Options for mandatory adoption of electronic invoicing by businesses

KPMG Submission

Consultation Paper

KPMG Australia

February 2021

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Executive Summary

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators and the wider community. We strive to contribute to the debate that is shaping the future of invoicing and welcome the opportunity to provide a submission to the Consultation Paper (the Paper) released by Treasury.

KPMG supports e-invoicing adoption, given the potential productivity benefits that will flow from universal adoption across Australia's business community. KPMG also supports the view that e-invoicing adoption will be a significant step towards the Prime Minister's goal of becoming a leading digital economy by 2030.

Driven by emerging digital frontiers and globalisation, governments around the world are increasingly leveraging technology to drive productivity but also strengthen tax collection. In many countries this effort has gone hand in hand with requirements to provide electronic files directly from companies' enterprise resource planning (ERP) systems. That move in turn provides governments a more efficient means of auditing tax compliance.

In 2019, Australia adopted the Pan-European Public Procurement OnLine (Peppol) framework. Peppol is an internationally recognised framework for e-Invoicing and e-Procurement, used by over 30 countries in Europe, Asia and North America. The Peppol framework provides standardised formats that can be integrated into an organisation's existing enterprise architecture.

The Australian Taxation Office (Australia's Peppol Authority) and other Australian government agencies do not currently plan to have access to the e-invoices exchanged between businesses[1]. As such, unlike other countries[2], the push for mandatory e-invoicing in Australia is largely as a result of its productivity benefits, rather than for tax compliance purposes. However, it is important that the tax compliance-related benefits are not set aside as part of the consultation process.

As more governments move towards mandatory e-invoicing, businesses in Australia will be facing tighter windows to implement tax-compliant invoices and will no doubt be faced with a growing tide of industry partners adopting e-invoicing. However, no change comes easy and in a digital age, the speed of reporting increases the speed of error. Businesses will need to ensure they are collecting and processing the correct data or significant costs may arise.

KPMG is currently involved in helping our clients implement the Payment Times Reporting (PTR) Scheme, which has its first reporting period for the six months ending 30 June 2021. Our current experience indicates that PTR is much more than running another report out of existing procurement systems. Many PTR clients will spend the

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[1] *Treasury consultation paper 2020 – Options for mandatory adoption of electronic invoicing by business pg. 09*

[2] *The mandate is growing for e-invoicing adoption – KPMG USA (2018)*
https://assets.kpmg/content/dam/kpmg/us/pdf/2018/03/mandate-for-e-invoicing-adoption-kpmg-tax.pdf

best part of 2021 implementing transitional PTR reporting workarounds, followed up with longer-term reporting solutions.

Therefore, timing considerations of any government-mandated adoption of e-invoicing needs to be very mindful of pre-existing PTR compliance priorities. While it seems the move to e-invoicing has a degree of inevitability, the Government will need to ensure compliance costs and red tape are minimised and any push to mandate e-invoicing comes at the right time to limit regulatory burden.

In light of PTR compliance priorities, KPMG is recommending Option 3, a non-regulatory approach, be adopted until the conclusion of the legislative review of the PTR Scheme is complete in mid-2023. This will also allow for any learnings to be considered following the mandatory adoption of e-invoicing by Commonwealth agencies.

KPMG also discusses some of the practical implementation issues the Government may need to address in the future if mandatory adoption is supported, i.e. Option 1 or Option 2. KPMG considers that it may be worthwhile for the Government to consult with the states and territories prior to adopting the same definition of a large business included in the PTR scheme, given the complexities that have arisen.

KPMG looks forward to continued engagement with the Australian Government as it develops its final policy approach to e-invoicing adoption over the coming months.

Regards,

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Background

What is e-invoicing?

E-invoicing is a form of electronic billing in which transactional documents such as purchase orders, payment terms and credit notes are sent digitally among relevant parties. E-invoicing allows the digital exchange of invoices between suppliers and buyers in a way that is accounting system-agnostic.

About KPMG

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

Working Capital Advisory

KPMG's Working Capital Advisory team, led by Vince Dimasi, is currently involved in helping our clients implement PTR, which has its first reporting period for the six months ending 30 June 2021. To support our clients with PTR compliance we have launched a 'Ready to Report' diagnostic for clients to highlight risks and areas for improvement in light of these new requirements. KPMG's Working Capital Advisory team have also been working closely with the Department of Industry, Science, Energy and Resources (DISER) in understanding the complexities of the PTR scheme over several months.

Indirect Tax

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

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

Enterprise

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

Section 1: KPMG recommendations

Recommendation 1: The Australian Government implements Option 3, a non-regulatory approach to Peppol e-invoicing adoption, pending the following:

- the legislative post-implementation review of the Payment Times Reporting (PTR) Scheme in mid-2023; and
- the rollout of e-invoicing by Commonwealth agencies in 2021.

Recommendation 2: The Australian Government considers running an e-invoicing pilot across a nominated supply chain to better understand any technology, education and/or regulatory burden implications. Sectors that may benefit from a pilot could include healthcare or financial services.

Recommendation 3: The Australian Government considers a long implementation timeframe, much like the European Union's 5 year timeframe, when considering any mandatory adoption of e-invoicing.

Section 2: Response to Consultation Questions

Part 1: Consultation questions — Peppol e-invoicing adoption

In this section of the submission, the questions in the consultation paper are addressed by experts across KPMG's indirect tax, enterprise and working capital advisory teams.

What are the costs, benefits and barriers to e-invoicing?

(Part 1, Consultation Questions 1 & 2)

E-invoicing will improve invoicing efficiency and allow for organisations to automate significant components of their procurement and tax functions.

The consistent data standards offered by Peppol will allow organisations to increase the use of automated accounting and technology solutions to reduce the time employees spend on invoice validation, data entry and compliance activities. This will in turn allow employees to invest time in activities that add greater value to the business. From working with our clients, we have found that inconsistent data standards are commonly used between business units and software solutions, necessitating manual processes to provide access to essential information across the business. This exposes businesses to unnecessary risk of human error and can often lead to double handling of invoices and congestion in procurement functions.

Businesses that operate in the B2B space heavily rely on invoices in both their upstream and downstream supply chains and will benefit significantly from the introduction of Peppol invoicing. While businesses that operate in the B2C space will benefit from standardised invoicing from suppliers, it is our view that little benefit will accrue from providing standardised invoices to the consumer market.

Large Businesses and SMEs

Large businesses with sophisticated accounting and technology capabilities will likely receive greater benefit from the introduction of mandatory Peppol invoicing, as they will better be able to automate processes using standardised data. However, prevalent small business accounting software such as MYOB and Xero may enable the Small-to-Medium Enterprises (SME) sector to benefit from automation, to the extent that these software solutions develop functionality around Peppol protocols.

For SMEs with limited resources in relation to their invoicing and purchasing functions, mandatory Peppol e-invoicing may cause an initial increase in compliance costs and delays to their invoicing and payment cycle. Such businesses will need to ensure that they have the right systems in place to be able to integrate with Peppol and also develop processes to ensure that information is recorded correctly in their systems.

Whilst for SMEs, the scale of invoicing and purchases is not as great as it is with large businesses, there will be some, limited, efficiency gains for SMEs, once they overcome the initial transition to Peppol.

The limited resources that SMEs have in their invoicing and purchasing function means that SMEs will be relying heavily on major accounting software companies to develop the necessary technology to make the transition as smooth as possible and drive down transition and compliance costs.

Indirect tax compliance

From an indirect tax perspective, we primarily see there being a significant benefit for both B2B and B2C businesses in Goods and Services Tax ("GST") reporting and associated compliance activities. In the context of GST reporting, information from invoices is essential to correctly assess the treatment of particular creditable acquisitions and supplies.

Mandatory e-invoicing may, in conjunction with other measures that the government has announced, contribute to increased tax compliance and make it more difficult for certain businesses to participate in the black economy. However, we support the government's approach of advocating e-invoicing on the basis of the improvements that it should generate for compliant businesses in terms of efficiency and the quality of data management.

International trade implications for e-invoicing

The list of countries requiring digitally signed invoices be sent immediately to government is growing. Of the countries currently with Peppol Authorities, Italy has mandated e-invoicing for business transactions (effective from January 2019). Outside of Peppol Authority countries, Argentina, Brazil, Chile, Mexico and Peru have all mandated e-invoicing with the aim of combatting the black economy and tax evasion and increasing productivity.

As such, e-invoicing in a way may seem inevitable as many countries enable the technology and put in place timeframes for mandatory adoption – but the digital interchange of invoices may also bring benefits to international trade.

The European Union has been the greatest global advocate for e-invoicing, mandating adoption by 2025, and some member countries like Italy have gone further, mandating e-invoicing in January 2019. However, a report by the Swedish National Board of Trade[3], cautioned that while e-invoicing was on the rise within countries it was struggling to gain traction across country borders in the EU, due partly as a result of the common regulation on VAT that exists, giving member states the option to conduct different practices. For example, the requirements that are being suggested for e-invoices in the EU differ widely, and in the worst-case scenario, multi-national companies would have to adapt e-invoices to the systems of the 27 member states.

When considering countries outside the EU, there is no common VAT directive connected with invoicing to take into consideration. There are countries where it is forbidden to use e-invoices and others that do not have any special requirements for e-invoices. This uncertainty makes it difficult for businesses to have confidence that the e-invoice will be compliant with relevant local laws and regulations. While there are clear benefits for e-invoicing across borders, it will require a strong movement towards global harmonisation and clear directives from governments about compliance to give business confidence. Otherwise there will continue to be few e-invoices sent across borders.

Further, if Australia becomes an early adopter, for the clear domestic benefits, there is a risk that e-invoicing systems would need to be re-worked as global e-invoicing requirements and standardisation subsequently emerge. A delay in Australia achieving global consistency, and therefore international trade benefits, may potentially erode any domestic benefits over time.

[3] *https://www.uncitral.org/pdf/english/colloquia/EC/e-invoicing.pdf*

Other considerations for government to consider when mandating Peppol e-invoicing for businesses

(*Part 1, Consultation Question 3*)

Pilots and staggered rollouts

KPMG does not support mandating e-invoicing at this time. However if the Government chooses to go down the mandatory route, following the legislative review of the PTR scheme in 2023, it should consider potentially staggering the rollout of e-invoicing. This could occur by initially making it mandatory or piloting e-invoicing across certain sectors or certain sizes of business. These would ideally be sectors where the businesses are predominantly of a certain size and technology-enabled, e.g. financial services and businesses which transact with a large number of suppliers.

It is important for policymakers to note that the EU mandated e-invoicing in 2020, with a 5-year implementation timeframe of 2025, to give business enough time to be educated and prepare. If the Government were to move to mandatory e-invoicing, a similar 5-year timeframe would enable the business community to prepare and phase in ERP upgrades over time.

Platform and software readiness

Several major accounting software providers for SMEs have indicated that they will be able to support Peppol e-invoicing by mid—2021, as outlined in the consultation paper[10]. In addition, several system providers that provide services to larger clients have indicated that they would need approximately 3 to 6 months to become e-invoicing enabled. However, some may need longer to make technology and process changes for Peppol e-invoicing.

KPMG suggests that the Government work closely with major accounting software companies, such as Xero, MYOB, Intuit and their customers to ensure they are prepared for Peppol and are given ample time to communicate the changes to their customers.

In KPMG's experience, some businesses may not have the funds to invest in e-invoicing even when there is a positive return over time. This is particularly relevant during the current COVID-19 pandemic, where profitability concerns and unplanned IT investment may have depleted funding that would have usually been used to fund e-invoicing compliance.

Options for mandating e-invoicing

(Part 1, Consultation Question 4)

KPMG is recommending Option 3, a non-regulatory approach, be adopted until the conclusion of the legislative review of the PTR Scheme is complete in mid-2023. This will also allow for any learnings to be considered following the mandatory adoption of e-invoicing by Commonwealth agencies.

Government incentives

One example of a non-regulatory approach is offering financial incentives. For example, Singapore's E-Invoicing Registration Grant provides eligible businesses with S$200 upon

[10] *In May 2020, Xero announced that its users could send e-invoices for no extra cost to their existing subscriptions.*

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 for eligible businesses which adopt Singapore's e-Invoicing solution and other digital solutions.

In the Australian context, a non-regulatory approach could include a suite of programs to encourage e-invoicing adoption. Programs like the JobMaker Hiring Credit and SME support provided through the $800 million Digital Business Plan could be contingent on attending a mandatory e-invoicing education session. Other programs such as the Australian Small Business Advisory Services— Digital Solutions program, that was recently extended to an additional 10,000 small business in the 2020-21 Budget, could also incorporate e-invoicing awareness training. The new Digital Readiness Assessment tool and the industry-led Digital Skills Finder Platform that are designed to support digital literacy by reskilling and upskilling should also be offering training on e-invoicing benefits.

A general awareness and education campaign could also be rolled out that explained the productivity savings as well as faster payment times. The education campaign could start with businesses that transact with Commonwealth agencies in the first instance. Alternatively, the Government could leverage the Commonwealth Procurement Rules to require that businesses that tender for large contracts adopt e-invoicing to be eligible to tender.

Other considerations could include statutory interest regimes that only operated where the invoice was sent electronically using Peppol e-invoicing. This would need to be carefully considered given the potential for businesses to not adopt e-invoicing to avoid the statutory interest regime.

Industry Code

KPMG has been long committed to the prompt payment of SMEs and is a signatory to the Business Council of Australia's Australian Supplier Payment Code (Payment Code). Signatories to this voluntary opt-in code are required to pay eligible Australian small business suppliers within 30 days of receipt.

Before the Government considers mandatory adoption of e-invoicing it may be worth investigating whether a similar industry code could be established, or alternatively, if the current BCA Payment Code could be amended to include a timeframe for e-invoicing adoption.

Definition of a large business

While KPMG supports Option 3 at this time, if the Government were to pursue mandatory adoption (Option 1 or Option 2) at a later date in the future, we understand that there are a number of potential ways to define large businesses that could be covered by the requirement to use e-invoicing, including:

- The same threshold as is set out in the Payment Times Reporting Act 2020 ($100 million turnover)[13]. This will capture around 3,400[14] businesses in Australia.

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[13] *Payment Times Reporting Act 2020,* www.legislation.gov.au/Details/C2020B00061

[14] *ATO 2020,* www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2017-18/?page=4#Snapshot

- The definition of a large/medium taxpayer for the tax agent lodgement program ($10 million turnover)[15]. This will capture around 30,000[16] businesses in Australia.
- Other existing definitions or a new definition.

KPMG would caution against a simple ‘cut and paste’ of the PTR large business definition for the following reasons:

- As already alluded to in the Consultation Paper, the Constitutional limitations in drafting Commonwealth legislation has resulted in the PTR large business definition being overly-complex. This is particularly apparent for businesses (and some non-business activity) being conducted through non-corporate vehicles.
- A PTR large business is defined by its income, but without reference to whether it has any supplies that are intended to be covered by the legislative policy. Thus, the PTR large business definition is creating additional compliance costs, with some defined PTR large businesses being required to lodge PTR reports that will have no disclosures.
- The PTR income definition has also generated some concern amongst businesses. Larger business groups are spending additional resources assessing which entities in the group are PTR reporting entities.

Ultimately, it may be prudent if any large business definition took into consideration:

- Coverage of business vehicles that operated throughout the states and territories (i.e. an expanded coverage that was easier for the end user to understand);
- A more targeted approach to its policy goals (i.e. a narrower focus on those businesses that truly should be captured rather than reverting to an 'all in’ drafting style); and
- Treatment for those businesses that operate both domestically and internationally.

KPMG considers that it may be worthwhile for the Government to consult with the states and territories prior to adopting the same definition included in the PTR scheme given the complexities that have arisen. This could occur over 2022, in advance of the PTR legislative review occurring in 2023.

[15] *ATO 2020, Large/Medium Taxpayers*

[16] *ATO 2020, www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2017-18/?page=4#Snapshot*

Part 2: Consultation questions — e-invoicing and payment times

Mandatory e-invoicing and its impact on payment times

(Part 2, Consultation Question 1)

With PTR currently being rolled out, it may eventuate that some large businesses will reduce their payment times because of e-invoicing:- but given this may occur while PTR is being adopted across business, its standalone impact is unclear. Reduction in payment times could come from the ability of the program to drive up technology uptake with some businesses or improve consistency in data processes.

E-invoicing may also help with PTR compliance in some cases where inconsistent and incomplete supplier invoices contribute to late payments. However, in these cases, any expected further reductions in payment times, due to the subsequent adoption of Peppol e-invoicing, might be subject to the 'law of diminishing returns' and thus further reductions might be very modest. For those large businesses that do not reduce their payment times because of PTR, it is not clear why the mere adoption of Peppol e-invoicing (without mandatory payment periods) would be a trigger for any reduction in payment times.

Further, it needs to be appreciated that processing cost savings achieved through e-invoicing might not eventuate if it means additional payment runs need to be scheduled to achieve a reduction in payment times from invoice receipt date. In this case, some businesses might revert to only accepting supplier invoices at, say, month or fortnight ends and the net effect might be minimal changes in actual cashflow to suppliers.

In summary, KPMG does not see a compelling case for why Peppol e-invoicing per se will significantly reduce payment times at this time and suggest that the PTR legislative review scheduled in 2023 would be an appropriate time for this to be reconsidered.

Other actions the Government could take to further reduce payment times

(Part 2, Consultation Question 2)

The Government would need to carefully consider the regulatory burden on business when considering further measures in this policy space. KPMG considers that the legislative review of the Payment Times Reporting Scheme scheduled for 2023 is the most appropriate time for additional measures to be considered.

While it is hard to predict whether mandatory e-invoicing will reduce payment times given evidence is limited, as outlined in this submission, there are a range of non-regulatory options available to government to increase e-invoicing adoption including:

- education program or free training modules that could better prepare SMEs;
- mandatory training programs tied to government assistance;
- Changes to the Commonwealth Procurement Rules to incentivise adoption;
- Encouraging the establishment of a voluntary industry code;
- Initiating trials of e-invoicing across key market segments; and
- Financial incentives to cover the costs of implementation.

KPMG

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