Supporting business adoption of eInvoicing - Consultation response

KPMG Australia

March 2022

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Contents

Executive summary

KPMG Australia (KPMG) welcomes the opportunity to make a submission to the Department of Treasury's consultation on '*Supporting business adoption of electronic invoicing*'. We commend and support the government's continued agenda to increase business activity and efficiency, while cutting red tape and administrative burdens. This includes, importantly, embracing digital technology that achieves these objectives and makes Australia a global leader in the digital economy.

We agree that eInvoicing is an important digital development and ought to be implemented when possible and where it makes sense to do so. This should be undertaken consistently within and outside government. Given that collective experiences in implementing and utilising the technology are still maturing, there is an opportunity for partnership across the economy to exchange lessons learnt as we grow into using eInvoicing together.

KPMG's response to this consultation is developed with this spirit of partnership in mind. As such, we consider that a Business eInvoicing Right and its associated protocols is neither necessary nor the most efficient tool to encourage business to take-up eInvoicing. Additionally, we consider that the timelines for implementation, as proposed, are insufficient to account for the complexities inherent to large businesses transforming, for example, their payment processing systems.

We note that while many large businesses, such as KPMG, are already working to implement eInvoicing, there are many that have not started the often lengthy and costly journey, including due to the COVID-19 pandemic. The Commonwealth Government itself, as one of the first movers in this space which we commend, has yet to fully implement eInvoicing and share valuable lessons learnt.

Government can, and certainly is, playing a leadership role in this space and we recommend that the mandatory requirements on business be considered at a later date once systems are more mature. Alternatively, the timelines for mandatory implementation should be a minimum of five years to allow businesses and government to not only implement the systems required, but also become familiar with how they work in practice so that take-up is consistent and systems are interoperable.

We encourage the Department of Treasury to share its lessons learnt and continue to seek out industry's views, including KPMG's, on this issue.

Yours sincerely,

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Background

About KPMG

KPMG is a global organisation of independent professional firms, providing a full range of services to organisations across a wide range of industries, governments and not-for-profit sectors. We operate in 146 countries and territories and have more than 227,000 people working in member firms around the world. In Australia, KPMG has a long tradition of professionalism and integrity combined with our dynamic approach to advising clients in a digital-driven world.

Working Capital and Payment Times Reporting Advisory

KPMG's Payment Times Reporting Advisory team specialises in assisting our clients to understand, prepare for and comply with their Payment Times Reporting obligations. Our team of dedicated specialists combines their deep understanding of the Payment Times Reporting Act with a strong data and analytical skill set to bring a range of different solutions to our clients. Since the introduction of the Payment Times Reporting Act, KPMG Payment Times Reporting Advisory has assisted a wide range of clients ranging from large ASX listed, through to Australian subsidiaries of Multi-National Corporations, through to smaller privately owned businesses. Our team has also provided a wide range of feedback and input to the Payment Times Reporting Regulator covering numerous practical suggestions and areas for potential improvement.

Indirect Tax

KPMG's Indirect Tax practice is a team of specialists who combine technical knowledge with industry understanding. By using advanced analytics and technology, the team help to capture savings, enhance efficiency, obtain valuable insights and reduce risk.

Broadly, KPMG's Indirect Tax team assists with indirect tax needs, from advisory, compliance and technology through to audits and disputes. The team also assist with fuel taxes and rebates, goods and services tax (GST), land taxes, luxury car tax, payroll taxes, stamp duty and wine equalisation tax.

Enterprise

KPMG Enterprise is a specialist division of KPMG Australia, dedicated to advising the emerging, private and mid-market. We work with established and emerging entrepreneurs, family businesses, private clients, not-for-profits and fast-growing companies to build successful organisations. Our diverse experience in a range of audit, tax, accounting and advisory services help in every stage of an organisation's life cycle – whether starting, growing or exiting.

Section 1: KPMG recommendations

Recommendation 1: That the Government does not introduce a Busines eInvoicing Right (BER) or underpinning Business Register. KPMG considers this will add unnecessary and complex administrative processes on business and government, adding to regulatory burden.

Recommendation 2: The Government should engage with international peers to obtain further insights on their experience before implementing any mandatory eInvoicing adoption. KPMG notes that the European Commission has recently commenced its own stakeholder consultation on eInvoicing.

Recommendation 3: KPMG strongly supports the Government's initiatives to encourage the adoption of eInvoicing but consider it should be up to the individual entities to determine if and when to adopt, taking into account the technology, cost and benefit to the organisation. Government and business should work in partnership to exchange lessons learnt to build national interoperable standards and systems.

Recommendation 4: Should eInvoicing become mandatory, exemptions will be required for businesses, and even within businesses that offer multiple and differing services, as it may not be possible to standardise eInvoicing processes due to conflicting standards across professions.

Recommendation 5: Covered entity definitions and thresholds should be easy to understand, clearly communicated to stakeholders and based off existing frameworks, such as relating to total income like under the PTRS, to avoid unnecessary complexity.

Recommendation 6: Should eInvoicing become mandatory, the phase in period should be realistic and practicable. KPMG considers that this should be no less than five years. This would also allow for the Commonwealth Government to conduct reviews of its own eInvoicing processes alongside industry-wide PTRS reforms, and consider how lessons learned would be implemented to improve any proposed eInvoicing framework.

Recommendation 7: The Government should continue to raise awareness of eInvoicing and provide support to businesses who decide to adopt it (see below *"Further measures to support eInvoicing adoption and integration with existing business processes").*

Section 2: KPMG insights

KPMG insights

Introduction

KPMG understands that the goal of the Government is to phase in mandatory eInvoicing in a simple and efficient manner that leads to successful widespread adoption across Australian business. Our understanding of the proposed approach is that the mandatory nature appears to be that one business cannot refuse another's request to using eInvoices, unless exempted or the business is still in a transitionary implementation period.

As with similar government initiatives, the overarching objectives are to increase the ease of doing business and decrease costs and red tape. KPMG's response to this consultation seeks to support these objectives.

A major concern for larger multinational businesses that are likely to be included in the first phase of any mandatory introduction of e-invoicing is that many countries are creating their own differing e-invoicing solutions. This can result in significant expense, not to mention the need to build multiple interfaces with enterprise resource planning (ERP) systems.

The EU Commission, for example, has recently announced a consultation[1] into eInvoicing and digital reporting. It would be reasonable to conclude that one of the reasons for the consultation is that while there is a set of minimum standards in the EU for eInvoicing, the actual systems in each member state are radically different.

Consequently, we recommend that the Department of Treasury and the Australian Taxation Office should be at the forefront of working with other countries (and the OECD) to harmonise eInvoicing before Australia takes any further steps towards mandatory adoption.

[1] *VAT in the digital age (europa.eu)*

Business eInvoicing Right (BER)

The approach of the BER appears to be that a business cannot deny another business' request to use eInvoices, provided that business is captured by the mandatory phase in implementation period, is listed on an eInvoicing register, and is not otherwise exempted. In KPMG's view this approach seems administratively burdensome:

— it requires a register to be maintained on an ongoing basis of all businesses, identifying whether they are entitled to issue or respond to a BER;
— businesses need to check the register and then issue a formal request to their supplier to receive eInvoices; and
— businesses receiving the request need to verify that the sender is entitled to issue the BER and then must comply.

We note that one of the goals of introducing eInvoicing in Australia was to reduce costs and inefficiencies associated with manual accounts payable systems and processes. KPMG considers that introducing the concept of a BER is contrary to the goal of reducing the administrative burden on all businesses and could potentially have the adverse effect; increasing payment times for small suppliers if the receiving busines was to dispute the BER.

Whilst KPMG strongly supports the initiative to increase adoption of eInvoicing, in our view the paper has not clearly articulated why a BER would be the best option or, in fact, necessary.

KPMG considers that more work needs to be done in this area internationally and domestically. Internationally, the Government should continue to work with the OECD to ensure international alignment and interoperability, while also assessing the outcomes of the EU Commission's review. Through such activities, KPMG encouraged the government to consider what other options adopted by overseas counterparts have successfully encouraged adoption and why, and whether such initiatives could likewise work in Australia. Domestically, the Government should review its own processes and act on lessons learnt in relation to eInvoicing and related systems before imposing complex obligations on business. This includes acting on lessons learnt from:

— reviewing its own implementation of eInvoicing across Commonwealth agencies, which are not due to be fully compliant until 30 June 2022; and
— the legislative post-implementation review of the Payment Times Reporting Scheme (PTRS) in mid-2023.

Where mandatory eInvoicing was implemented, the businesses to be included within the scope of the relevant legislation should be thoroughly considered. The scope of the PTRS included not just companies but also trusts and partnerships. We recommend that Treasury review the experiences of the regulator and of businesses from implementing PTRS to identify where improvements can be made to the definition of covered businesses so that these can also be considered in the context of eInvoicing.

Recommendation 1: That the Government does not introduce a Busines eInvoicing Right (BER) or underpinning Business Register. KPMG considers this will add unnecessary and complex administrative processes on business and government, adding to regulatory burden.

Recommendation 2: The Government should engage with international peers to obtain further insights on their experience before implementing any mandatory eInvoicing adoption. KPMG notes that the European Commission has recently commenced its own stakeholder consultation on eInvoicing.

Recommendation 3: KPMG strongly supports the Government's initiatives to encourage the adoption of eInvoicing but consider it should be up to the individual entities to determine if and when to adopt, taking into account the technology, cost and benefit to the organisation. Government and business should work in partnership to exchange lessons learnt to build national interoperable standards and systems.

Defining and categorising Small, Medium and Large Enterprises

KPMG considers that it would be preferable to use a measure of business size with which businesses are already familiar, and which is relatively easy to calculate. We acknowledge that certain very straightforward measures, such as assessable income for tax purposes, could understate the true size of a business where that undertaking derives certain non-assessable income from its business activities.

The PTRS legislation requires an entity to categorise itself based on a combination of its own total income and the total income of any controlled group of which it is a member. This measure relies on figures for which substantial ATO guidance exists, and on the control concept that is reasonably well understood from the *Corporations Act 2001*. Public guidance on how to calculate total income for PTRS purposes is also available on the Government's PTRS website.

Total income would be considerably easier to calculate than, for example, the aggregated turnover (AT) measure that applied for JobKeeper and for the initial eligibility test under the temporary full expensing measures in the income tax legislation. AT requires the inclusion of income of a much wider range of associated persons and entities and requires a distinction to be drawn between ordinary income derived in the ordinary course of business, and other income.

For a business carried on through a trust or partnership, total income should also generally be a more straightforward calculation than AT. Many businesses carried on through these types of entities would also already be familiar with the total income concept following the PTRS legislation.

That said, KPMG would caution against a simple 'cut and paste' of the PTRS reporting entity definitions for the following reasons:

- the identification of a PTRS reporting entity can be complex, especially so for businesses being conducted through non-corporate vehicles;
- a "total income" approach may not correlate with the volume of invoices being exchanged with other Australian businesses. For example, the business may purchase most of its supplies from overseas and/or sell most of its products and services outside Australia. These international counterparties may or may not have adopted eInvoicing, or a compatible eInvoicing, and there should be consideration of whether it is appropriate to require a business to adopt Australian eInvoicing for a small portion of its total invoices; and
- entities can dip in and out of having to report for PTRS if their total income goes below the threshold. This increases complexity in tracking whether an entity must comply with a the BER and makes transparency more challenging.

Ultimately, it may be prudent if any reporting entity definition took into consideration:

- a more targeted approach to its policy goals (i.e. a narrower focus on those businesses that truly should be captured rather than reverting to an 'all in' drafting style);

— how to best harmonise definitions (e.g. those used for PTRS and requirements under Payment Times Connected Procurement Policy and Government Supplier Pay on Time or Pay Interest Policy) to reduce complexity and compliance costs; and
— treatment for those businesses that operate both domestically and internationally.

KPMG also suggests that Government consult with the states and territories prior to adopting the same definition included in the PTRS to avoid unnecessary complexities. This could occur over 2022, in advance of the 2023 PTRS legislative review. Close consultation with the software industry would also complement these efforts so that they are aware of, and can deliver, the desired future state, particularly so that clients of mid-tier ERP vendors will transition smoothly and in a timely manner.

We recommend that Treasury review the experience gained from implementing the PTRS to identify any situations where the concept of "total income" proved difficult for business to apply. This could help to refine the concept if it were used for the thresholds for mandatory eInvoicing.

KPMG does not favour a measure based on the number of employees. This could be subject to greater fluctuation than income measures and would also require guidelines on how an employer should count part-time employees. It could also cause a business to favour the classification of workers as independent contractors rather than employees, which could generate risks in relation to other Government regulations.

Furthermore, any mandatory eInvoicing approach should consider what exemptions will need to apply and whether these exemptions relate to the type of entity, the nature of the invoice being raised and even the number of invoices expected to be raised or received in a single year. Whilst there are the obvious examples, such as on-the-spot invoices or recipient-created tax invoices where an entity is issuing themselves an invoice on behalf of their suppliers, there are also certain services (such as the legal profession) that have their own rules governing the issuing of invoices.

For instance, KPMG Law is part of the KPMG Australia group of entities. It is subject to mandatory requirements from the appropriate professional bodies when issuing an invoice, including:

— the inclusion of a "Your Rights" statement;
— narrative of the work being billed for; and
— a detailed breakdown of the work completed.

These documents are produced externally to the Enterprise Resource Planning (ERP) system and attached to the invoice when issuing it to the client. They are not able to be directly generated and included as part of the invoice by the ERP system.

Thus, any requirement to make eInvoicing mandatory needs to ensure that the requirements do not conflict with other governing body requirements. Further, these professions and industries should be given sufficient time to make any necessary changes to their internal systems and processes to enable invoices to be issued and received via Peppol. Depending on the nature of the changes required, these can be technically difficult, take significant time and be costly to the entity.

Recommendation 4: Should eInvoicing become mandatory, exemptions will be required for businesses, and even within businesses that offer multiple and differing services, as it may not be possible to standardise eInvoicing processes due to conflicting standards across professions.

Recommendation 5: Reporting entity definitions and thresholds for small, medium and large businesses and entities should be easy to understand, clearly communicated to stakeholders and based off existing frameworks, such as relating to total income like under the PTRS, to avoid unnecessary complexity.

Requirement for a BER register

KPMG considers that a register of eligible or obligated businesses seems unnecessary and complicated, and is unlikely to be used by businesses. We note that there are alternative tools and registers currently available to businesses. As such, the communication and reporting processes in the consultation paper in regards to requests for and responses to eInvoicing between entities are equally unnecessary and, while well intentioned, only appear to be a costly and inefficient administrative burden.

For instance, if the Government were to adopt the PTRS categorisations, the PTRS small supplier ID tool is available to all businesses that currently submit reports. This enables them to determine whether the business is in a bracket where eInvoicing should have been phased in.

Secondly, all businesses that are enabled for eInvoicing through the Peppol network need to be registered with the Service Metadata Locator before they can send or receive invoices via Peppol. Businesses could use the Service Metadata publisher to look up whether their trading partners are eInvoice enabled, thus providing a register of eInvoicing enabled entities that already exists.

Having established that both parties have the capacity to send/receive invoices via Peppol, the decision to do so should be part of the commercial arrangements between the entities.

Clear regulatory and policy guidance, alongside education and awareness raising programs, should clarify to businesses their obligations regarding eInvoicing.

Phasing in eInvoicing at a realistic and practical time

A phased approach for the implementation of eInvoicing is reasonable, however the suggested timelines contained in the discussion paper are not sufficient.

KPMG proposes a longer lead in period of five years for large businesses to account for:

— the implementation complexities inherent for larger entities;
— implementation lessons learnt from Commonwealth agencies' roll-out of e-invoicing;
— the ongoing pilot period being undertaken by Government;
— legislative review of PTRS that is to be completed in 2023; and
— implementation of any subsequent reforms that arise from the above.

Further Government consideration of how to align eInvoicing with future tax compliance (as noted in our previous submission on eInvoicing[2]) would also justify a longer transition period.

There is an opportunity for mutual review and exchange of lessons learned through a dialogue of public private partnership that will deliver a timely, mature and supportive eInvoicing system without the need for a BER, register or unnecessarily restricted timelines.

It is worth delving deeper into the challenges that larger entities face when introducing new digital solutions to their commercial activities. The discussion paper makes the following statement:

"Larger businesses are generally better placed to adopt new practices than smaller business because they more readily source technology and training services from third parties."

This statement misunderstands the complexities inherent in the development and implementation of suitable eInvoicing systems and processes in large, sometimes multinational, entities. This includes organisations like KPMG that, as stated above, have various business service lines with different professional standards to which they need to adhere (for example, KPMG Law). So, in fact, the opposite of the above statement is true.

In challenging this statement, we wish to highlight the following:

— many large businesses, such as KPMG, have highly customised ERP systems. Changes to those systems are not simple, particularly where integrations to external platforms such as the Peppol access point are concerned;
— system changes need to be carefully scoped and timetabled having regards to other in-flight projects. For multinational companies, additional consultation and work is required with global headquarters to ensure systems are aligned and integrated;
— Peppol technology is relatively new to Australia and knowledge of internal technical teams is limited. Entities do and will continue to rely on external suppliers to provide

[2] *https://home.kpmg/au/en/home/insights/2021/02/options-mandatory-adoption-electronic-invoicing-kpmg-submission.html*

the technical skills. In the context of larger entities trying to connect new Peppol technology to a highly customised ERP, alignment and implementation can be costly and time consuming;

- implementing eInvoicing requires a cross-functional team and includes representatives from various parts of a business, including procurement, risk management, finance, IT services, change management as well as managers from all parts of the business impacted by the change;
- changes to internal processes and systems are required to cater for multiple ways of issuing invoices as not all invoices can be issued via Peppol, for example to businesses not yet eInvoicing enabled and international clients. Further complexities arise where multiple legal entities operate within the same ERP yet the eInvoicing process and requirements may differ; and
- as the Peppol network in Australia continues to mature and evolve, changes to standards which could be as simple as making a single new field mandatory, can have a large impact on larger businesses whose systems are more complex. As noted above, this is even more challenging for multinational companies who need to ensure their systems are integrated with the global infrastructure.

As noted, KPMG is fully supportive of eInvoicing, however we wish to avoid timelines that are not realistically aligned with either the Government's or private sector's capabilities, skills and experience. It would be appropriate to let the government's system mature and be reviewed and improved before considering a wider mandating of eInvoicing. Business entities will likewise continue to implement eInvoicing in line with Government and customer needs. As implementation evolves, all sides can work together to inform and support best practice and deliver an integrated and easy to use system that meets cost cutting and efficiency business agenda.

Recommendation 6: Should eInvoicing become mandatory, the phase in period should be realistic and practicable. KPMG considers that this should be no less than five years. This would also allow for the Commonwealth Government to conduct reviews of its own eInvoicing processes alongside industry-wide PTRS reforms, and consider how lessons learned would be implemented to improve any proposed eInvoicing framework.

Further measures to support eInvoicing adoption and integration with existing business processes

KPMG considers that it is important to be mindful of the regulatory burden on businesses when exploring the next steps for eInvoicing adoption. In our view, the legislative review of the Payment Times Reporting Scheme scheduled for 2023 is the most appropriate time for additional measures to be considered.

As per our previous submission, there are a range of non-regulatory options available to Government to increase eInvoicing adoption which we believe are worth considering, including:

- education programs or free training modules that could better prepare business;
- mandatory training programs tied to government assistance;
- changes to the Commonwealth Procurement Rules to incentivise adoption;
- encouraging the establishment of a voluntary industry code;
- initiating trials of eInvoicing across key market segments; and
- financial incentives to cover the costs of implementation.

Recommendation 7: The Government should continue to raise awareness of eInvoicing and provide support to businesses who decide to adopt it.

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