Supporting business adoption of electronic invoicing

PwC Submission

February 2022

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1. Executive Summary

PwC Australia welcomes the opportunity to make a submission to The Treasury's consultation on "Supporting business adoption of eInvoicing". As one of Australia's leading professional services firms, we regularly work with clients on operational process optimisation enabled by technology, such as payments and billing systems, and feel we are well placed to share our perspectives on these critical issues.

We have observed that the adoption of eInvoicing by Australia's private sector is low, notwithstanding the potentially significant opportunities that Peppol eInvoicing presents, and welcome the Government's focus on understanding and addressing barriers to adoption.

The consultation paper calls for stakeholder views on further options to support business eInvoicing adoption. Our views are outlined throughout this document, and summarised below:

- We are supportive of a two-sided (send and receive) Business eInvoicing Right as a way to drive productivity within the economy and sustainably reduce carbon emissions;
- GST administrative reform utilising eInvoicing should be considered
- eInvoicing can co-exist and extend existing EDI investments, but work with industry and software vendors is needed and this does impact timing of any BER start date
- There is value in integrating elements of eInvoicing into the wider payments framework, particularly aligning with the National Payments Platform initiative.
- We recommend a phased approach which focuses on the sending and receiving of invoices only, with expansion into a broader integrated P2P processes to occur over the medium term once the Peppol infrastructure globally is further developed and adopted for this purpose;
- We believe a lead time of 5 years for all businesses to comply with the BER is reasonable, with large businesses being required to comply within 3 years from the date the measure is legislated;
- We recommend leveraging the existing tax and ABN framework to regulate the BER, and to utilise the Australian Tax Office as the BER regulatory body. The ATO may need additional resourcing to enable this function.

2. The BER

PwC Australia supports the concept of a Business eInvoicing Right (**BER**) as a general proposition, particularly if we accept that there will be circa $28 billion of productivity benefits to be realised over 10 years by implementing Peppol eInvoicing in Australia (in addition to other benefits noted below). In our view, therefore, it makes sense to have a regulatory framework in place to drive both the **adoption of eInvoicing** and the use of a **standard and common format**, Peppol, as part of that adoption.

Our reasons for this view are as follows:

1. Realisation of the benefits presented by eInvoicing relies on all, or almost all, businesses utilising the same eInvoicing protocol. It is a two-sided equation - a business wishing to send or receive eInvoices must have a critical mass of counterparties with whom to exchange eInvoices. This is the "network effect", which is critical to the success of the measure.

2. Experience overseas suggests that mandatory adoption of eInvoicing for business to business transactions seems necessary to achieve the high participation rates needed to unlock the efficiency benefits sought. For example, in the EU, where Peppol is mandated only for business to government (**B2G**) transactions in several countries, the average business adoption rate is somewhere between 15%-40%.[1] In Singapore, where there is also no mandate, a business adoption rate of circa 21% was achieved in 2019, its first year of Peppol operation.[2] Contrast this with jurisdictions where eInvoicing has been mandated. Brazil has a business adoption rate higher than 90%,[3] Mexico is over 75%,[4] while Chile is over 88%.[5] Closer to home, South Korea has an adoption rate of over 99%, compared with 15% before eInvoicing became mandatory.[6]

3. The reduction in invoice processing costs, which drives much of the stated $28bn economic benefit of Peppol eInvoicing, is dependent on all businesses ultimately using the same standard. For this reason, the BER should specify that the eInvoice needs to be a Peppol BIS format invoice to drive traffic to this common standard over time and reduce the use over time of other bespoke EDI invoicing formats currently in the market.

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[1] https://www.ecb.europa.eu/paym/intro/mip-online/2016/html/mip_qr_1_article_4_e-invoicing.en.html
[2] https://www.statista.com/statistics/1180839/singapore-e-invoicing-adoption-rate-by-enterprises-by-sector/
[3] https://www.billentis.com/Implementing_E-Invoicing_on_a_broad_scale_in_Australia.pdf p 4
[4] https://www.billentis.com/Implementing_E-Invoicing_on_a_broad_scale_in_Australia.pdf p 4
[5] http://blog.groupseres.com/en/global-trends-in-electronic-invoicing-seres-global
[6] http://documents1.worldbank.org/curated/en/712881467994710005/pdf/WPS7592.pdf p 2

4. The success of the BER to secure the economic benefits also requires businesses to be able to practically exchange messages containing generally available invoice fields. This applies to both the Peppol "Access Point" functionality as well as the source systems from which the e-invoice information is drawn. It is important that software vendors have the system fields and functionality available to ensure businesses of all sizes are able to communicate efficiently with each other via the Peppol framework. As an example, many large business purchasers require Purchase Order numbers and other similar items to be quoted on invoices raised by their suppliers. These fields need to be available for populating within the suppliers' systems for this information to be available to be communicated via Peppol. In addition, transmission messages need to be able to flow between the parties - suppliers need to know if their invoices have been queried or rejected or are non-conforming quickly, so defects can be corrected and invoices re-issued. If there are material gaps or mismatches between the invoice fields purchasers typically require and what sellers can provide, or gaps in information around response messaging between purchasers and suppliers, there is a risk of invoice processing being slowed down as exception handling is taken "offline" for manual resolution. The BER as proposed (subject to our comments below) should help to drive the market toward a recognised international standard, with regulated use of invoice fields and messaging capability, and thereby help to secure the productivity benefits of eInvoicing.

In addition to these productivity benefits, PwC Australia also supports eInvoicing because it has the potential to:

1. **Reduce the incidence of invoice and identity fraud:** The Black Economy Taskforce estimates that identity fraud costs the economy circa $2.2 bn per annum,[7] and there have been recent cases where identity fraud perpetrated via invoicing has led to significant losses for small business operators.[8] Peppol embeds identity and security controls, thereby reducing the risk of fraud. Users must be registered, have their own unique IP address and the e-invoices can be validated real time through automatic user and document authentication processes. It also presents an opportunity for businesses to simultaneously review and upgrade controls in their payments cycle, including bank account validation and matching processes as between the invoice and the master file.

2. **Positively contribute to Australia's pursuit of net-zero:** With Australia's commitment to net zero, some attention should be paid to the environmental benefits of Peppol eInvoicing. Initial modelling by PwC Australia's economics team has found that:

    a. There are approximately 1.2 billion invoices issued per annum, with circa 90% (1.08 billion) requiring manual processing of paper invoices;[9]

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[7] https://treasury.gov.au/sites/default/files/2019-03/Black-Economy-Taskforce_Final-Report.pdf p 36

[8] https://www.abc.net.au/news/2020-11-24/business-email-scam-tradies-computer-hacked-costs-51000/12817584

[9] https://ministers.treasury.gov.au/ministers/michael-sukkar-2019/media-releases/launch-consultation-electronic-invoicing#:~:text=In%20Australia%2C%20over%201.2%20billion,still%20processing%20paper%2Dbased%20invoices.

b. The carbon footprint of office paper from "cradle-to-customer" is 4.64, 4.74 and 4.29 g CO2eq per A4 sheet,[10] which means 5,011,200 kg of carbon avoided from transitioning away from paper invoices - over 5,000 tonnes.
c. As the process also uses electricity etc., the net emissions saving for electronic invoicing has been calculated at approximately 36%.[11] This puts the total net avoided emissions from eInvoicing at **1,804,032kg.**
d. With the social cost of carbon at $71/tonne,[12] the total carbon saving from eInvoicing is estimated to be **$128,086,272 annually.**

However, we do believe that the BER needs to be extended in order for its full economic potential to be realised. Set out below are three areas in particular which we suggest should be addressed.

The BER should be two-sided

The BER in our view should be a **two-sided** right. That is, it should give businesses who choose to invest in eInvoicing functionality the right to request that they **send eInvoices to** and/or **receive eInvoices from** their trading partners.

We agree that it is important to have a BER to give businesses the right to require their suppliers to send eInvoices. This will drive volume into the network, particularly as high volume billers such as utilities companies etc. start to send eInvoices to their business customers.

EInvoicing has also been held out by the government as a way to help reduce payment times to small businesses,[13] and we know this is still a challenge. The Payment Times Reporting Register for reports lodged up to 23 December (last updated on 9 Feb 2022)[14] show that a median of 20-26% of invoices issued by small businesses to large businesses were paid outside of 30 days. Given the Australian Small Business and Family Enterprise Ombudsman (**ABSFEO**) research shows that approximately 20% of traditional invoices are sent to the wrong person and 30% contain incorrect information,[15] factors which it considers contribute to late payment, it is clear that eInvoicing has a role to play in reducing payment times.

For this reason we believe businesses who choose to invest in Peppol eInvoicing functionality should have the right to be able to request that their business customers receive Peppol eInvoices under the proposed BER.

We acknowledge that there is a fine balance to be struck between regulating a BER on the "receive" side and requiring businesses to invest into eInvoicing too soon at a time when our

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10 https://www.sciencedirect.com/science/article/abs/pii/S0959652611004409

11 https://investors.basware.com/~/media/Files/B/Basware-IR-V2/2019/SCOPING%20STUDY%20INTO%20THE%20CARBON%20IMPACT%20OF%20ELECTRONIC%20INVOICING.pdf

12 https://www.environment.act.gov.au/__data/assets/pdf_file/0006/1864896/a-social-cost-of-carbon-in-the-act.pdf

13 https://www.ato.gov.au/business/eInvoicing/benefits-of-einvoicing/ and https://treasury.gov.au/sites/default/files/2020-11/c2020122716.pdf

14 https://register.paymenttimes.gov.au/data.html

15 https://www.asbfeo.gov.au/news/news-articles/e-invoicing-policy-fast-track-payment-times-small-businesses

economy is still emerging from the impact of COVID-19. This balance applies for both small and large businesses. However, we believe that it can be managed. For example:

- Small businesses might be concerned that they may be subjected to a BER demand to receive a Peppol eInvoice from a trading partner of any size, maybe even a large trading partner, before they are ready to invest into Peppol. This concern can be mitigated by extending the date by which small businesses would be required to comply with a BER request. Small businesses who choose to invest earlier could opt into the BER and benefit from both sending eInvoices to and receiving eInvoices from other businesses subject to the BER, without burdening all small businesses with an immediate obligation to comply. Please see **part [4]** below for further observations regarding the proposed BER implementation timing and phasing.

- Larger businesses, on the other hand, might be concerned over the additional cost and effort of enabling a Peppol eInvoicing receive capability into their existing P2P/AP environments. It is true that there will be costs for businesses of all sizes to implement Peppol eInvoicing. These costs include upfront implementation and business process change costs, along with the ongoing licence and document processing costs charged by software vendors. Having a scenario where a Peppol BER sits alongside other invoicing channels, which themselves also may have technology and maintenance costs, may indeed lead to increased overall costs for businesses. However, a carefully phased implementation of a "receive" BER could complement and build off investments many large businesses have already made into EDI (see **part [3]** below for our comments in this regard). Allowing sufficient lead time also presents opportunities for larger businesses to include Peppol in any upcoming ERP cloud transformation project, as the market shifts from on-premise to cloud ERP over the coming years, allowing cost efficiencies to be achieved by doing the project once. We also expect that Peppol will present opportunities for large procurement functions to consolidate invoice processing and actually help drive adoption of EDI by smaller vendors to achieve broader business processing efficiencies and controls. For example, one of our clients has utilised Peppol to onboard a number of sole trader suppliers who previously would not use its existing EDI platform, creating a manual process for this cohort of suppliers. Now, with that EDI provider having a Peppol access point, any supplier with a Peppol access point can send eInvoices directly into the EDI system without any bespoke integration required.

The BER should include opt-in opportunities for streamlined regulatory reporting and other incentives for early adopters

Introducing the BER by a prescribed date (and extending to a two-sided model) is important to give enough time for businesses to plan and/or who need to first recover from COVID-19 impacts before investing in this measure. However, as faster adoption drives faster benefits realisation, the Government should also seek to encourage earlier adoption where possible.
As part of this, the Government could look to leverage Peppol eInvoicing data to simplify and/or reduce regulatory reporting. This would be in line with other current government initiatives to

reduce red tape for businesses and may help to defray some of the cost of implementing Peppol eInvoicing.

Some of the areas where eInvoicing data could be provided to government to streamline existing reporting (on an opt-in basis) include:

1. Payment Times Reporting (**PTR**) - our experience assisting several of our large clients to comply with these new rules has been that “invoice receipt date”, a key reporting field for PTR purposes, is not generally a field captured in AP systems. Vendor ABNs are not consistently or accurately captured or maintained. Peppol captures these data points, along with several other key PTR requirements;

2. Taxable payments annual reporting (**TPAR**) - as with PTR above, many of the data points required to be reported on TPAR are found on eInvoices. This reporting obligation could be streamlined significantly through pre-filling on an opt in basis;

3. Business Activity Statement (**BAS**) reporting (e.g. offering businesses an option to have access to pre-filled BASs using information available on eInvoicing data), similar to the way in which the deferred GST regime operates for import GST values recorded by Australian Customs.

Government could also consider removing the $1 million cap from the Federal Government’s 5 day payment commitment to public sector suppliers where, say, those businesses agree (on an opt in basis) to implement Peppol for both sales and purchases and share the working capital benefit with their suppliers via faster payment time commitments through that particular supply chain. Removing the cap might incentivise businesses with large supplier bases to adopt Peppol sooner, providing significant network benefits to the economy prior to the target BER date.

More generally, as a key pillar of the Government’s wider digital economy policy agenda, there may be merit in considering other targeted incentives, particularly for those sole-trader and micro-businesses who may not currently be utilising accounting software. Such incentives could include targeted tax concessions - such as refundable tax offsets / rebate incentives (similar to those announced in the last budget for the gaming sector) and / or allocation of grant funding from the $1.2bn Digital Economy budget to target specific digitisation of accounting processes for small and micro-businesses. For medium and larger businesses, the Government could consider non-refundable tax credits, or a scheme similar to the instant asset write off for small and large businesses who invest into eInvoicing technology and process transformation projects.

Consider the BER for GST administration reform

We acknowledge that the Government has stated that it has no immediate plans to utilise Peppol eInvoicing for any form of GST administration purpose. However, while Australia may not be looking at this type of model, the rest of the world certainly is. The rate of adoption in eInvoicing and related Value Added Tax (VAT) compliance model change across the globe is increasing at an unprecedented pace. From Latin America to Europe to India to the Middle East and Asia, countries across the world are looking to eInvoicing as a key means to automate VAT compliance. PwC counts approximately 32 eInvoicing or SAF-T (standard audit file for tax) VAT e-filing mandates currently in place globally with around 20 new or expanded mandates to be introduced before 2024.

The key drivers for this shift across OECD nations are to lower the tax gap (defined by the ATO in Australia for example as the difference between the amount of tax the ATO collects and what it would have collected if every taxpayer was fully compliant with tax law[16]) and to reduce the burden and cost of VAT / GST compliance for businesses each month. This is a result of eInvoicing, among other things, which allows for VAT/GST reporting to revenue authorities at the transactional level, removing or reducing the need to complete a BAS).

In the context of Australia's current GST administrative landscape, it is useful to observe the following:

1. There is currently a significant excess tax compliance burden (c. $6.2Bn pa) placed on the small and medium business (**SMB**) community, with the cost of tax compliance 225 times higher for micro businesses than large businesses.[17] The red tape cost of tax compliance for small businesses, including BAS, is high.

2. The GST gap in FY20 in Australia is circa $5.8Bn pa.[18] Other OECD nations such as Chile, Mexico and Columbia have seen VAT gaps reduced by around 50% following the introduction of B2B eInvoicing mandates.[19] In Korea, where eInvoicing is extended to VAT collection on cash and credit card transactions, the number of cash / credit receipts captured by eInvoicing for VAT purposes lifted 11 fold in the period 2005-2016.[20]

3. For context, PwC Australia estimated in 2020 that lifting the GST rate to 12.5% in Australia would yield $14.5Bn pa in additional tax revenue.[21] GST compliance reform utilising eInvoicing could potentially deliver a benefit of around a quarter of that amount, without the political challenges associated with a GST rate or base change, and provide red tape savings to businesses at the same time through streamlined BAS reporting.

We believe that there is merit in exploring a GST eInvoicing collection and compliance model in some shape or form for these reasons.

However, even if the Government chooses not to pursue this option currently, PwC Australia believes that it is important to establish an eInvoicing framework which allows for a future GST

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[16] https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-gap/Australian-tax-gaps-overview/

[17] https://business.nab.com.au/wp-content/uploads/2020/07/Supporting-Economic-Recovery-What-we-can-do-for-Small-Business-1.pdf

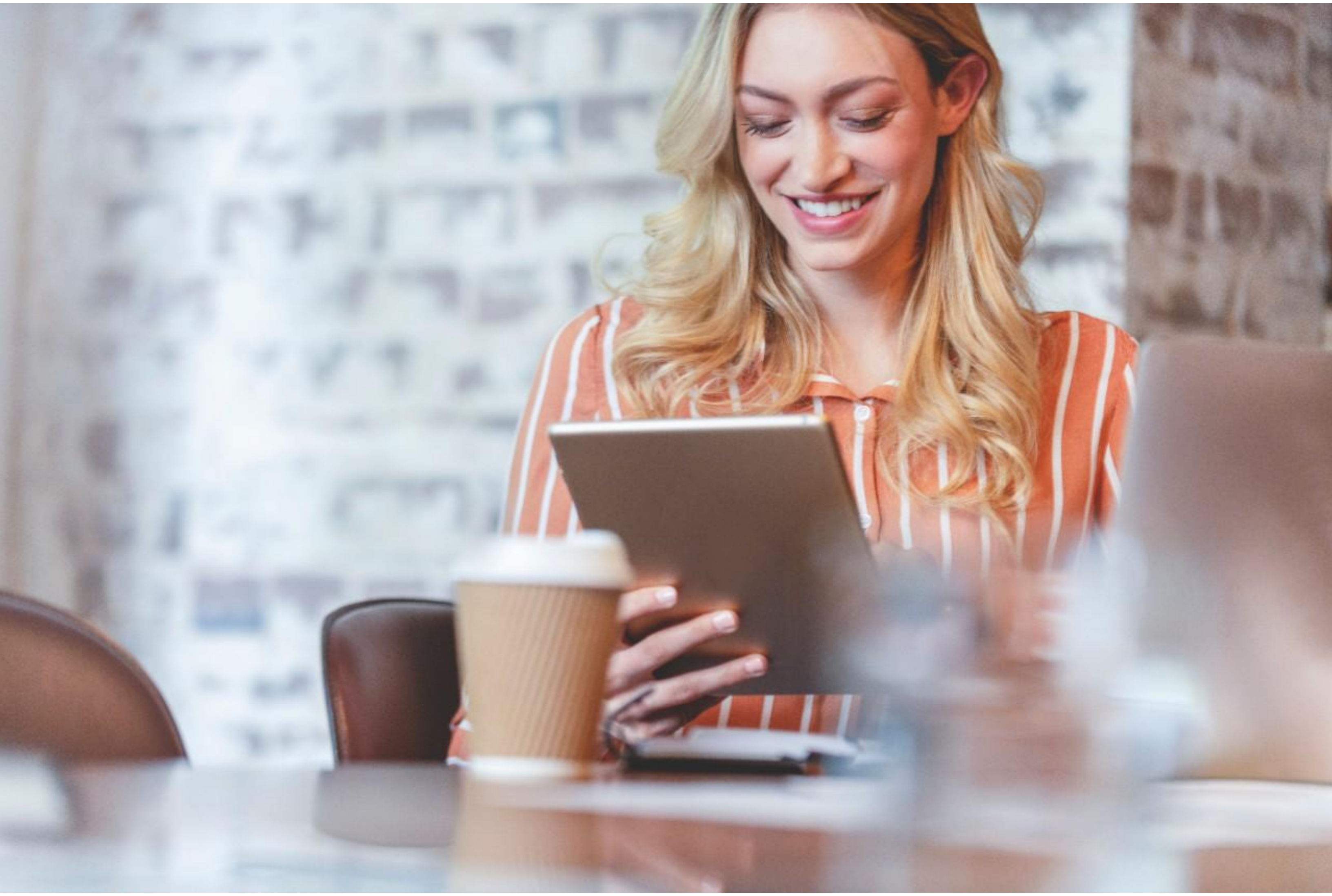
[18] https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-gap/Goods-and-services-tax-gap/

[19] https://www.billentis.com/The_einvoicing_journey_2019-2025.pdf p 19

[20] https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/implementing-online-cash-registers-benefits-considerations-and-guidance.pdf p 37

[21] https://www.pwc.com.au/tax/assets/tax-reform/2020/how-gst-reform-can-help-reboot-prosperity-for-australia-july2020.pdf

reform measure to be more easily implemented. Indeed, we have already seen how the Single Touch Payroll initiative, a similar, government-led program to cut red tape and reduce the reporting burden on business, made it possible to then implement the JobKeeper program in response to COVID-19, a move the RBA estimates to have saved at least 700,000 jobs nationally during the pandemic.[22]



[22] J Bishop and I Day, *How Many Jobs Did JobKeeper Keep?: Research Discussion Paper 2020–07*, Economic Research Department, Reserve Bank of Australia, November 2020.

3. EDI and payments

For many organisations, current operating models and system environments are complex. As such, implementing Peppol will not just be about turning on the technology. It will fundamentally change many existing business processes and controls potentially across procurement and supply chain functions.

The Procurement B2B environment is complex and of varying maturity. Broadly it can be split into two categories:

Indirect procurement – goods and services purchased to support an organisation

Direct procurement – goods and services to support the manufacture of products for resale. For the purposes of this definition this includes goods for resale as well.

The transaction choreography is mature in many industries and the invoice is one of up to ten documents that may be exchanged between Buyers and Suppliers. More common examples are Purchase Order, Purchase Order Acknowledgement, Advance Shipping Notice, Receipt Advice and Remittance.

Each of these documents have business rules associated with them that determine how they are managed between the Buyer and Supplier. These business rules impact how quickly an invoice is ready to be paid.

An additional consideration to this information exchange is Supply Chain. The supply chain information exchange is naturally more sophisticated in terms of the information exchanged and the business rules. There are more than 30 process interactions from Planning and Forecasting through to Payment that are potentially exchanged in Australia.

This information varies by industry as does the format in which the information is exchanged and how the information is transported. E.g. via an Electronic Date Exchange Value Added Network (EDI VAN), software vendor specific network such as the SAP Business Network, internal company middleware solutions or email and Microsoft Excel.

The Challenges of Interoperability

Information exchange for indirect and direct procurement and supply chain has evolved over the past forty years. The first standards for EDI were published in the mid 1970s and XML based standards evolved in the 1990s. Consequently there is much industry specific information embedded in formats that support the information exchange. Common standards include:

1. Edifact (comprising many variants)
2. X12 (a common EDI standard across industries and processes)
3. OAGIS
4. GUSI (standard used in Consumer Products globally)
5. EANCOM (used globally to support food and beverage and general merchandise information exchange)
6. PIDX (standard of the oil and gas industry)
7. xCBL
8. cXML (global leverage for indirect procurement supported by SAP, Oracle and Coupa)

These formats are implemented in Australia by Australian and Multinational organisations to support the exchange of information. Characteristically, often industry specific information is embedded in the format to support the information exchange.

Where does Peppol fit in this context?

A key question for discussion is how the implementation of Peppol for eInvoicing can be achieved whilst ensuring minimal disruption to existing mature information exchange. On one initial level, reviewing how Peppol fields are structured and how these might be able to be mapped to the most common standards already in place, could be a simple first step to take by the software vendors. This could help to ensure Peppol complements and extends the existing EDI investments made by large businesses by allowing trading partners, especially smaller businesses, to transmit invoices into these EDI networks. Under this model, Peppol is simply the gateway for suppliers into the EDI network of the large procurer. It is not a replacement for the EDI. We are aware that some vendors, such as SAP Ariba, have adopted this position. However, this process needs time for software to be developed and for large business procurement processes to be reviewed and redesigned where needed.

In our view, we believe that it will be important for Government to undertake the following key steps to best understand and implement a BER which aligns and extends with existing EDI investments:

- A maturity view by industry to enable Peppol eInvoicing that considers current electronic invoicing adoption;

- An assessment of current technology providers to cover each industry and expand the supplier adoption footprint; and

- A consultative review with Industry to garner feedback on process and technology adoption barriers.

Integrating eInvoicing with payments

What is the level of impact on business adoption that the integration of eInvoicing and payments would have?

eInvoice and payment integration should enhance the utility of any P2P solution, and we think it is safe to say that it would increase and accelerate adoption. However, how much so would depend on three key factors:

1. ***Cost:*** One well-known digital wallet provider, for example, offers small-businesses 'push-button' payment functionality for some electronic invoices at a cost exceeding several 100 basis points per payment. As one might expect, that appears to have dampened takeup. On the other hand, payment initiations that are free (or close-to-free) would have a very different reception.

2. ***Ubiquity:*** Every business has a bank account, so the degree to which this integration is standardised across accounts (at least in Australia) and therefore universally-available (even if only in-principle) would be a key driver of utility, appeal and speed of adoption.

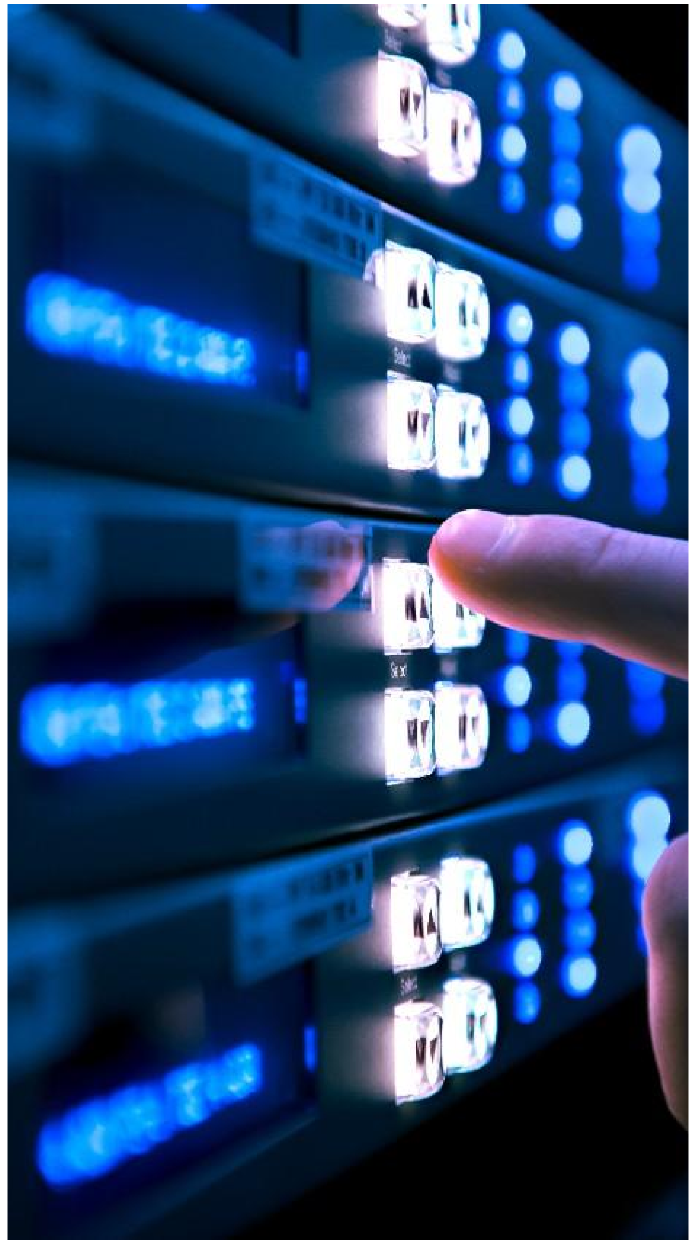
3. ***Ease:*** Finally, we would expect speed of adoption to be a function of the scale of investment required in technology and process engineering. Accordingly, cloud-based invoicing systems with rails direct into banks and payment networks, for example, would likely see fastest adoption, while, also for example, medium or larger-sized enterprises with bespoke ERP systems managing payments across many global jurisdictions would likely find it harder. On this point, there could be particular value for business if payment details flowing through to bank statements etc. were able to bring through elements of invoice level data to aid reconciliation processes. Currently many SMBs focus heavily on reconciling their financial statements in Xero or MYOB back to the bank statement. Invoice line data may enhance and streamline this process, saving businesses time at month end.

Given the market is currently working to deliver solutions that enable integrated eInvoicing and payments, what (if any) further action or intervention is required to address any current barriers to greater integration and help drive this process?

The two most important would be to ensure alignment with Australia's broader payments strategy which is also under Treasury review, and to have in mind the opportunity for 'next-level' Open Banking standards to facilitate implementation of both eInvoicing and integrated payments solutions, especially as regards to Payments Initiation functionality which is not part of the current Consumer Data Right (CDR).

We also suspect that National Payments Platform (NPP)-style overlay services could be a useful and efficient delivery pathway for invoicing and payments integration, especially in the context of a CDR that included Payments Initiation, but also that it would not be the only one.

4. Our view on timing



Harnessing the benefits of eInvoicing requires careful consideration and time

We anticipate that businesses will need time to navigate the complexities of Peppol eInvoice implementation.

In order to fully harness the opportunities that eInvoicing presents, businesses will need time to:

- understand their current state accounts payable and accounts receivable landscape and assess opportunities for improvement as part of a design roadmap;
- define business requirements and operational objectives;
- complete system and access point configuration; and
- establish a supplier and customer engagement program

For this reason, we believe that a clearly defined and practical timetable for the phasing of mandatory business adoption of Peppol eInvoicing needs to be implemented.

The timetable needs to give sufficient time to allow businesses to plan their Peppol projects, particularly in the current environment, for software vendors to develop the required functionality relevant for the Australian market and for businesses to obtain certainty regarding when their suppliers and customers will be Peppol enabled.

A timeframe for mandatory adoption of Peppol eInvoicing within 5 years for all businesses might be appropriate, starting first for larger businesses within, say, 3 years, followed by smaller businesses at annual increments as suggested in the Consultation Paper.

We also believe this timeframe should be complemented by some clear incentives to drive earlier adoption across all segments of the market (discussed in more detail in **Part 2** above) including access to the BER for early adopters. Our view is that this approach balances the risk of adding further cost and burden on business in the current economic climate (who may not have the resources or focus to deal with a transformation project at this time) while encouraging those who can to implement sooner to do so and providing certainty to businesses on the mandate dates well in advance.

Any mandate for adoption earlier than 3-4 years should be based on industry consultation as some industry groups may be able to implement earlier with minimal disruption - for example those with less goods/equipment intensive procurement profiles given our comments above about interoperability challenges with existing EDI investments.

Further reasons for our views on timing are set out below:

a. Large businesses generally tend to have complex operating models and system environments. Therefore, for many large businesses, implementing Peppol eInvoicing will not just be about turning on the technology. It will fundamentally change many existing business processes and controls, particularly for the “procure to pay” (**P2P**) functions, involving several different systems, and will likely require substantial technology and business resources to be allocated to the project. Adequate time to manage such complexities should be factored into the implementation timetable.

b. Many large businesses are in the midst of, or about to commence, technology led finance transformation projects, driven by the major ERP vendors moving their clients from legacy “on premises” systems to cloud based ERPs. This transition is likely to accelerate over the coming years. Peppol e-invoice implementation in many ways is a subset of a broader finance transformation and synergies could be realised by allowing businesses time to plan their Peppol adoption to form part of a broader finance transformation initiative.

c. An appropriate amount of time for business adoption should ensure that software providers have the time to develop solutions which are appropriate for the Australian market. This is set out in further detail in **Part 2** above.

d. We agree that smaller businesses should be required to comply with the BER after larger businesses. Many SMBs transact with each other and the accounting software providers in that market are concentrated into a small number of participants, all of whom either have or will shortly be enabling Peppol for their customers. Small businesses that transact with large businesses and with the government would benefit from the certainty of knowing that those organisations are Peppol enabled via the BER process before themselves investing in Peppol functionality. There may be compelling reasons for some SMBs to adopt Peppol on a voluntary basis sooner (please **Part 2** for more details on possible incentives for early adopters).

e. Any categories of businesses (such as sole traders and other non-employing businesses) for whom a BER might not apply could be incentivised to adopt Peppol eInvoicing to ensure full market adoption over time (please refer to **Part 2** for further details).

f. To give some context on timing, the introduction of the low value goods rules for GST purposes, which had substantial system impacts to manage, was announced in August 2016 and implemented on 1 July 2018, roughly a two year period[23]. The Single Touch Payroll implementation originally allowed one year but required a raft of concessions and extensions to be granted by the ATO because businesses and software providers were not ready.

g. With respect to the impact of Peppol there are a number of dimensions or characteristics that need to be considered when determining a technology adoption approach. Many industries are mature with respect to document exchange and the types of documents transacted are broad. The invoice would be considered the final document as part of this exchange. As written previously, many industries have specific formats and transaction rules which are mature and embedded in their P2P process. Finally the technology landscape across buyers and suppliers should be analysed considering the industry maturity and documents exchanged. This landscape dimension needs to be considered from a cost to implement perspective and the potential disruption to current processes.

h. Learning from global experience Australia could avoid some of the technical and system readiness issues by introducing a longer lead time for the BER. Italy, for example, allowed approximately 18 months for their business eInvoicing mandate, while India initially announced mandatory eInvoicing in July 2019 with a start date of April 2020. However, India's go live date was extended by 6 months to October 2020 due to issues with the infrastructure and, interestingly, the very low take up of voluntary eInvoicing by businesses prior to the mandate. Even still there are extensions being given by the Indian authorities due to readiness issues.

i. Finally, it is important to recognise that we are emerging from one of the most severe and volatile economic times in history and while we fully agree that this is a positive initiative to drive productivity, the time and cost of implementing this at the current point in time may not be feasible for all businesses. Therefore, a mandate timetable which gives enough time for those businesses who need to recover from the current conditions before investing in this measure, but which encourages earlier adoption where possible, should be adopted.

Federal Government's existing Peppol mandate can complement the BER

The federal government's adoption of Peppol is critical to building wider market awareness and confidence in eInvoicing, to complement the BER in the private sector and drive momentum

[23] *Treasury Laws Amendment (GST Low Value Goods) Act 2017*

through the B2G procurement market. It shows the federal government leading the way and taking the first important step to achieving the $28 billion productivity improvement across the economy.

However, as noted above, technology enablement is one part of the puzzle. It is also necessary to capture a critical mass of users and drive volume through the network.

We believe that the Federal Government's indirect procurement spend could provide a valuable test case and proof point for the BER. Consistent with the comments in the previous section of this document, eInvoicing adoption in Australia varies based on dimensions such as industry, indirect or direct suppliers, existing formats and documents and the supplier base.

The Federal Government could be in a position to now build on its mandate to enable eInvoicing by going a step further by introducing volume targets, similar to those being proposed in New Zealand. To complement that, a focus on SMB supplier engagement in conjunction with the major SMB cloud accounting software providers, could drive some significant aggregate throughput relatively quickly. This would involve government agencies expanding their existing access point technology strategy in some cases and supplementing this with connections to the major SMB financial systems to support the initiative.

To give an idea on the impact this might have, in the 2020/21 financial year the Federal Government transacted with over 84,000[24] suppliers of which 96.4% had registered Australian addresses according to Department of Treasury and Finance published data. 86% of these suppliers are SMEs and represent $18.6 billion of annual spend. An SME is defined by the Commonwealth Procurement Rules as an Australian or New Zealand firm with fewer than 200 full-time equivalent employees. A small business is defined by the ABS as a business with fewer than 20 full-time equivalent employees.

By enabling these suppliers to send Peppol compliant eInvoices for Federal Government, coupled with the 5 day payment promise for contracts below $1m, incentivises and enables these suppliers to be Peppol compliant for non-Federal Government Buyers, creating a further "flywheel" effect on the wider BER uptake.

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[24] As defined on finance.gov.au
https://www.finance.gov.au/government/procurement/statistics-australian-government-procurement-contracts
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5. Monitoring, compliance, enforcement and protections

For Australian business to realise the productivity benefits of eInvoicing requires broad adoption (consistent with our comments in section 2 above). To achieve this objective, the definition of eligible entities for eInvoicing needs to be broad.

Eligibility

Eligible entities fall into two categories, those who are required to provide Peppol eInvoices and those who are entitled to exercise a Business eInvoicing Right. The definition for both these categories should be based on existing laws and should be easy to determine.

Experience from the recently implemented Payment Times Reporting legislation suggests rules with complex exclusions lead to confusion and lack of understanding. Further, a definition that excludes entities does not achieve the broad adoption required to achieve the productivity benefits.

Eligibility should apply broadly to all entities with an Australian Business Number (ABN). The ABN is governed by the *Australian Business Number Act 1999*, which applies broadly to any entity that carries on an enterprise in Australia or makes supplies that are connected with Australia. This covers any Australian company and includes government entities, not-for-profit sub-entities and superannuation funds.

The eInvoicing standard, Peppol, currently operates in 14 different countries, with a common Peppol international standard currently being developed. To encourage broad adoption of eInvoicing, eligibility should include non-resident businesses that transact with Australia. To achieve this there should be an option for these businesses that hold an ATO Reference Number (ARN) or an Australian Registered Body Number (ARBN) to participate in the eInvoicing. This should include an entitlement to a BER.

Requirement to issue Peppol eInvoices

For the reasons set out in section 4 above, the requirement to comply with a BER request to send or receive Peppol eInvoices should be introduced on a phased basis with large businesses being the first adopters.

For the purposes of determining large, medium and small businesses, existing definitions should, to the extent possible, be adopted without amendment, so that businesses readily understand the definition. For these purposes, the definition of small business within the *Income Tax Assessment Act 1997* should be adopted (broadly aggregated turnover of less than $10M per annum).

BER entitlement

The BER should be available to all eligible entities that have implemented eInvoicing to drive broad adoption of eInvoicing. Entities that are BER entitled should be able to exercise that right (for both sales and purchase invoices) with businesses for which eInvoicing has been mandated and business that have voluntarily joined the scheme on the basis that they are eInvoice enabled

Verification of eligibility

For the BER to work effectively, businesses need to be able to readily identify those businesses that are eInvoice enabled and eligible for BER. This requirement could be met through the existing Australian Business Register, which currently records all businesses with an ABN and includes further registration information such as whether the business is registered for GST, whether it is a registered charity or endorsed as a deductible gift recipient.

The current ABR would need to be adapted to include non-residents with ARNs and ARBNs, so that entities that have opted into eInvoicing can be readily identified.

The role of the eInvoicing Administrator needs to include responsibility for identifying and reporting entities for which eInvoicing is mandatory and those that are BER entitled. This is considered below.

eInvoicing Administration and Regulation

The Administrator and Regulator for eInvoicing needs to be an Australian Federal government body with the required resources, knowledge and access to existing processes. The Commissioner of Taxation has been granted powers under section 3G of the *Taxation Administration Act 1953* (**TAA**) to develop and administer eInvoicing. Further the Registrar for the Australian Business Register is the Commissioner of Taxation. For these reasons, the Australian Taxation Office might be the appropriate body to administer and regulate eInvoicing. Whether there is existing capacity within the ATO, of course, is a separate question.

Learnings from the experience with Payment Times Reporting suggest that establishing a new, independent body to oversee eInvoicing could create challenges with accessing existing systems and processes, such as the Australian Business Register and Tax Agent Portal.

The other benefit of drawing on existing tax law definitions, concepts and administration is that the BER can, in time, “piggy back” off the rules put in place to cater for particular economic models. One such example which has been raised by some of our clients relates to online marketplace providers. In the GST law, there is a concept of an ‘electronic distribution platform’ (**EDP**) rules, with associated definitions and statutory entitlements and obligations for EDPs with respect to invoicing and collecting GST on behalf of sellers operating on their platform. The EDP rules give a natural framework to allow marketplace entities to comply with BER requests on behalf of their developers and sellers.

Broader eInvoicing considerations

We acknowledge that eInvoicing is not a tax measure. However, a number of existing principles from existing tax laws should be adopted for eInvoicing purposes.

Current invoicing requirements for business are governed by tax laws, principally the TAA and the *A New Tax System (Goods and Services Tax) Act 1999.* These existing laws deal with many of the practical invoicing issues such as for recipient created tax invoices, sales made through agents etc. eInvoicing should refer to these existing laws, rather than creating a new set of separate obligations.

A pre-existing penalty regime also exists within the TAA that could be leveraged for eInvoicing purposes.

To encourage eInvoicing adoption by businesses that operate globally and for whom Australia may represent only a small part of their market, the government should encourage the Commissioner to exercise his powers under the TAA, specifically those powers for liaising with foreign countries, agencies and entities in foreign countries to develop common approaches to eInvoicing between countries.

6. Reference to consultation paper

Our document is intended to address key questions set out in the consultation paper. We have set out below the questions in the consultation paper which are addressed in the various sections of this document.

Submission reference	Questions in the consultation paper
2. The BER	1, 2, 3, 20a,
3. EDI and payments	16, 17a, 18, 19, 21, 22
4. Our view on timing	10, 13a, 13b, 13c,
5. Monitoring, compliance, enforcement and protections	4, 5, 6a, 6b, 8, 11a, 11b, 12b,

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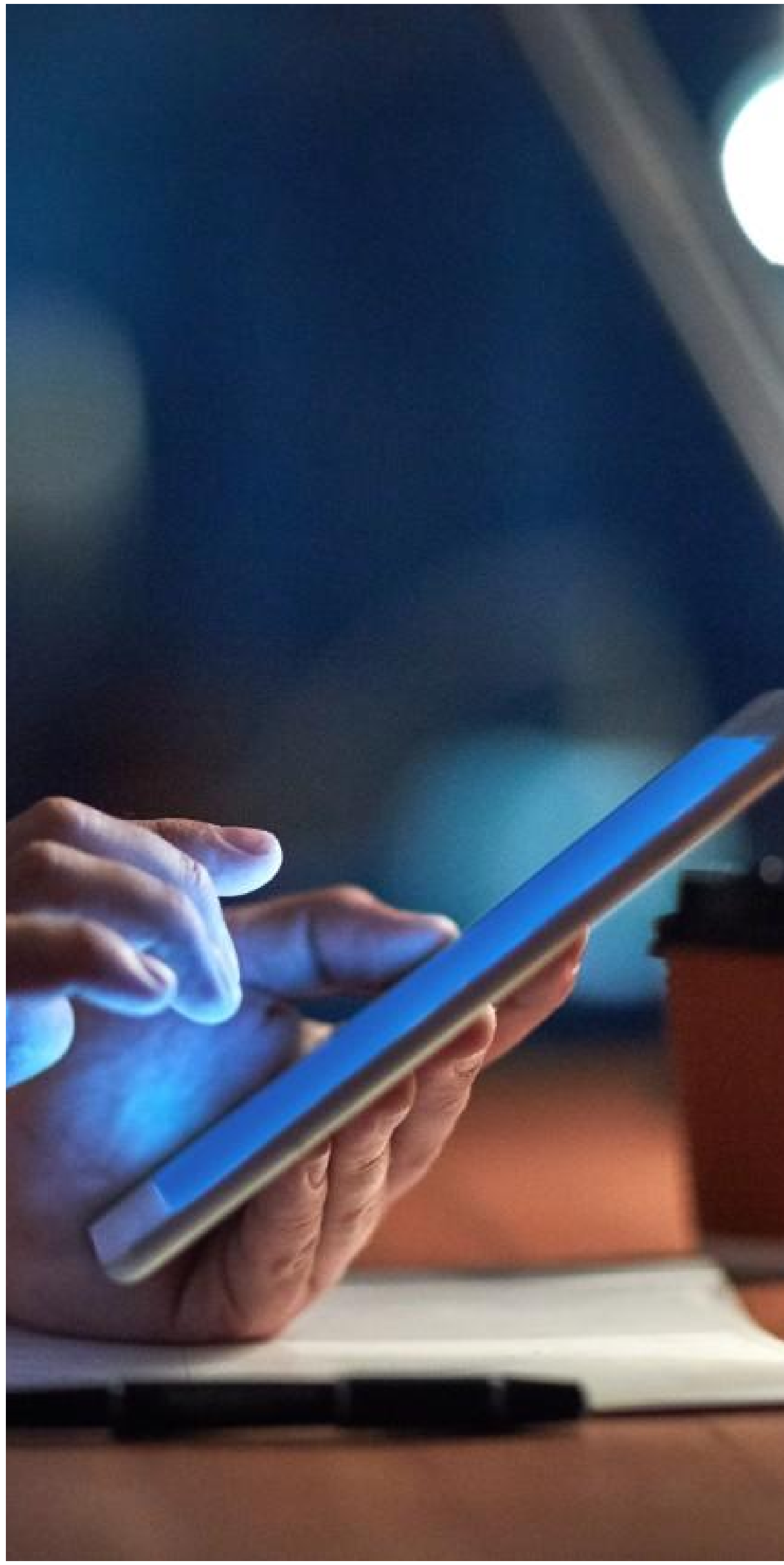

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