

SAP AUSTRALIA

**SAP RESPONSE TO THE SUPPORTING BUSINESS ADOPTION OF
ELECTRONIC INVOICING DECEMBER 2021 CONSULTATION PAPER**

SAP Australia

February 2022

INTRODUCTION

SAP Australia Pty Ltd, a subsidiary of SAP SE (referred to henceforth as '**SAP**') a leading global software provider, welcomes the opportunity to comment on the government's consultation paper 'Supporting business adoption of electronic invoicing' (**'the Paper'**).

SAP is a strong supporter of the government's drive to increase the uptake of invoicing across the Australian economy. National adoption of invoicing integrated into procurement and payment systems will be transformative to the Australian economy. It will facilitate:

- opportunity for faster payment from reduced cycle times;
- reductions in errors and rework;
- improved productivity from automation and touchless processing;
- improved discoverability of Australian businesses;
- improvements in auditability; and
- reductions in fraud.

SAP is particularly pleased with the connection the Paper makes between invoicing and procure to pay systems. Without this integration the benefits the Government wishes to derive from an economy wide system of invoicing will not be realised.

SAP procurement solutions are used across the economy in both the private and public sectors. This has given SAP a unique opportunity to support the government's agenda. We have taken this opportunity to support the government via:

- integrating Peppol invoicing into our procurement solutions;
- participating in the Australian Tax Office's E-invoicing Champions Network;
- contributing to the policy debate via our submission to the government's January 2021 invoicing consultation; and
- commissioning research on the attitudes of Australian small and medium sized businesses on invoicing.

SAP PERSPECTIVE ON THE PROPOSED BUSINESS INVOICING RIGHT

SAP applauds the Government's vision of an Australian economy that has digitised its invoicing. However, we recommend the government reconsider the proposed model of achieving this through the Business E-invoicing Right (**BER**).

SAP acknowledges that the design of the BER is constructed in a manner to minimise upfront business disruption to small and medium enterprises (**SMEs**). However, SAP considers that the BER's current design will increase its operational complexity and introduce unnecessary reporting and administrative burden on government and industry.

If the government chooses to introduce a regulated mandate for economy wide use of Peppol invoicing, we recommend an alternative approach that retains a regulatory mandate but combines this with leveraging its interactions as a supplier to Australian businesses (ASIC/ATO), educational support, and incentive mechanisms. We think that this will achieve the goal of economy wide use of invoicing while minimising regulatory and administrative burdens.

PROPOSED BER MODEL

SAP understands that the BER will operate in the following way:

1. A business with the ability to receive a Peppol invoice will have the right to require a Peppol invoice from their supplier;
2. This obligation will only apply initially to large business suppliers and be progressively extended to medium then smaller business suppliers;
3. A register will be established to define which businesses have an obligation to send a Peppol invoice on a valid request.
4. A mechanism will be set up to report and enforce the obligation on liable businesses who do not comply with a valid request for a Peppol invoice.

Implication of BER proposal

An invoice is a commercial document that is issued by a **supplier** to a buyer which records the sale transaction. The transaction creates a creditor debtor relationship between the buyer and the supplier.

The digitisation of this transaction, using invoicing, facilitates automation, and reduces errors thereby increasing the efficiency of the transaction. A more efficient transaction reduces delay and creates an opportunity for the creditor to be paid faster.

As it creates the opportunity for the creditor to be paid faster, invoicing has been identified as an opportunity to improve payment times and cashflow. This issue is particularly significant in scenarios where the SME is a **supplier** where cashflow is critical.

However, as the BER, will initially place the onus on the large businesses **suppliers** to have the capability to issue a Peppol invoice it will not assist SME suppliers to be paid faster. Nor will incentivise SMEs suppliers to take up Peppol invoicing because they are excluded from the initial scope of the obligation.

PHASED INTRODUCTION WILL INCREASE COMPLEXITY

The underlying issue with the design of the BER is its phased introduction. While the phase-in of regulatory obligations is effective in some circumstances to minimise impact on industry, we do not think that a phase-in should be applied to the BER.

The introduction of Single Touch Payroll (**STP**) is a good example of a regulatory obligation where a phase-in was suitable. The initial scope of STP only covered large businesses with large employee bases and was progressively extended over time to employers with a smaller employee bases.

While STP introduced new IT requirements and required integration into internal business processes, once set up, the operational complexity in the external reporting was limited because it only required a 1:1 interaction with the ATO after each pay run – at most 52 times a year.

This can be distinguished from the BER that will require a business to apply BER rules it to hundreds and thousands of transactions with, for larger businesses, potentially thousands of different parties, and account for whether they are:

- a buyer or a seller in the transaction;
- transacting with a buyer who is Peppol invoice enabled; and
- transacting with a large business or SME.

Across the economy it will create a range of possible scenarios:

- two large businesses where the buyer is Peppol invoice enabled – BER obligation on supplier if requested by the buyer;
- two large businesses where the buyer is not Peppol invoice enabled – no BER obligation on supplier;
- two SMEs – no BER obligation the supplier;

- a large businesses and SME where the SME is the supplier – no BER obligation on the supplier; and
- a large business and SME where large business is the supplier – BER obligation on large business supplier but no commercial incentive on SME to become Peppol invoice enabled.

The operation of the BER is like the Goods and Services Tax (GST) which applied to business-to-business interactions as both suppliers and buyers, and both large and small businesses. The GST was introduced across the whole economy at the same time, as a phased-in introduction of would have only introduced complexity and additional business overhead.

Rationale for phased introduction

The rationale put forward in the Paper for applying the BER to large businesses first and then SMEs is because *“larger businesses are better placed to adopt new practices”*.

Based on research SAP did in 2021 into the attitudes of SMEs towards invoicing, we recommend that the government reconsider this perspective. This research covered the digitisation of SMEs, their awareness of invoicing, impact of invoicing on their business and experience in market. From this research came two key insights on SMEs:

- knowing what technology to use, integrating into existing processes and the perceived effort were called out as major challenges to transition
- those that have transitioned or are currently transitioning to e-invoicing have **not found it complicated with nine in ten describing the transition as easy**.

Furthermore, invoicing had a positive effect on their businesses, with benefits in saved time, saved money, and more accurate and secure record keeping. And, most promising of all, the transition to invoicing acts as a catalyst for further business digitisation. With most businesses agreeing that invoicing has influenced the increase of digitisation of other processes.

This research suggests that, given the correct support and incentives, SMEs can adopt new practices specifically as it relates to invoicing.

There are already many solutions, including those in SAP’s portfolio, to support businesses both small and large with sending and receiving Peppol invoices. As some of these solutions are not desktop based but sit in the cloud, the transition will also create an opportunity for SMEs to lift their businesses’ cybersecurity. With solutions in market, available to support both SMEs and large businesses the technical barrier for adoption is manageable.

ALTERNATIVE APPROACH

SAP acknowledges the challenges facing the government to accelerate the uptake of e-invoicing across the economy. However, due to the:

- lack of incentives it will create on SMEs to take up Peppol invoicing;
- burden it will place on business from increasing transactions complexity and operations; and
- additional regulatory overhead both on business and government,

we do not recommend the government proceed with the BER as proposed.

If the government wishes to proceed with a regulatory mandate, we recommend that it is applied in the following manner:

1. All Australian businesses will be required to have the capability to receive and send a Peppol invoice for business to business transactions.

2. A requirement to use a Peppol invoice only arises at the request of either the buyer or the seller.
3. This obligation will come into force after a set period, perhaps three years, from the passing of the legislation.
4. In parallel, the government:
 - a. in partnership with industry and peak bodies, undertake a campaign of training and onboarding to help businesses become invoice enabled; and
 - b. consider potential tax incentives to support business transition to Peppol invoicing.
 - c. leverage key interactions they have with business where government is a supplier (e.g. ASIC registrations /ATO tax interactions) to introduce Peppol invoicing.

Having the obligation apply uniformly removes the confusion and added complexity the BER would introduce from having to determine whether the BER would apply to a transaction as well as the need to set up registers defining thresholds for eligible businesses and designing rules for businesses that move between thresholds.

The obligation to use Peppol invoicing should only arise at the request of either the buyer or seller. For many larger businesses there are established invoicing standards to facilitate complex transactions. Where both parties wish to continue to use these standards they should be allowed to do so.

The exact timeframe should be based on consultation with the wider industry. However, a three-year timeframe should provide sufficient time for:

- larger businesses to plan and support business case justification for necessary amendments to be made with their existing procurement systems to accommodate the change; and
- smaller businesses, to have the opportunity to receive necessary education, support and advice with the transition.

Three years may be an appropriate starting point as it appears in line with other economy wide regulatory mandates on Australian businesses that applied to their business operations for example STP was applied to all business within 3 years (legislation was passed in 31 August 2016 and was applied to all businesses by July 2019).

Key to the success of the obligation will be the measures the government takes to support SMEs with the transition. SAP's research suggests that there is broad agreement that government support is needed with a split between direct subsidies and advice.¹

The government should also leverage the economy wide interactions it has with Australian businesses where it is a supplier of services. For example, business registrations or other services/registrations. The government could require as part of those transactions for the buyer to register for Peppol invoicing and thus give businesses the option to transact with government using Peppol invoicing.

SAP acknowledges that after the regulatory deadline if a business was not compliant there may need to be some form of regulatory enforcement. However, with a fair timeframe, improved access to cloud-based procurement solutions and government and industry support we think the need for regulatory intervention would be low.

It is for these reasons SAP would encourage the Government to reconsider the BER approach as currently structured.

SAP's response to the specific questions raised by the Paper is at Attachment A.

¹ Of the 802 businesses surveyed more than half (57%) of business owners/managers agree that increased government support would help their business continue to drive forward digital initiatives and change, with 41% saying that government subsidies and grants would help with their digital transition, while 33% say that more government information and advice services would be helpful.

ATTACHMENT A

BUSINESS ADOPTION OF EINVOICING

1. SHOULD A BER BE INTRODUCED TO ACCELERATE BUSINESS ADOPTION OF PEPPOL EINVOICING

SAP, in principle, supports a regulatory mandate to accelerate business adoption of Peppol invoicing. However, we do not support the currently proposed implementation structure of the BER.

2. ARE THERE OTHER REGULATORY METHODS THAT MIGHT INCREASE EINVOICING ADOPTION

If the government wishes to proceed with a regulatory mandate, we recommend that it is applied in the following manner:

1. All Australian businesses are required to have the capability to receive and send a Peppol invoice for business to business transactions.
2. A Peppol invoice must be used at the request of either the buyer or the seller.
3. The requirement to use a Peppol invoice should only be required on request. That will allow businesses who prefer to use existing standards to continue to do so.
4. This obligation will apply a set period, perhaps three years, from the passing of the legislation.
5. In parallel, the government:
 - a. in partnership with industry and peak bodies, undertake a campaign of government training and onboarding to help businesses become e-invoiced enabled;
 - b. consider potential tax incentives to support business transition to Peppol invoicing; and
 - c. leverage key interactions they have with business where government is the supplier (e.g. ASIC registrations /ATO tax interactions) to introduce Peppol invoicing – this will be a key way of registering small businesses.

3. WHAT KEY IMPLEMENTATION CHALLENGES OR ISSUES WOULD BUSINESS FACES IF THE GOVERNMENT INTRODUCES A BER

Complexity of business operations in determining whether, across hundred and thousands of transactions whether the business is:

- a buyer or a seller in the transaction;
- transacting with a buyer who is Peppol enabled; and
- transacting with is a large or small business.

It will also add additional regulatory overhead to support

1. A register will be established to define which businesses have an obligation to send a Peppol invoice on a valid request.
2. A mechanism will be set up to report and enforce the obligation on liable businesses who do not comply with a valid request for a Peppol invoice.

WHO WOULD BE CAPTURED BY THE BER

4. WOULD OPTION 1 OR OPTION 2 BE MORE APPROPRIATE TO SET THE SCOPE FOR PARTICIPATION IN THE BER AND WHY? ARE THERE OTHER APPROACHES THAT MAY BE APPROPRIATE?

See answer to Question 2.

5. WHAT, IF ANY EXEMPTIONS WOULD A BER NEED TO INCLUDE (E.G. FOR ON-THE-SPOT OR POINT-OF SALE BUSINESS-TO-BUSINESS TRANSACTIONS, NFP, NEWLY CREATED BUSINESSES, ENTITIES SUPPLYING TAXI TRAVEL, RECIPIENT CREATED TAX INVOICES (RCTIS)

SAP does not have a perspective to share on this question.

IDENTIFYING BUSINESSES COVERED BY THE BER

6A. SHOULD THE GOVERNMENT CREATE A PUBLIC REGISTER OF BUSINESSES COVERED BY THE BER

No – SAP does not recommend the establishment of a register but instead recommends the application of an economy wide obligation thus removing the need for a register.

6B. ARE THERE ANY OTHER APPROACHES THAT WOULD BE APPROPRIATE TO IDENTIFY BUSINESSES COVERED BY THE BER

See answer to question 6A.

THRESHOLDS FOR BUSINESS SIZE UNDER THE BER

7A WOULD BUSINESSES BE COMFORTABLE WITH BEING PUBLICLY IDENTIFIED AS SMALL, MEDIUM-SIZED, OR LARGE?

SAP does not have a perspective to share on this question.

7B WHAT KEY SENSITIVES OR RISKS WOULD SUCH AN APPROACH PRESENT?

SAP does not have a perspective to share on this question.

8. WHAT OF THE POTENTIAL APPROACHES TO CREATE A REGISTER OF SMALL, MEDIUM-SIZED AND LARGE BUSINESSES COVERED BY THE BER WOULD BE APPROPRIATE?

SAP does not have a perspective to share on this question.

9. WHAT REGULATORY COSTS MAY BE INVOLVED FOR BUSINESSES FOR THESE OPTIONS?

SAP does not have a perspective to share on this question.

ACCOMODATING CHANGES IN BUSINESS SIZES

10. SHOULD THE BER APPLY DIFFERENTLY SIZED BUYSINESSES A THE DIFFFERENT TIMES

No. The obligation should be applied at the same time economy wide to all businesses. This will significantly reduce the complexity of the obligation on business and reduce the administrative overhead on government.

11A SHOULD THE TURNOVER-BASED THRESHOLDS BE USED TO DIFFERENTIATE BUSINESS SIZE UNDER THE BER? WHAT ALTERNATIVE THRESHOLDS ARE AVAILABLE AND WOULD BE APPROPRIATE AND ADMINISTRATIVELY FEASIBLE?

See response to question 10.

11B WHAT LEVELS OF ANNUAL TURNOVER WOULD BE MOST APPROPRIATE TO DIFFERENTIATE SMALL, MEDIUM-SIZED AND LARGE BUSINESSES UNDER THE BER?

See response to question 10.

12A WOULD A FRAMEWORK FOR TURNOVER AGGREGATION AND RELATED GROUPING RULES BE REQUIRED FOR THE BER?

See response to question 10.

12B IF REQUIRED, WOULD A FRAMEWORK FOR TURNOVER AGGREGATION AND RELATED GROUPING RULES LIKE THOS IN CURRENT TAX LAWS BE APPROPRIATE FOR THE BER?

See response to question 10.

13A WHAT WOULD BE THE APPROPRIATE IMPLEMENTATION TIMEFRAMES FOR THE BER?

The exact timeframe should be based on consultation with the wider industry. However, a three-year timeframe may be a good starting point for that consultation to determine whether it is sufficient time for:

- larger businesses to plan and support business case justification for necessary amendments to be made with their existing procurement systems to accommodate the change; and
- smaller businesses, to have the opportunity to have receive necessary education, support and advice with the transition.

We have also suggested three years as an appropriate starting point for industry consultation as it appears in line with recent economy wide regulatory mandates on Australian businesses operations. STP was applied to all business within 3 years (legislation was passed in 31 August 2016 and was applied to all businesses by July 2019).

13B HOW MUCH ADVANCE NOTICE WOULD COVERED BUISNESES NEED TO BE READY BY THEIR CORRESPONDING DEADLINES UNDER THE BER

A three-year timeframe from introduction of the legislation may provide sufficient time.

13C WHAT ALTERNATIVE TIMING APPROACHES MIGHT ALSO BE FEASIBLE AND APPROPRIATE

The Government may wish to have the flexibility to extend the timeframe via an individual business' application to the ATO.

14A WHAT SHOULD A VALID REQUEST TO RECIEVE PEPPOL INVOICES INVOLVE OR INCLUDE

If, as SAP recommends, the obligation applies economy wide, then a buyer would simply request a Peppol invoice to be provided via the relevant procurement platform/business software.

14B WHAT COMMUNICATION AND RECORD-KEEPING REQUIREMENTS WOULD THE BER REQUIRE FOR COVERED BUSINESSES, PARTICULARLY IN RELATION TO COMMUNICATING REQUEST TO RECEIVE INVOICES

SAP does not have a perspective to share on this question.

MONITORING COMPLIANCE AND ENFORCEMENT AND PROTECTIONS FOR PARTICIPANTS

15. WHAT MECHANISMS SHOULD BE PUT IN PLACE TO PROTECT BUSINESSES THAT CHOOSE TO EXERCISE THEIR BER (E.G. WHISTLEBLOWER PROTECTIONS)

SAP acknowledges that under its proposal, after the regulatory deadline if a business was not compliant there may need to be some form of regulatory enforcement. However, with a fair timeframe, improved access to cloud-based procurement solutions and government and industry support we think the need for regulatory intervention would be low.

ENABLING PEPPOL-COMPATIBLE EDI NETWORKS

16. WHAT KEY FACTORS DOES THE GOVERNMENT NEED TO CONSIDER IN RELATION TO ENABLING PEPPOL-COMPATIBLE EDI NETWORKS?

Within many industries there are established invoicing standards. For example, many large businesses use United Nations/**Electronic Data Interchange for Administration, Commerce and Transport** (UN/EDIFACT), an international standard for electronic data interchange (EDI) developed for the United Nations and approved and published by UNECE, the UN Economic Commission for Europe. As a result, a translation layer will need to be created to map these industry specific standards to the Peppol invoicing standard. This will be a key element in the transition.

It should also be noted that the request to use a Peppol invoice should only be required on request. That will allow companies who prefer to use existing standards to continue to do so.

17A HOW COULD THE GOVERNMENT TARGET A POTENTIAL INTERVENTION ON THE PROCUREMENT FUNCTIONS ON EDIS, WITHOUT AFFECTING THE NON-PROCUREMENT FUNCTIONS?

SAP does not consider an intervention is necessary. Procurement solutions will have a commercial incentive to integrate Peppol invoicing into their procurement capabilities. For example, all of SAP's procurement solutions have integrated Peppol invoicing.

17B WHAT DEFINITIONS OR CRITERIA WOULD BE REQUIRED TO LIMIT ANY REQUIREMENT TO ONLY THOSE EDIS OPERATED BY BUSINESSES THAT THE COMMONWEALTH CAN REGULATE AND EDIS THAT ARE ONLY USED IN PROCUREMENT?

See answer to question 17A.

EXPANDING INVOICING INTO PROCURE-TO-PAY

18. WHAT ARE THE KEY BUSINESS CONSIDERATIONS AND IMPACTS RELEVANT TO EXPANDING FROM INVOICING TO A BROADER INTEGRATED P2P PROCESS SUCH AS PEPPOL P2P

Peppol invoices will form an essential element of digitising business to business transactions across the Australian economy. However, invoices alone will be insufficient to achieve the benefits the government is seeking to achieve.

While the invoice performs a critical role by helping a supplier ensure the invoice is sent to the correct buyer in a standardised format, it doesn't confirm whether the invoice is linked to a valid purchase order or accurately aligned with the terms for price and quantity of goods agreed between purchaser and supplier.

Unless integrated into a broader procure to pay business process, invoices will not resolve the many friction points larger organisations face when processing payments. For example, without platforms that integrate into banking systems, large organisations processing thousands of transactions will be unable to readily identify the cause of delay in payments, which may be the result of bank or purchaser failure, insufficient funds being available in the purchaser's account or the supplier providing incorrect account details.

Without this additional digital infrastructure, the benefits the Government wishes to derive from an economy-wide system of e-invoicing from faster payment times and reduced payment disputes will not be realised.

17. WHAT ARE THE BARRIERS, IF ANY TO BUSINESSES ADOPTING MORE EFFICIENT AND STANDARDISED P2P PROCESSES, INCLUDING PEPPOL P2P?

Most Australian large businesses have identified the benefits that digital procure-to-pay systems have in helping them run efficiently and, when integrated with the business network offered by Ariba, improve their access to new markets and suppliers. The major barrier that will face larger businesses who are using an existing EDI standard will be to translate that EDI standard into a Peppol invoice.

18. WOULD BROADER ADOPTION OF PEPPOL P2P AS A STANDARD IN AUSTRALIA HELP BUSINESSES ADOPT MORE EFFICIENT AND INTEROPERABLE PROCUREMENT PROCESSES?

The adoption of Peppol invoicing will allow for easier integration of invoices into SME business accounting software. However, to maximise the benefit of their transition to Peppol invoicing, SAP also recommends that SMEs onboard onto Ariba's Peppol invoice enabled business network. This cloud solution supports SMEs by providing them with access to a global procurement network of buyers and suppliers.

19. WHAT DIFFERENT APPROACHES ARE AVAILABLE THAT MAY ALSO BE APPROPRIATE FOR AUSTRALIA?

SAP does not have a perspective to share on this question.