29 January 2021

Mr Matthew Sedgwick
Data Economy Unit
The Treasury
Langton Crescent
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via email: e-Invoicing@treasury.gov.au

Dear Matthew

Consultation paper on options for mandatory adoption of electronic invoicing by business

CPA Australia and Chartered Accountant Australia and New Zealand (together 'the Major Accounting Bodies) welcome the opportunity to respond to Treasury's consultation paper on options for mandatory adoption of e-Invoicing ('the Paper'). Together, we represent over 280,000 professional accountants in Australia, New Zealand and around the world.

The Major Accounting Bodies see significant value in the adoption of e-Invoicing and we support the public sector leading its adoption. However, at this stage **we do not support mandating its adoption by business**. Instead, **we recommend the government consider non-regulatory approaches, such as incentives, to encourage adoption**, especially by small business (referred to as Option 3 in the Paper).

We have received a mixed response from our memberships in relation to PEPPOL e-Invoicing, with a large proportion unaware of its existence. As a result, our outreach to members has also consisted of awareness raising of e-Invoicing.

We are concerned about the timing of this consultation. COVID-19 has significantly impacted businesses, with many trying to protect their day to day solvency whilst meeting their obligations as employers. Giving due consideration to possible additional mandatory requirements is an unnecessary distraction for many businesses during this time. Our concerns and potential impacts are outlined below.

The key reasons for supporting Option 3 over mandating e-Invoicing is as follows:

- We believe that non-regulatory measures should be implemented before mandating is considered. In other words, the government should first allow sufficient time to

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determine whether its policy objectives are achieved by the market, with assistance from appropriate incentives and the Payment times reporting (PTR) regime, before commencing discussions on whether to intervene by mandating.

- The economic consequences of COVID-19 mean that many businesses and their advisers may not have sufficient time and resources to implement such a mandated change. Currently, these businesses and their advisers need time, and further support, to focus on business survival and recovery.
- E-Invoicing was only launched at the beginning of 2020, a year which has been dominated by businesses trying to survive the pandemic and lockdowns. Further, there has been limited promotion by the government of the benefits of e-Invoicing, which varies by business – with businesses having low invoice volumes likely to experience marginal benefits at best. Option 3 will allow more time for awareness raising and voluntary adoption by businesses.
- It is likely that large businesses will be adopting e-invoicing to ensure they meet the PTR requirements, and such businesses are likely to want to minimise alternative payment mechanisms thus requiring their suppliers to have e-invoicing as well. Many businesses will therefore by network effects be required to adopt e-invoicing without the need for a government mandate.
- Government initiatives to support the uptake of e-Invoicing through encouraging the development of nil or low-cost e-invoicing products by the large accounting software providers (similar to single touch payroll) has only been underway for a short period and needs further time to assess its effectiveness.
- Option 3 would enable the government to signal its intent to mandate e-Invoicing should voluntary adoption not achieve their policy objectives. This would be a similar approach to that adopted by the EU.

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

We suggest the government considers incentives to drive the adoption of e-Invoicing by small businesses. One example of such an incentive is Singapore's E-Invoicing Registration Grant, which provides eligible business with S$200 (A$195) upon adopting a Peppol-ready solution. Singapore has also introduced a Digital Resilience Bonus for businesses in the food services and retail sectors. It provides bonus payments of up to S$10,000 (A$9,750) for eligible businesses that adopt Singapore's e-Invoicing solution and other digital solutions.

Other options to incentivise adoption include the Commonwealth Government procurement payment incentive that requires agencies to pay supplier e-Invoices within five days.

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

We see the major barriers to potential adoption as follows:

- Many businesses remain focused on business survival and recovery due to COVID-19 and will continue to do so for the foreseeable future. The adoption of e-Invoicing for such businesses will most likely be a low priority.
- Large businesses are currently implementing PTR and may not have capacity to implement additional changes.
- A lack of knowledge of e-Invoicing and its benefits, especially amongst small business.
- Businesses that do not send or receive large volumes of invoices may only see marginal benefits to adopting e-Invoicing, particularly those whose customers are predominantly individual consumers, i.e., B2C.
- The cost to large businesses to either replace or modify highly specialised systems that may already have e-Invoicing functionality but are not Peppol compliant.
- The cost and time involved for businesses with high volumes of invoices to change business processes and map these from their existing payment solutions to e-Invoicing enabled solutions.
- There are misconceptions as to why the government wants to mandate e-Invoicing and as to who can read e-Invoices as they are being delivered. Mandating may only add to those misconceptions.

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

We believe the costs of mandating Peppol e-Invoicing are as follows, noting that the benefits are already clearly articulated in the Paper.

- The mandated adoption of Peppol e-Invoicing may require some businesses to forego or delay other investments that may be more beneficial to them, particularly at the current time.
- For businesses with only a small number of invoices, the additional costs of subscribing to Peppol-enabled software may outweigh any potential benefit.
- Adoption may require businesses to invest time and resources to change business processes and map these from their existing solutions to a new solution.
- Large businesses with proprietary payment systems or highly specialised systems will have to invest in updating their systems to comply.
- The cost of implementing e-Invoicing is likely to be proportionally higher for smaller businesses as larger businesses can centralise accounts payable functions and gain economies of scale.

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

If the government was to mandate Peppol e-Invoicing, other factors to consider include:

- The time needed for software providers to develop and roll out the necessary changes and for changes to be made to in-house proprietary systems.
- Time for businesses to update their other affected systems and to implement new processes.
- Other regulatory and business issues that businesses and their advisers are facing (in other words, the capacity of business to implement the change).
- The willingness of business to accept government mandating good "business to business" practice.
- Potential constitutional limitations to legislating a logical and comprehensive regime across the country (discussed in more detail below).
- The scope of any exemptions (discussed below).
- Trans-Tasman implications of Peppol e-Invoicing and the synergies between the regimes in Australia and New Zealand

Other questions under Q4:
Option 1 - If the Government were to mandate e-Invoicing:

- **What would be a reasonable definition of a large business for this purpose?**

If a phased approach was to be adopted, then initially a definition consistent with the PTR scheme might be the logical starting point. However, given that the reporting entity for PTR can include entities that have no external suppliers, modifications may need to be considered.

In addition, as is apparent from both the existing PTR legislation and the commentary in this Paper, that constitutional limitations are likely to result in arbitrary inclusions in/exclusions from the large business definition. Preferably, these issues should be addressed in consultations with the States and Territories.

Alternatively, alignment with existing financial reporting definitions in the Corporations Act could be considered. This could potentially reduce unnecessary uncertainty between different requirements for businesses.

- **What would be a reasonable timeframe for large businesses to comply?**

Large businesses that are currently involved in PTR implementation projects will spend the best part of 2021 introducing transitional and ongoing systems changes to comply with mandatory PT reporting. Further, if the Government was to proceed with requiring employers to adopt Single Touch Payroll 2.0 on 1 July 2021, this would further reduce the capacity of large business to introduce e-Invoicing. Accordingly, it would not seem reasonable to start mandating e-Invoicing in 2021.

In addition, there are important implementation lessons to be learnt from the PTR legislative processes.

Whilst it is possible to consult and raise awareness on high level policy principles in respect of a proposed mandatory regime in a relatively short period of time, additional, time is required to enable businesses to analyse the legislation once it has passed Parliament. This includes any accompanying rules and guidance material, in order to implement the detailed changes in time for the commencement date of the legislation.

An example of what may be a reasonable time for large business to comply can be taken from France's response to the European Union's (EU) e-invoicing for public procurement directive (Directive 2014/55/EU). It was required to be transposed into the national laws of EU member states and operative by April 2020, with France signalling their intent to only extend the directive to cover B2B transactions from January 2023, or no later than 1 January 2025.

The start date of proposed legislation (and any subordinate legislation) should take into account an appropriate implementation lead time, ideally agreed through consultation with large businesses.

- **What would be a reasonable timeframe before extending the mandate to all businesses?**

As noted above, the Major Accounting Bodies do not support mandating of e-Invoicing at this time. If the Government was to progressively mandate e-Invoicing for smaller businesses, this should only be considered following a post-implementation review of the first stage of mandating for large business.

Should there be any exemptions to this mandate?
Voluntary adoption of e-Invoicing avoids the difficulties of designing exemptions. If the government decides to mandate e-Invoicing, the exemptions should be similar to how exemptions are handled for Single Touch Payroll.

Consultation questions – Payment times and e-Invoicing

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?**

It is possible that the adoption of Peppol e-Invoicing for all business may reduce payment times from large to small businesses. However, its impact will depend on the payment policies of business and whether/how these are revised following the introduction of e-Invoicing (for example, businesses may have policies to do pay runs on set days regardless of when invoices are received, such as the 15th day of each month).

Further, we have yet to see the effect of PTR on payment times between large and small businesses. PTR may reduce payment times such that any additional benefit from e-Invoicing may be insignificant. Hence, we recommend that sufficient time be given to assess the effect of PTR on payment times before mandating the adoption of Peppol e-Invoicing.

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

PTR and e-Invoicing are large reforms. The effectiveness of such reforms must be analysed and assessed before further reforms are considered. We note that the PTR legislation has a built-in post implementation review that should take place in the first six months of 2023. That review would seem to be an appropriate time to assess the Commonwealth's e-invoicing initiative. Mandatory e-Invoicing could be considered as part of that assessment.

If the government was to mandate e-Invoicing, it should be subject to a post-implementation review by Treasury in consultation with the Australian Small Business and Family Enterprise Ombudsman. This post-implementation review should be clearly included within legislation.

If you have any questions about our submission, please contact either Gavan Ord (CPA Australia) at gavan.ord@cpaaustralia.com.au or Karen McWilliams (CA ANZ) at karen.mcwilliams@charteredaccountantsanz.com

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