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working world

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EY's response to the Treasury Paper on *Options for mandatory adoption of electronic invoicing by businesses*

Dear Matt,

Ernst & Young (EY) welcomes the opportunity to provide our views and perspectives regarding the mandating of Peppol e-Invoicing as requested by the Treasury in their November 2020 paper for comment *Options for mandatory adoption of electronic invoicing by businesses*. Our commentary is attached and based on our experiences with our local and global clients, in both government and private sectors. Further, our response is divided into tax and implementation considerations which address the key questions of the discussion paper.

The benefits of Peppol to the Australian economy are clear and from our perspective will enrich the Australian business landscape and support a digital economy of the future driven by e-Invoicing, as much as digital transactions, online shopping and EFTPOS, have transformed retail. With this vision in mind and taking a *future-back* approach, the decisions you make today, especially on your implementation approach, will impact tomorrow, and the day after on the adoption journey and in the realisation of this vision.

From a Tax perspective we agree that the adoption of Peppol will drive reduction in red tape, which our chief economist, Jo Masters, alludes to in her comments in this paper. And further it is our view that businesses would welcome the reduction in red tape, but will require clarity and confidence from the government around two key aspects:

- Confidence that Peppol and e-Invoicing is here to stay and is a major initiative of reform for the Government that has the commensurate funding support and priority. The direct and indirect costs of adoption are not trivial matters and government need to demonstrate that the cost of adoption and compliance is understood. Providing this confidence to business will drive greater adoption.
- Confidence around the short term and long-term access and use of the data exchanged through Peppol access points. Peppol adoption is greatest in countries with high levels of corruption and tax avoidance. It is clear Australia does not have the same challenges, however, to date the Government has been largely silent on its intent to access this data, at invoice level or at a summary level, to inform compliance activities. This may be a drag on adoption by businesses who are weary of exposing this data to scrutiny in the absence of clarity of the future vision. Further, the connectedness to operating within natural business ecosystems and the associated benefits to both Government and business, needs to be elaborated, especially on the role e-Invoicing will play in this regard.

From an implementation perspective, we support mandating adoption, but we see challenges to the proposed methods of mandating adoption of e-Invoicing. The definition of large vs small organisations will be challenging to define and sell to businesses, whilst trying to remain balanced and fair in the market. In response, it is our view, that if you were to mandate e-Invoicing and

Peppol, then you need to consider the Australian economy and its complexity and interconnections both locally and globally. As such more nuanced approaches are needed to drive broad based adoption including progressive rollout and adoption in sectors of the economy or across a supply chain which would include both large and small business and is consistent to being embedded in natural business systems.

Alternatively enabling broad based adoption of e-Invoicing and Peppol by providing low or no cost access to Peppol enabled technology specifically common accounting software used in Australia. This technology-based approach, which is well understood and used by the ATO in similar eCommerce initiatives like Standard Business Reporting (SBR), would also support working within the natural business systems.

It is unlikely any one of these would work in isolation, rather we see a mix of these being required to jump start adoption. The adoption of e-Invoicing is not without its challenges and we foresee needing to strike the right balance and fairness in driving adoption, being clear on timing and importance of adoption and providing confidence around access and use of data to inform compliance activities.

In summary, EY is supportive of the e-Invoicing and the adoption of the Peppol standard. In our view e-Invoicing will be a driving force of innovation in the digital economy of Australia. Also, the adoption of Peppol as a standard to maximise interconnectivity is the right decision. However, the next steps and decisions are critical to the ultimate success and adoption of Peppol in Australia.

We welcome the opportunity to provide deeper thoughts and insights to our response. We would be open to participate in any further consultations with Treasury or the ATO in support of the implementation and adoption of e-Invoicing by business and Government.

Yours sincerely

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Options for mandatory adoption of electronic invoicing by businesses

Australian Taxation Office

EY Response

EY
Building a better working world

Context

EY is a global network of firms united in our purpose to be the transformation realised partner for our clients globally. We work with organisations to transform their businesses to be agile, contemporary and responsive to changing demands and needs. Our Tax practice is globally recognised, including in the area of modernisation of the tax system and in uplifting the ways in which businesses engage with the Tax System in our contemporary digital world. We see the digitisation of our world as central to organisations realising their aspirations and value in our society. This has never been more apparent than today. With COVID-19 and leap frogging into new ways of working, the momentum is here for ambitious digital modernisation. From EY's perspective, this requires a different approach to how we change – requiring a "*future-back*" approach that is transformative yet focused on execution and realisation of the vision of tomorrow, today.

Future-back is an empirical future looking analysis of a broad range of data and indicators, and key megatrends and how their interplay will shift and shape the market in two, five and ten years. This vision of the future is then rolled back to today to identify the changes, initiatives and shift in thinking that are required tomorrow, next month and next year to align the organization's purpose with the vision of the future. We have taken this approach to the question of adoption of e-Invoicing and Peppol in the Australian economy.

In your paper you outline the benefits of Peppol to the Australian economy and recognise the complexity of driving adoption of a new standard is difficult and requires careful consideration and positioning. For example, how do we drive adoption without imposing unrealistic costs and efforts on small and medium enterprises? In addition, how does Peppol co-exist with other digital platforms, like SBR and the associated EbMS3/AS4 standards already in place and adopted by business for Tax, Super Reform and Single Touch Payroll?

EY Australia has professionals who work daily in key areas of tax, digital transformation, communications and change. We have consulted widely across our business to draw out these insights. And offer the following insights for your consideration:

A Tax perspective

Through EY's global network our view of other jurisdictions strategy and implementation approach for Peppol and e-Invoicing has two camps those more established, like Europe, with an efficiency lens and since then, many other developing countries such as Mexico, India, Brazil and Russia with increasing tax compliance as the major driver for adoption. Australia's approach is closer to Europe with the added driver to support business recovery and reduce payment times, especially for small business. EY's perspective is that while Australia's approach is not tax compliance driven, there would be value in factoring the benefits to the tax system more broadly and understanding the implications to the other tax processes and systems. This is important as it informs the overall architecture for e-Invoicing and the implementation approach. It should be designed to facilitate take-up and adoption now, but with an eye to how it will be used tomorrow and beyond.

Within this context, the current architecture talks to an Addressing Service that would potentially provide, metadata, that the ATO and Treasury will have visibility of, but no access to the payload itself – *"the ATO (the Peppol Authority) and other Australian government agencies do not have access to the e-invoices exchanged between businesses, meaning they cannot view the e-invoices' contents and details"* (page 9). While this may not be necessary today and indeed this approach may be prudent to drive take-up and adoption, it may limit the opportunity down the track to be truly embedded in the natural business systems and support activity such as the automatic and digital population of returns.

In overseas jurisdictions, such as Brazil that have taken a tax compliance approach, they have found that by having access to the payload data, there has been added benefits beyond compliance, including:

- Reduction in invoice processing time. Where e-Invoices are exchanged electronically across a common protocol, taxpayers have experienced an improvement in the processing time – both for the generation/creating of e-Invoices and for receipting/validation.
- Greater transactional data consistency. The generation of standardised data sets for transactional data relating to e-Invoices has provided benefits to businesses resulting from an improvement in data quality. This has allowed businesses to identify inconsistencies across large data sets and provides greater transparency of invoicing data.

We note that tax compliance and greater integration across the tax system maybe a downstream future benefit, however when overlayed with the ATO's dual roles of Peppol Authority and national taxation, leaves many businesses with a degree of suspicion the ATO will, in the future, use the Peppol data for Tax compliance and investigative purposes. Clarifying the Government's intention and strategy would help with implementation and could increase adoption.

This said, we do also note the upsides to tax compliance for businesses including the following benefits which could flow, even where the Government does not access the payload of the e-Invoicing data:

- Increased transparency: Tax professionals within businesses benefit from transparency in the integration of e-Invoicing records in accounts for tax purposes.
- Improvement in tax-related cashflow: Recovery of input tax credits is generally driven from the source invoice exchanged between parties. Improvement in processing / validation time enabled by e-Invoicing has a potential flow-on benefit of improving the timing of recovery of input tax credits.

There are also Tax related benefits for the Government in accessing the payload of the e-Invoicing data. These are:

- Improved Tax compliance: e-Invoicing, combined with measures such as the pre-filling of the BAS, particularly for SMEs[1], would lead to greater GST compliance and combatting the black economy. This focus on reducing tax-related fraud and non-compliance is a driver for e-Invoicing adoption in many countries. We acknowledge it is likely to be a less important driver in Australia where businesses have a higher level of Tax compliance.
- Better targeting of macro and micro policy decisions: e-Invoicing empowers Government for advanced analytics. Given the granularity of data, it can help to understand the economy from a national accounts perspective, promoting more effective and customised public policy, including Tax policy.

The wide spread of e-Invoicing adoption can have unintended impacts beyond the facilitation of payments across the four-corner model. One such example is the potential need to change GST law to broaden the current GST definition of 'tax invoice' and 'adjustment notes' to adequately address these concepts in an e-Invoicing regime. Another example maybe Timing/attribution rules that align GST liabilities/entitlements to tax periods may also need to be updated to account for the way that businesses issue and receive e-Invoices.

[1] We acknowledge that this particular use of the e-Invoice data to streamline GST compliance may not suit more complex or large business, particularly in the Financial Services sector.

Further, where businesses issue 'recipient-created tax invoices' ("RCTIs"), a common protocol should be established that enables 'trust' between organisations and the ATO where the recipient issues the e-Invoice, rather than the supplier. Other scenarios to be considered include a tax invoice issued by multiple suppliers

In all the above case we believe evidence of the ATO's active consideration of these Tax issues will increase business confidence and subsequent adoption of e-Invoicing.

Implementation Considerations

Following on from these Tax perspectives we considered how to drive adoption and therefore implementation. In our view the first step is to consider the state of the economy. Our Chief Economist, Jo Masters sees Peppol adoption as a mechanism to reducing red tape and helping broad based recovery in a post Covid-19 economy.

"Covid-19 has left significant scarring on the Australian economy. The recovery process will take time and needs to be focused on getting Australians back into jobs. Reform that boosts productivity in the economy will speed up the recovery process and leave the economy more resilient and future-ready. A key aspect of that is reducing red tape, which leaves resources for hiring, investing, expanding and innovating."

Following this comment, it important to view the Australian economy as a complex and interconnected system which has deep connections into the global trade networks. The options proposed in the discussion paper, may err on being simplistic in the choice of mandating and the ease of implementation.

Mandating is essential, but the timing and transition plan needs careful consideration and should take account of the lessons learnt from similar standards and digital adoption experiences. Treasury and the ATO have direct experience on these matters from the implementation of SBR and the standards that underpin this digital channel. From the experience of other jurisdictions and the take-up and adoption of SBR, we would be suggesting that the Government signal what the mandate is and we would see a mandate in 2 years' time as reasonable with very focused dates along the timeline of expectations and targets that need to be met with committed implementation activity to support a rolling take-up of e-Invoicing. It could be the perspective of Government (Treasury and ATO, in particular), that we have tried this over the last few years, but we have not seen the voluntary take-up. However, much has changed in our world in 2020 and with more jurisdictions around the world adopting Peppol and e-Invoicing and the use of SBR being more pervasive, the impetus for change and the readiness to adopt, might be greater now than in the past.

Focusing the approach to mandating adoption based on organisation size or transaction volumes to drive adoption, could be a lost opportunity to capitalise on the momentum for the digital transformation of our economy. The reality is large and small organisations trade together within a business ecosystem and for e-Invoicing and Peppol to work, both need to be enabled almost simultaneously. Further, mandating adoption for large organisations will drive benefits to the top end of town at the cost of small and medium businesses who are viewed by Government as the true benefices of e-Invoicing as cited in the paper. The true benefits are across the ecosystem and in our opinion, will not be realised unless this interconnectivity is understood and used to drive the adoption. More nuanced, broad-based mechanisms for adoption are required and could include:

- Mandating Peppol adoption in a sector, supply chain or part of the economy. This approach will allow end to end supply chains to transform and provide the catalyst for organic adoption providing benefits along a value chain, including the potential to reduce payment time to small business and thus supporting their recovery and sustainability. For example, progressive mandating that focus on a sector such as mining is likely to drive adoption across the supply chain from large multinationals right through to suppliers, including small specialist advisors, engineers and machinery shops, canteen operators and independent contractors, among others.

- Driving adoption through supporting/ enabling technology. The business of accountancy has transformed in the last decade. Most, if not all businesses run software, to manage their books and most are oriented around a small group of dominant software providers. The ATO has led the way for Government in the interaction and engagement with Software Developers (Digital Service Providers) and has effectively worked with them on other digital adoption programs like SBR and adoption of standards like XBRL and EbMS3/AS4. Broad based Peppol adoption could be driven through software enablement. Providing financial support or access specialist skills and infrastructure to enable these accounting platforms to be Peppol compliant out of the box is a mechanism that will allow rapid access to complaint software and as a result, could see a community of users of those software products be onboarded for e-Invoicing. Consideration should also be given to whether Government provide a platform to enable small business and lower the cost of the take-up and adoption of e-Invoicing and the Peppol standard with minimal work for these small businesses.
- Provision of an Australian access point for trade exposed Australian commodities and goods. Peppol, is driven out of the EU and much like US SEC, and FATCA legislation in the past the impacts of these changes often ripple across the globe. This poses the question what happens to Australian businesses that are trade exposed to Europe but not required to comply within Australia? An Australian access point for trade exposed good and suppliers could provide a non-mandated catalyst to Peppol adoption. The cost of establishing and running the access point (technology or platform) is borne by the Australian Government and trade exposed organisations are able to trade effectively through this access point with international partners whilst transforming their own internal systems and establishing their own access point infrastructure. With Trade Modernisation as a priority for Government and programs like Single Trade Window (out of the Department of Home Affairs) or Agricultural Trade Modernisation (led by the Department of Agriculture, Water and the Environment), consideration of expectations on e-Invoicing and the adoption of Peppol by these programs would be necessary.

It is unlikely that any one of these would work in isolation, rather we see a mix of these being required to jump start adoption of e-Invoicing and Peppol. There is no perfect answer or approach and like any complex transformative change, the adoption of e-Invoicing and Peppol is not without its challenges and here are some of the challenges we foresee:

- Striking the right balance and fairness. The adoption of e-Invoicing, from a macro point of view has huge upside for our economy. However, there is a risk in that the approaches taken to drive adoption can have the unintended consequences and be seen as favouring one group over another – like large business over small business. You will have to strike this balance carefully especially in the first stages and be prepared to be agile and flexible to respond to feedback.
- Clarity on timing and importance. Peppol adoption as one of many different standards being adopted. Organisations are constantly trying to keep up with the additional standards and adapting, changing, implementing or retiring a standard in their business. These include Government directed standards, including for digital transport protocols and industry-based ones, for example Banks have regulatory, customer, quality and tax standards to manage in a business ecosystem.
- Being clear on where Peppol sits in amongst all these other programs needs to be very clear, especially and perhaps even bundled with another program or standard. Specifically, SBR is also delivered by the ATO and uses EbMS3/AS4. Peppol also supports AS4 protocols. Are there

synergies with regard to AS4 and how it is used in support of these two programs and are there opportunities for leverage? Further, clarity is required should their implementation approaches vary. While this may be fairly technical, it is still important to provide clarity in support of implementation and adoption.
- Government's long-term view on e-Invoicing. It is currently not clear on what the longer-term strategy is in relation to e-Invoicing and tax administration in Australia. If the position is to modernise and digitise Tax administration in Australia, all businesses (large and small) must be eventually mandated to send and receive Peppol compliant e-Invoices. It is unreasonable to expect that a business, once it has implemented e-Invoicing, would have to revert to their previous process to deal with non- Peppol businesses, or adopt a new standard should the strategy change.
- The Addressing Lookup Service. In the current Peppol depiction of the Addressing Lookup Services in the Australian context is somewhat opaque. As this is a service designed and delivered by the ATO to facilitate invoice exchange it is not clear to businesses on what information is sent and stored by the ATO or how that information is utilised or could be utilised. The assumption is that the ATO will gather or collate key statistics/Metadata on usage to underpin communications and drive compliance.

In the discussion paper you asked for our understanding of the costs of Peppol adoption on business. We have summarised the main costs we envisage:

- Resources and time required to implement. The paper suggests that the cost to implement will be minimal as only an Access Point technology is needed to become compliant for e-Invoicing with some process change to enable the sending and receiving of e-Invoices. In reality, the implementation and adoption could be more costly if it is to truly be the foundation to digitise a business requiring more significant changes in operations, across technology, people and process. For example, additional costs for training and change management are required for business employees to transition to the new processes. These costs are not insignificant especially in small and medium enterprises.
- Transition period costs. As businesses transition to e-Invoicing there will be a need to maintain both traditional invoicing and e-Invoicing processes for the interim, in parallel. This will be a medium to long term cost for businesses to bear into the future. This cost would be ongoing unless there is a mandated unconditional compliance date for all businesses to comply.

In summary, it is clear the global economy of the future will be underpinned by e-Invoicing as a foundation of a digital economy. This shift will reduce red-tape, improve the cash positions of the small and medium businesses which in turn will drive a stronger more resilient economy. There are parallels between Peppol and the transition from physical cash to electronic payments of the last decade, the adoption of e-Invoicing will change the business landscape of Australia and prepare us to compete, participate and innovate in the digital global economy of the future. We are excited about that digital future and the opportunities and greater efficiencies that it would bring, we see some challenges in very near term that need addressing to drive a positive and speedy implementation at scale in a 2-3 years. In particular it is essential to carefully plan the strategy for the next steps and the roadmap for this 2-3 year timeframe.

On the question of whether other measures are necessary to reduce payment times to small business, our view is that the Payment Times Reporting Scheme and e-Invoicing should work in tandem to reduce payment times, including payment times to small business. Together, they provide both the impetus for positive change and with the supporting enabler to achieve this aspiration. Any additional mandating would likely be counterproductive and would not be path we would recommend.

Final Thoughts

We strongly believe the ATO has the knowledge and experience in leading and delivering standards led digital transformations in Australia and should continue to be the Peppol Authority in Australia. However, our clients view e-Invoicing as being driven from the ATO and therefore see Peppol and e-Invoicing as a tax standard and a tax issue to resolve. This mind-set must be acknowledged and addressed if this nationally significant change to our economy is to be successful.

The reality is e-Invoicing is much more about efficacy and effectiveness in facilitating payments and driving toward a digital business. This requires engagement at the executive levels of business and in particular with the financial and corporate areas of businesses, not just the Tax function. Treasury and the ATO should make this a business priority. It is important that senior Government leaders lead from the front and it was encouraging to see the Treasurer address e-Invoicing in the last budget. This elevates the importance and therefore the seriousness and priority that business will place on this initiative among the many other initiatives and challenges at play. Broader awareness and elevating e-Invoicing to a program of national significance will facilitate and drive effective adoption.

As Treasury and the ATO on behalf of Government lead the e-Invoicing program and in particular the adoption of Peppol as the standard, there would need to be consideration given to emerging technologies, such as Blockchain and the implications for how e-Invoicing in the future could be delivered. It would be desirable that the approaches taken will allow for the embracing of these emerging technologies, like Blockchain, to ensure that investments made today can be leveraged, without lock-in and e-Invoicing can be future-ready.