yet law. Therefore, this paper is merely a guide as to how the principles might operate.

Introduction

The Government recognises the important role of digital technologies in driving productivity growth and supporting Australia's recovery from the impacts of COVID-19. Digital capabilities can increase the resilience of businesses and create new opportunities for growth.

Electronic invoicing (e-Invoicing) allows the digital exchange of invoices between a supplier's and a buyer's software or systems using a secure network and a common proven standard.

Deloitte Access Economics¹ estimates that every time an e-Invoice replaces a paper invoice, it can deliver up to \$20 in cost savings to the businesses involved. With over 1.2 billion invoices being exchanged in Australia annually, and 89 per cent of small and medium enterprises (SMEs) still processing paper-based invoices², e-Invoicing can deliver significant benefits to Australian businesses and the wider Australian economy. The adoption of e-Invoicing will determine the degree to which benefits are realised.

In 2019, Australia adopted the Pan-European Public Procurement OnLine (Peppol) framework. Peppol is an internationally recognised framework for e-Invoicing and e-Procurement, used by over 30 countries in Europe, Asia and North America. While there has been interest in the potential benefits of Peppol e-Invoicing in Australia, voluntary adoption has been modest in both the public and private sectors.

As adoption of Peppol e-Invoicing reaches higher levels, significant network benefits will be unlocked for its users, prompting consideration of ways to accelerate its adoption.

As part of Budget 2020-21, the Government announced that it will seek to accelerate the adoption of Peppol e-Invoicing, starting with the public sector. The Government will mandate that all Commonwealth Government agencies must be able to receive Peppol e-Invoices by 1 July 2022. The Government will also work with the States and Territories on how state and local governments can also accelerate e-Invoicing adoption.

Greater adoption in the public sector can be beneficial for its agencies and their supply chains, noting that the public sector accounts for under 10 per cent of business invoices in Australia³. Government adoption can also lead to more widespread adoption across the economy, although international evidence suggests that widespread adoption may occur more slowly than is desirable.

This paper seeks to consult on further actions that the Government can take to accelerate the adoption of Peppol e-Invoicing in the private sector, including options for mandatory adoption by businesses. Such a mandate could be effective at increasing adoption by businesses but it could also impose a significant regulatory burden on some businesses. Moreover, as e-Invoicing can deliver enhanced invoice processing efficiency and accuracy, this paper also seeks to consult on how a Peppol e-Invoicing mandate for businesses can reduce payment times from large to small businesses.

¹ Deloitte Access Economics 2016, "The Economic Impact of E-invoicing"

² Deloitte Access Economics 2016, "The Economic Impact of E-invoicing"

³ Deloitte Access Economics 2016, "The Economic Impact of E-invoicing"

About e-Invoicing

What is e-Invoicing?

E-Invoicing allows the digital exchange of invoices between a supplier's and a buyer's software or systems. E-Invoices are exchanged using a secure network and a common proven standard such as Peppol, which allow different software or systems to communicate with each other, similar to being able to make a phone call to another phone, regardless of either phone's model, brand or carrier.

Benefits of e-Invoicing

e-Invoicing can deliver a range of benefits for Australian businesses.

Efficient

Traditional invoicing processes can be time-consuming. For suppliers, these processes can involve printing, storing, posting or emailing invoices. Upon receipt of the invoice, the buyers may have to manually sort, scan and re-key the invoice information into their software or systems.

E-Invoices are sent between the supplier's and the buyer's software or systems, without the need for printing, re-keying, posting or emailing of invoices. This reduces processing time and costs for both the suppliers and the buyers. With Peppol, software and service providers can build electronic validation to further reduce human errors and automate processing to create more efficiencies.

Faster payments

The time savings from e-Invoicing can lead to faster payments to suppliers. Moreover, e-Invoicing reduces the occurrence of human errors associated with traditional invoicing such as lost invoices and incorrect addresses, which cause payment delay⁴.

The greater speed of e-Invoicing has helped the Commonwealth Government implement its current five-day payment policy, which is helping to boost the cash flow of its small business suppliers who participate in e-Invoicing. The Commonwealth Government is also working with the States and Territory Governments for states and local governments to improve their payment time policies.

Secure and accurate

E-Invoices are exchanged more securely than email, reducing the risk of email scams and ransomware attacks.

The Peppol network also has an in-built database of addresses for the accurate delivery of invoices to correct buyers.

⁴ Billentis 2015, "Implementing E-Invoicing on a Broad Scale Report", www.sbr.gov.au/sites/default/files/implementing_e-invoicing_on_a_broad_scale_in_australia.pdf?acsf_files_r edirect

Compatible

E-Invoicing utilises a common, proven, open standard that can allow businesses to use their own software or systems to interact with their trade groups more easily.

Some larger businesses have their own electronic data interchange (EDI) networks⁵ enabling them to gain the benefits of electronic transmissions of invoices. However, these EDI networks are ‘islands of trade’, meaning they are closed to businesses outside the trade groups. These EDI networks also make it more complex for businesses who deal with multiple trade groups, as these businesses have to manage multiple networks, each with different requirements.

Peppol e-Invoicing allows small businesses to use their own software or system to send and receive e-Invoices with their trade partners regardless of the systems they use.

Peppol e-Invoicing can also be used together with existing EDI systems, so large businesses usually would not need to replace these systems.

Enables data-driven decision-making

The digitisation of invoicing data will deliver faster, more accurate and complete data, supporting real-time business decisions for cash flow, procurement, and stock management.

Environmentally friendly

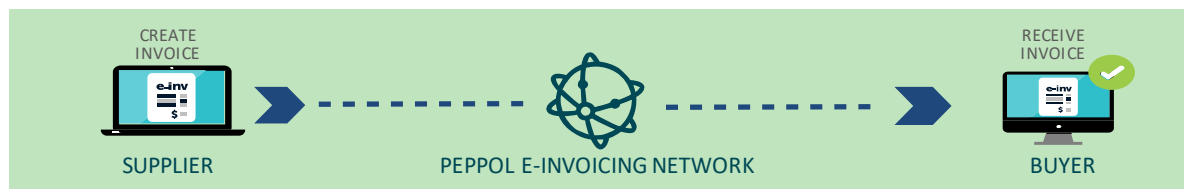
E-Invoicing eliminates paper, uses less energy and resources, and minimises physical storage space, which are all important sustainability focuses for many Australian businesses and their customers.

How does Peppol e-Invoicing work?

The Peppol framework utilises a 4-corner model, similar to Australia’s SuperStream⁶ framework implemented in 2015. Below are diagrams of how e-Invoices are exchanged in the Peppol network using this model.

A supplier would first enter the invoice information into their software or system and send the invoice. The invoice will be transmitted in the Peppol network and be recorded in the buyer’s software or system for action.

Graph 1: Peppol e-Invoices are transmitted through the Peppol network

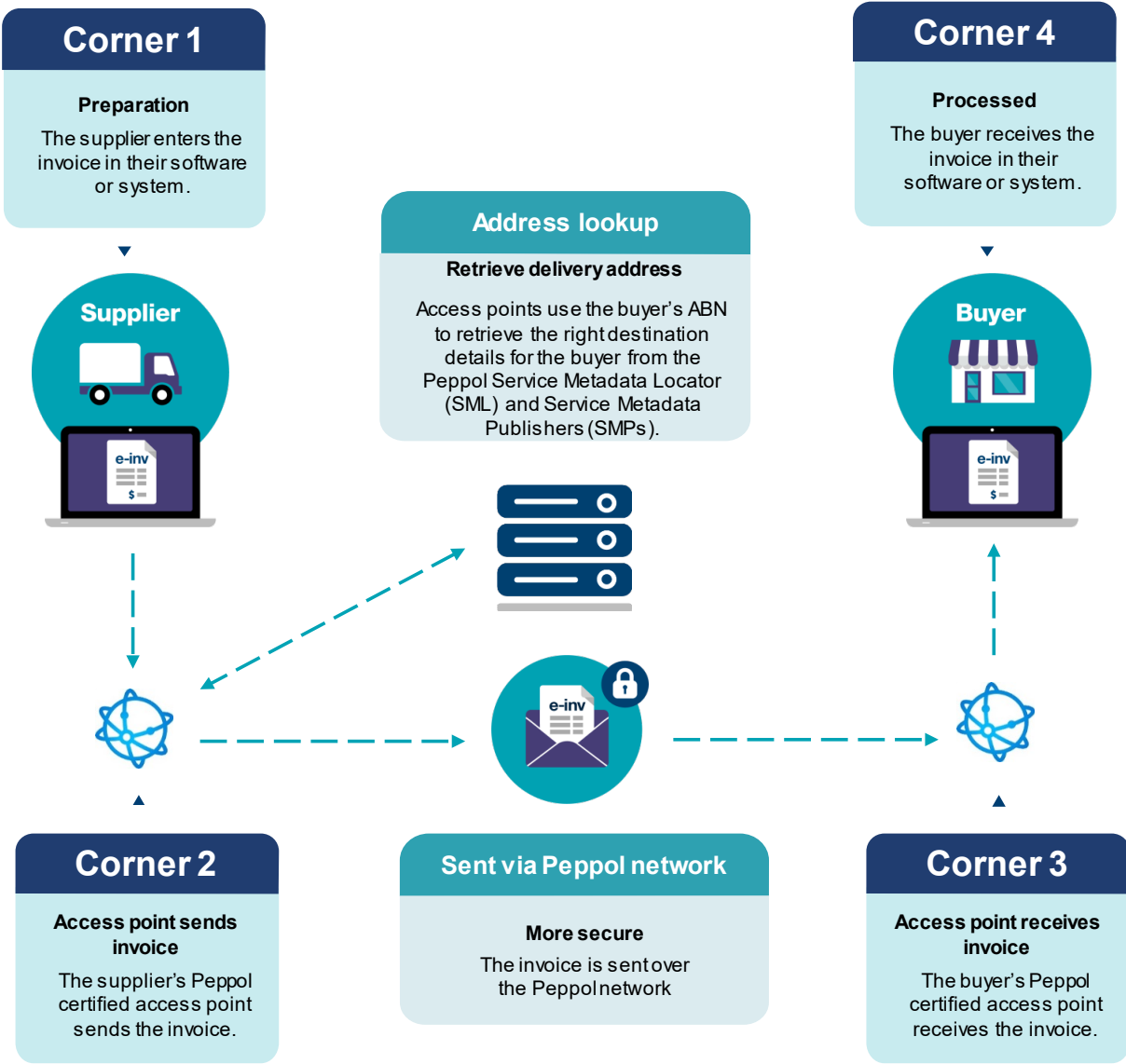


⁵ An EDI system (electronic data interchange) is a point-to-point solution, allowing the electronic exchange of invoices and other data within a certain trade group. These systems are commonly referred to as “islands of trade” or “closed trading networks” due to their proprietary nature. These systems are often a highly tailored and specific software, portal, or a web login interface, which make them attractive to users inside the trade group but very inconvenient for outside users.

⁶ SuperStream is the way businesses must pay employee superannuation guarantee contributions to super funds. SuperStream allows money and information to be transmitted electronically and consistently across the super system — between employers, funds, service providers and the ATO.

By using the Peppol framework for e-Invoicing, Australian businesses can take advantage of Peppol’s global network, allowing them to send e-Invoices to members of the network around the world to support global trading opportunities.

Graph 2: The 4-corner model of Peppol e-Invoicing⁷



The Australian Peppol Authority

In December 2019, Australia adopted Peppol e-Invoicing after legislation established the Australian Taxation Office (ATO) as the Australian Peppol Authority, which is responsible for developing and administering the e-Invoicing framework in Australia.

The Peppol Authority has been focused on increasing the adoption of e-Invoicing by engaging with a range of government bodies and businesses. It has also been engaging with an increasing number of software and service providers to encourage the development of e-Invoicing solutions for their clients.

⁷ More information on Peppol is available at www.peppol.eu/what-is-peppol/

The Peppol Authority has also tailored the Peppol standards to support Australian requirements (e.g. tax invoice) and set the appropriate security requirements for local service providers. It has also accredited over 20 local service providers who are now trusted to provide essential e-Invoicing services in the Peppol network, such as service metadata publisher and access points. More information, including the current list of accredited service providers, is available at www.ato.gov.au/Business/E-invoicing/Finding-an-e-invoicing-accredited-service-provider/.

The ATO (the Peppol Authority) and other Australian government agencies do not have access to the e-Invoices exchanged between businesses, meaning they cannot view the e-Invoices' contents and details.

Budget 2020-21

In the recent Budget 2020-21, the Government announced its intention to accelerate e-Invoicing adoption. Amongst other actions, the Government has provided funding until June 2022 for the ATO in its role as the Peppol Authority, to continue working with all levels of government, with the aim of encouraging adoption and assisting with implementation of Peppol e-Invoicing. This includes:

- Actively promoting awareness of e-Invoicing to encourage early adoption amongst government bodies.
- Engaging with service providers of government bodies to encourage development of fit-for-purpose e-Invoicing solutions.
- Providing direct support to government bodies who need assistance or guidance for e-Invoicing adoption.
- Providing a suite of information resources and tools to support e-Invoicing adoption by government bodies.
- Establishing a Whole-of-Government Panel to support procurement of e-Invoicing access point and reduce integration costs for government bodies.

How can businesses adopt Peppol e-Invoicing?

There are a variety of ways that businesses can adopt Peppol e-Invoicing. Below are a few common scenarios that illustrate how different businesses can do this. Businesses are encouraged to seek guidance on how best to adopt e-Invoicing.⁸

⁸ More information is available at www.ato.gov.au/business/e-invoicing/

For small and medium businesses

Simon, a small business owner finds out that his trading partners are already using Peppol e-Invoicing and decides to adopt it for his business.

Scenario 1:

Simon wants to continue using his online accounting software package.

His accounting software provider advises that the software will be updated for Peppol e-Invoicing by mid-2021. This may come at no cost to his existing subscription. He will be able to use his software to send and receive Peppol e-Invoices.

Scenario 2:

Simon wants to continue using his desktop (on-premises) accounting software that is specific to his industry.

He can still use his existing software for Peppol e-Invoicing by procuring the services of a Peppol access point from an accredited service provider. This will allow him to use his software to send and receive Peppol e-Invoices.

Scenario 3:

Simon normally invoices manually and wants to start using an e-Invoicing software.

He could subscribe to software already enabled for Peppol e-Invoicing

Alternatively, he could use an online portal offered by a service provider to send and receive Peppol e-Invoices. These options are available at low to no cost.

For medium and large businesses

Jenny, the finance director of a large business wants to use e-Invoicing to reduce costs and inefficiencies associated with manual processing. She learns that her trading partners are already using Peppol e-Invoicing, which enable them to exchange e-Invoices with any other businesses in the Peppol network using their software.

Scenario 1:

Jenny's business uses an electronic data interchange (EDI) system, which allows her to electronically exchange data, including invoices, within her trade groups.

She does not have to replace her existing EDI system as Peppol e-Invoicing can be used together with her current system. A Peppol e-Invoicing service provider, or her existing EDI provider, can assist with this integration.

Scenario 2:

Jenny's business uses an enterprise resource planning (ERP) system, which allows her to consolidate and manage key business processes such as accounting, procurement and supply chain operations.

She does not have to replace her ERP system because it can be enabled for Peppol e-Invoicing. A Peppol e-Invoicing service provider, or her existing ERP provider, can assist with this integration.

E-Invoicing adoption

Factors affecting adoption

There are a number of key factors that determine whether and how a business chooses to adopt e-Invoicing⁹:

- Business size: Large businesses are more likely to adopt e-Invoicing than small businesses because they tend to process higher volumes of invoices.
- Business activities: Purchasing businesses are more likely to adopt e-Invoicing than suppliers because they tend to process higher volumes of invoices.
- Existing systems: Businesses with IT systems that can support digital technologies are more likely to adopt e-Invoicing. However, businesses that already have EDI systems may view e-Invoicing as duplicative.
- Adoption costs: Cost of Peppol e-Invoicing solutions will depend on the business, but can range from low (e.g. included in current software subscription) to more expensive (e.g. procuring Peppol access point and integration services). The cost also depends on the readiness of software and service providers to support Peppol e-Invoicing.
- Network effects: E-Invoicing is considered a 'network good', wherein the number of users in the network will influence the degree to which many of its potential benefits can be realised. The more users there are in the network, the more benefits users will gain, and the more likely businesses will adopt e-Invoicing.

Recently, a number of major accounting software providers for SMEs have indicated that they will be able to support Peppol e-Invoicing by mid-2021¹⁰. Hence, it is expected that over 60 per cent¹¹ of SMEs will be able to use Peppol e-Invoicing through their existing accounting software by that time.

Network effects are significant in that one business's decision to adopt e-Invoicing can directly impact other businesses' adoption decisions. Currently, as there are only a small number of businesses that utilise Peppol e-Invoicing in Australia, other businesses have less incentive to adopt because they can only exchange Peppol e-Invoices with a small number of users.

The reliance on network effects to realise significant benefits means that it may not be a priority for a business to adopt Peppol e-Invoicing without knowing if others will also adopt.

International experience¹² suggests that even with a mandate for the public sector, which accounts for less than 10 per cent of business invoices in Australia, it could still take many years for Peppol e-Invoicing to be widely adopted across the economy.

Options to accelerate adoption of e-Invoicing

The Government seeks to understand the impacts that different options for accelerating Peppol e-Invoicing adoption can have on businesses and the wider economy.

⁹ Deloitte Access Economics 2016, "Economic impact of e-Invoicing"

¹⁰ In May 2020, Xero announced that its users could send e-invoices for no extra cost to their existing subscriptions.

¹¹ Internal ATO figure

¹² Billentis 2019, "The e-invoicing journey 2019-2025", www.billentis.com/The_einvoicing_journey_2019-2025.pdf

The Government is considering the following options for accelerating the adoption of Peppol e-Invoicing in the private sector:

- Option 1: a phased approach to introducing a requirement that all businesses adopt Peppol e-Invoicing (without prohibiting paper invoices);
- Option 2: a mandate for large businesses only; and
- Option 3: non-regulatory options to such as a voluntary code of e-Invoicing and/or promotion of Peppol e-Invoicing by enabled organisations.

Note that any mandate would not prohibit businesses from continuing to send and receive non-Peppol invoices such as paper and PDF invoices.

Option 1: Phased in requirement for all businesses

This option involves a phased approach to requiring all businesses to have the capability to send and receive Peppol e-Invoices, starting with large businesses. Key reasons for this approach include:

- It allows smaller businesses more time to plan their adoption.
- It allows software and service providers more time to develop effective and affordable solutions for a greater variety of clients.
- It allows smaller businesses to adopt e-Invoicing when there are more users to exchange e-Invoices.

Potential advantages

- This option accelerates e-Invoicing adoption and brings forward the wide range of significant benefits associated with higher rates adoption.
- This option could boost the number of software providers offering e-Invoicing services to the market, especially if software providers are given the time to develop products prior to a mandate coming into effect. Enhanced competition among software providers could lead to more affordable and effective products for business clients.
- This option can ensure that e-Invoicing becomes part of the broader digitisation of businesses, promoting digital innovation, creating new opportunities and building business resilience.

Potential disadvantages

- A mandate could impose significant regulatory costs on businesses. Some businesses that process low volumes of invoices and don't use business software or systems may find adopting e-Invoicing to be more challenging and/or expensive. Some businesses may not have the funds to invest in e-Invoicing even when there is a positive return over time, noting that:
 - The cost of e-Invoicing adoption will depend on the business and the provided services.
 - Many businesses will need to invest time and resources to understand e-Invoicing and changes to their software or systems.
 - These adoption costs are generally already deductible under the tax system.
- Mandating e-Invoicing for businesses at this point in time may limit the number of software providers to only those that can be ready quickly.

Phasing in by focusing on large businesses first

There are a number of potential ways to define large businesses that could be covered by the requirement to use e-Invoicing, including using:

- The same threshold as is set out in the Payment Times Reporting Act 2020 (\$100 million turnover)¹³. This will capture around 3,400¹⁴ businesses in Australia.
- The definition of a large/medium taxpayer for the tax agent lodgement program (\$10 million turnover)¹⁵. This will capture around 30,000¹⁶ businesses in Australia.
- Other existing definitions.
- A new definition.

Legislation of the mandate

The Constitution limits the Commonwealth's powers in relation to the regulation of businesses. As such, a mandate could be legislated via amendments to existing corporation legislation. This may mean unincorporated businesses such as sole traders may not be subject to a mandate for businesses.

Time required to comply with the mandate

A number of the major small business accounting software providers have indicated they will be ready to support e-Invoicing by mid-2021. Over time, it is also expected that there will be more free or low-cost options available in the market.

A number of EDI or ERP system providers have indicated that they would need approximately 3 to 6 months to become e-Invoicing enabled. However, some may need longer to make technology and process changes for Peppol e-Invoicing.

It is important to ensure that a suitable amount of time is provided for businesses to comply with a mandate, by announcing it and having it coming to effect later. This would help achieve a wider range of e-invoicing products coming to market, fostering competition, and keeping downward pressure on costs for business. A mandate that forces businesses towards a smaller group of service providers might have an anti-competitive effect, ultimately harming Australian businesses.

While small businesses could be enabled relatively quickly through their software, it may be appropriate to wait until their business partners (governments and large businesses) are ready to receive e-Invoices first to ensure they can quickly realise the benefits and have a better user experience.

Monitoring and compliance

It is important for the integrity and effectiveness of any mandate that appropriate compliance mechanisms are put in place.

Active monitoring could be facilitated through the Peppol Directory¹⁷, where details of each business that is able to receive e-Invoices are listed by the business's Peppol service provider. No further reporting by the business would be necessary. Channels could be made available for businesses to report non-compliance.

¹³ Payment Times Reporting Act 2020, www.legislation.gov.au/Details/C2020B00061

¹⁴ ATO 2020,

www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2017-18/?page=4#Snapshot

¹⁵ ATO 2020, Large/Medium Taxpayers

¹⁶ ATO 2020,

www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2017-18/?page=4#Snapshot

¹⁷ OpenPEPPOL 2020, www.Peppol.eu/support/Peppol-directory/

Appropriate sanctions could be put in place for breaches of the requirements. These may take the forms of public notices or financial civil penalties. Consideration could be given to sanctions, including the entity responsible for administering them, if a mandate for Peppol e-Invoicing adoption by businesses is intended to be legislated.

International experiences

Of the 15 countries currently with Peppol Authorities (12 European countries, Australia, New Zealand and Singapore), only Italy has mandated e-Invoicing for business transactions (effective from January 2019). Outside of this, countries such as Argentina, Brazil, Chile, Mexico and Peru have all mandated e-Invoicing for business transactions, with the aim of combatting the black economy and tax evasion.

Option 2: Require only large businesses to adopt e-Invoicing

This option would require only large businesses to have the ability to send and receive Peppol e-Invoices, potentially based on the definitions of large businesses considered in Option 1. Key reasons for this option include:

- There would be greater adoption by large businesses, which in turn would promote adoption by other businesses in the supply chains.
- It would not impose an undue regulatory burden on small businesses who don't need e-Invoicing. These include businesses with few invoices — micro-businesses are less likely to have sufficient volumes of invoices and/or use financial software and systems to gain a positive return from investing in e-Invoicing.

When a mandate applies only to large businesses, smaller businesses that also choose to adopt e-Invoicing can use their own software or systems to send e-Invoices to the large business, including those large businesses who traditionally could only receive e-Invoices within their closed EDI networks. Some large businesses typically require smaller suppliers to use specified invoicing software. As such, any requirement on large businesses would also have an impact on their smaller suppliers.

For large businesses, there would be no need to replace their existing ERP or EDI systems as Peppol e-Invoices can be received into these existing systems via an access point or integration service provider.

However, a mandate which only requires large businesses to adopt may result in fewer e-invoicing products aimed at the SMEs. This may reduce the competition in the market, limiting the available options, keeping cost higher and slowing uptake by SMEs.

Option 3: Non-regulatory actions

Non-regulatory options can offer more flexibility for businesses to choose their own pathway to adoption.

For most businesses, the financial costs of adopting e-Invoicing are likely to be in the form of software subscription fees and wage related costs for staff training. These costs are generally already deductible under the tax system.

Potential options to consider could include:

- Large and small business industry groups working together to develop a voluntary code of practice that requires signatories to be e-Invoicing enabled, commits signatories to inform small businesses they are e-Invoicing enabled, and support small businesses, where practicable, to use e-Invoicing for business-to-business transactions.

- Pros: Take-up of Peppol e-Invoicing may increase through greater awareness and adoption of a private sector code.
- Cons: Participation would be voluntary and without broad participation, benefits may not be realised.
- The private sector and Commonwealth Government agencies could work with the Australian Peppol Authority to promote the benefits of Peppol e-Invoicing to businesses. This could include agencies and business informing their suppliers that they are e-Invoicing enabled. For government agencies, they could promote the Government’s 5-day payment time for invoices issued using Peppol e-Invoicing. Both business and government agencies could display an identifier trademark or text on e-Invoicing enabled websites, and promote e-Invoicing through channels such as social media, websites and/or other public interactions.
 - Pros: These options place no regulatory burden on businesses and can be implemented quickly.
 - Cons: These options may be less effective at increasing further adoption, given that the reach of these actions may be limited to these agencies’ suppliers, who are already incentivised to adopt e-Invoicing so they can take advantage of the Government’s 5-day payment policy.

Consultation questions — Peppol e-Invoicing adoption

Question 1: What are the barriers to businesses adopting Peppol e-Invoicing?

Question 2: What would be the costs and benefits of mandating Peppol e-invoicing?

Question 3: What other factors should be considered when mandating Peppol e-Invoicing for businesses?

Question 4: Which of the options outlined in this consultation paper would you support and why?

Option 1: The Government should mandate that all businesses be able to send and receive Peppol e-Invoices, starting with large businesses.

- What would be a reasonable definition of a large business for this purpose?
- What would be a reasonable timeframe for large businesses to comply?
- What would be a reasonable timeframe before extending the mandate to all businesses?
- Should there be any exemptions to this mandate?
- If some small businesses are exempted, how should this class of businesses be defined?

Option 2: The Government should mandate only that large businesses be able to send and receive Peppol e-Invoices.

- What would be a reasonable definition of a large business for this purpose?
- What would be a reasonable timeframe for large businesses to comply?

Option 3: The Government should take a non-regulatory approach to Peppol e-Invoicing adoption by businesses.

- Are there specific non-regulatory action/s that you would/would not support the Government taking?

E-Invoicing and payment times

Long and late payment times

Long and late payment times can cause significant issues for businesses, especially small businesses that generally have lower cash reserves and have to rely on payments to maintain sufficient cash flows. Moreover, businesses are also forced to spend resources to resolve payment time issues, creating additional costs and inefficiencies in business operations.

Long and late payment times not only impact the cash flows of the suppliers dealing with buyers, but also other suppliers and businesses in their supply chain. At a broad scale, this can slow the circulation of money in the economy. For small businesses it can increase financing costs and inhibit investment growth.¹⁸ It may even lead to more bankruptcies and business failures for some businesses.

A 2019 study by AlphaBeta highlighted the significance of the issue of long and late payments from large to small business. Looking at over 10 million invoices from more than 76,000 small businesses, it was found that:

- More than 1 in 3 small business invoices are paid after 30 days. In fact, these invoices can take an average of 63 days to be paid.
- These long and late payment periods equates to around \$7 billion in working capital withheld from small business every year¹⁹.

A survey conducted by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) in 2016-17 found²⁰:

- 96 per cent of businesses have 30 days or less as their required standard payment time.
- Around 1 in 2 respondents reported that more than 40 per cent of invoices were paid late the previous financial year.
- 1 in 5 businesses report an average delay in payment time of more than 60 days.
- 56 per cent of respondents said that large businesses are likely to make late payments.

Government action in relation to payment times

The ASBFEO has recently voiced concerns about payment times during COVID-19, citing that a lack of legislative protection is resulting in small businesses enduring longer payment times from larger businesses²¹.

The Government has implemented measures to address this issue.

¹⁸ Xero 2019, "Paying the price: The economic impact of big businesses paying Australian small businesses late", www.xero.com/small-business-insights/wp-content/uploads/2019/06/xsbi-report-paying-the-price.pdf

¹⁹ AlphaBeta 2019, "Paying the price", www.alphabeta.com/wp-content/uploads/2019/06/190624-xsbi-payments-report-no.4.pdf

²⁰ ASBFEO 2019, Working Paper 3 Analysis of Survey Responses, www.asbfeo.gov.au/sites/default/files/ASBFEO_WP3.pdf

²¹ ASBFEO 2020, Supply Chain Finance Review, www.asbfeo.gov.au/sites/default/files/Final%20Report%202.pdf

Supplier Pay On-Time or Pay Interest Policy

From 1 January 2020, the Commonwealth Government committed to 5-day payment terms when both a Commonwealth Government agency and a supplier use e-Invoicing, and a 20-day payment terms in other instances where e-Invoicing is not used. In conjunction with the Government's e-Invoicing mandate for Commonwealth agencies as part of Budget 2020-21, this means that from 1 July 2022, businesses who submit correctly rendered invoices under a contract valued up to \$1 million (GST inclusive) to any Commonwealth agencies, will be paid within 5 days or receive interest on late payments.

Additionally, as part of Budget 2020-21, the Government announced that it will be working with the States and Territories on how state and local governments can also shorten payment times to their suppliers.

Payment Times Reporting Scheme

Parliament has recently passed the *Payment Times Reporting Act 2020*, which proposes that from 1 January 2021²², businesses and government enterprises with an annual total income of over \$100 million will be required to report their payment terms for small businesses every 6 months. A small business for this purpose, is an entity with less than \$10 million annual turnover. These reports are to be published on a central public register known as the Payments Times Reports Register. Civil penalties apply for non-compliance with the reporting regime. This policy does not set maximum payment terms or provide remedies when payments are made late.

This policy aims to provide transparency to small business suppliers around the payment practices of large businesses, including their past payment performance, so that small business suppliers can make more informed decisions about their potential clients.

The Government will have the opportunity to review the effectiveness of this policy after it comes into effect from 1 January 2021.

State and Territory Governments

Some State and Territory government agencies have recently reduced payment terms for their suppliers. In particular, the NSW Government has implemented an SME Faster Payments policy with 5-day payments for correctly rendered invoices.

Other Action — Industry Code

In 2017, the Business Council of Australia (BCA) released the Australian Supplier Payment Code (ASPC), a voluntary opt-in code aimed at addressing the issue of long and late payment times to Australian small businesses. Signatories of the code are required to pay eligible Australian small business suppliers within 30 days of receipt of the correct invoice or receipt of a correct product from the supplier, whichever is the latter²³. The Code provides flexibility for payment times beyond the 30-day timeframe if alternative terms are mutually agreed, subject to a good faith and fair dealings²⁴.

²² Payment Times Reporting Act 2020, www.legislation.gov.au/Details/C2020B00061

²³ Business Council of Australia, Australian Supplier Payment Code, www.supplierpaymentcode.org.au/

²⁴ Business Council of Australia, Australian Supplier Payment Code, www.supplierpaymentcode.org.au/

Since its inception however, adoption has been slow, with only 141 signatories to date²⁵. It also has limitations in terms of monitoring compliance and enforcement. For example, it does not bind the signatories to the 30-day payment term, nor does it require them to pay interest on late payments. The ASBFEO's 2019 review of payment terms and practices²⁶ found that while the Code could be effective at reducing payment times, with some signatories having payment terms as short as 7 days, other signatories had payment terms exceeding 30 days.

Consultation questions — e-Invoicing and payment times

Question 1: In your view, if the Government mandates the adoption of Peppol e-Invoicing for businesses:

- Would this result in a reduction in payment times from large to small businesses?
- How would this reduction occur?

Question 2: If the Government mandates the adoption of Peppol e-Invoicing, what other action could the Government take to reduce payment times further?

²⁵ Business Council of Australia, Review of the Australian Supplier Payment Code, www.supplierpaymentcode.org.au/view_the_signatories

²⁶ ASBFEO 2019, Review of payment terms, times and practices, www.asbfeo.gov.au/sites/default/files/documents/ASBFEO-payment-times-report-2019.pdf