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Tax Insights

Introduction of electronic invoicing (e-invoicing) into the Australian market

Snapshot

The operations of businesses are being dramatically transformed by a range of digital technologies sweeping across the Australian and global economy. One area that has received less attention has been the digitisation of business-to-business relationships. Of the many aspects of business-to-business relationships that can be digitized – communications, contracting, supply of services – a crucial aspect is e-invoicing, where bills are sent electronically and approved and paid automatically, doing away with traditional paper invoices being physically sent in the mail and stored in filing cabinets.

Deloitte Access Economics estimates that every time an e-invoice replaces a paper invoice, it can deliver up to $20 in cost savings to the business involved. It is estimated that there are over 1.2 billion invoices exchanged annually with 89% of SMEs still processing paper-based or pdf invoices.

The level of adoption of e-invoicing will determine the degree of benefits realised. The Federal Government is currently consulting on options to mandate e-invoicing for all government agencies (Federal, State, and local) as well as businesses.

What is e-invoicing?

E-invoicing is the process to automate the digital exchange of invoice information directly between a buyer's and supplier's accounting systems.

Under e-invoicing, invoices are no longer sent from a supplier to a buyer via a paper-based or PDF invoice. Rather, the invoices are sent from one accounting system to another as a digital exchange.

Being delivered direct to the buyer's accounting system allows for automated entry into that accounting system and automated processing of the invoice. The process includes issuing, sending, receiving, and processing of invoice data by electronic means.

This digital exchange occurs using a set of common agreed standards under the Pan-European Public Procurement On-Line (Peppol) Framework.

E-invoices are commonly defined as either structured or unstructured:

- Structured invoices are digital through the whole lifecycle and support high levels of automation. The format of structured e-invoices can allow the information and data to be entered and integrated into the buyer's accounts payable systems without any direct data input from the buyer's accounts payable administrator.
- Unstructured invoice data such as PDF or Word-based formats, support low levels of automation unless additional technologies such as Optical Character Recognition (OCR) are applied.

E-invoicing in Australia under the Peppol network is intended to be a structured form of e-invoicing, thus supporting higher levels of automation, integration, and productivity gains.

What is Peppol?

Peppol was initiated in 2008 by the European Commission and the Peppol consortium members. In August 2012, the responsibilities, and services for the Peppol project were taken over by the non-profit association 'OpenPEPPOL'.[1]

Peppol is a set of tools and specifications enabling cross-border eProcurement. The use of Peppol is governed by a multi-lateral agreement structure which is owned and maintained by OpenPEPPOL.

Australia and New Zealand announced the adoption of the Peppol framework for e-invoicing in February 2019. Approximately 37 countries are OpenPEPPOL members. Peppol enables trading partners to exchange standards-based electronic documents over the Peppol network based on a 4-corner model.

The 4-corner model, as already adopted under the SuperStream system in Australia, is a system when the supplier utilises different service providers to process e-documents that pass between the parties. The 4-corner model provides a secure and structured exchange of information. Institutions such as banks often use the 4-corner model where they are processing transfers through different systems.

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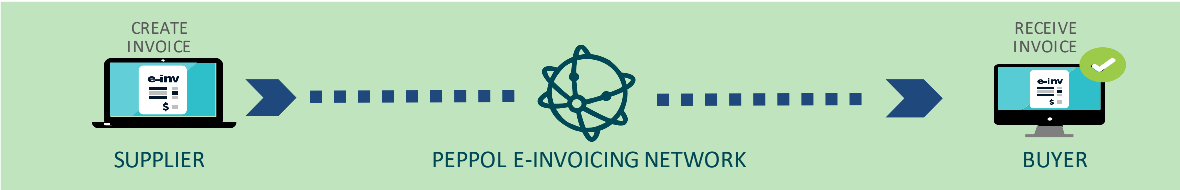
[1] https://peppol.eu/about-openpeppol/history-of-openpeppol/

Graph 1: Peppol invoices are transmitted through the Peppol network[2]



ATO's role in administering e-invoicing

The Australian Taxation Office (ATO) operates as the Peppol authority for Australia. Currently, Australia is the only country that has its Revenue Authority act as the Peppol authority.

The ATO has been provided with legislative powers under subsection 3G(1) of the *Taxation Administration Act 1953* to develop and administer the framework to implement e-invoicing into the Australian economy.

The ATO manages the local invoice specifications (i.e. Goods and Services Tax (GST) instead of Value Added Tax (VAT)) and regulates the use of e-invoicing to ensure standards are being met.

It is also worth noting that the ATO has recently undertaken a significant digital transformation through the implementation of Digital Identify (myGov ID) in Australia. The ATO's role as Peppol authority within Australia further enhances its role within the digitisation of government in Australia.

The ATO has highlighted that apart from regulating the use of e-invoicing, they will not be able to view the e-invoices' contents and details. The current framework and network infrastructure does not have the capability to enable the ATO to access this information. Notwithstanding, the ATO will be able to track the volume of invoices that are flowing through the network.

Consultation for mandatory e-invoicing in Australia

The key driver behind the implementation of e-invoicing in Australia is to digitise the Australian business community. This is intended to make Australia's economy more efficient and bring it into line with international markets.

The level of benefit seen to the Australian economy will depend on the level of uptake. It must also be balanced with the cost of implementation.

E-invoicing is not yet mandatory in Australia. As part of the 2020-21 Federal Budget, the Australian Government announced that further action would be taken to accelerate the adoption of Peppol e-invoicing for the public and private sector by mandating e-invoicing for all Commonwealth government agencies by 1 July 2022 and committing to 5-day payment terms when a supplier uses e-invoicing.

Where Commonwealth agencies do not pay within the required 5-day terms, they will be required to pay interest to the supplier. This interest is not expected to be funded to the agency from any additional or special appropriation.

This mandated e-invoicing for Commonwealth Government agencies is expected to encourage a significant increase in e-invoicing uptake by suppliers to Government.

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[2] Taken from Australian Treasury, 'Options for mandatory e-Invoicing adopted by business' (2020).

Treasury has undertaken consultation on options for mandatory e-invoicing adoption by businesses. The Government has outlined the following three options for mandatory e-invoicing:

- Option 1: the Government should mandate that all businesses be able to send and receive Peppol e-invoices, starting with large businesses
- Option 2: the Government should mandate only large businesses to be able to send and receive Peppol e-invoices
- Option 3: the Government should take a non-regulatory approach to Peppol e-invoicing adoption by business.

Treasury are expected to report to Government at the end of the consultation process.

E-invoicing accredited service providers

In order for any business to send or receive an e-invoice it will need an Access Point server. The Access Point server allows the business to connect to the Peppol network.

As the Peppol authority for Australia, the ATO manages a registry of accredited service providers who have completed the Australian Peppol Authority accreditation process.[3]

E-invoicing and the digitisation of revenue authorities

Revenue authorities around the world are shifting to increasingly digitised ways of collecting and assessing taxation information and liabilities from taxpayers.[4]

E-invoicing is being adopted in varying degrees by a number of countries. Some countries such as France, Greece and Norway have mandated e-invoicing for Business-to-Government (B2G) only. Other countries such as Brazil, India and Italy have mandated e-invoicing for all transactions.

Some revenue authorities have been seen to use e-invoicing as a means to conduct a data-matching exercise between the amount of VAT reported by both the supplier and buyer to the revenue authority. The data-matching undertaken may be used to commence audit activity of a taxpayer's books and records.

E-invoicing sits amongst a broad group of other similar methods of digitised tax assessment and collection globally, such as e-reporting. E-Reporting, such as Standard Audit File for Tax (SAF-T) is an international standard for electronic exchange of accounting data to revenue authorities. Under E-Reporting, taxpayers are required to return accounting data direct to revenue authorities for review. The review may then be used to trigger an assessment or as part of an audit under a self-assessment system.

With the continued digitisation of tax collection by revenue authorities, it is conceivable that the ATO may move to compliance activities through e-invoicing in the future, such as for the reconciliation of the GST reported by both the supplier and buyer, similar to that under the current Taxable Payments Annual Reporting (TPAR).

While there is currently no mandatory rollout for e-invoicing for non-government entities, it is expected that the ATO will in the future implement a rollout similar to the Single Touch Payroll processes, to mandate the use of e-invoicing for large companies.

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[3] https://www.ato.gov.au/Business/E-invoicing/Finding-an-e-invoicing-accredited-service-provider/

[4] Read more on Building the digital revenue agency of the future (Deloitte Centre for Government Insights, 2020) https://www2.deloitte.com/us/en/insights/industry/public-sector/digital-revenue-agency-of-the-future.html?id=gx:2em:3int:4di6368:5awa:6ps:20200113

Benefits of e-invoicing

There may be numerous benefits associated with the implementation of e-invoicing. These benefits are summarised in the table below:

Item	Benefit	Description
1	Reduction in processing costs	• It is estimated that by implementing e-invoicing, businesses could save up to 70% in processing costs compared to manual PDF invoice processing.
2	Reduction in payment times	• Buyers are paying on average up to 7 days faster with e-invoicing • The Federal government and NSW government have applied a 5-day payment turnaround for contracts up to $1 million, where the buyer and supplier use Peppol approved e-invoicing systems • Other State governments are considering implementing similar payment terms and policies.
3	Reduction in manual processing errors	• Invoice data travels from system to system, removing the need for manual data entry • This reduces the risk of manual processing errors and mitigates the risk of misplacing/losing invoicing in transit • Reduced manual intervention leads to increased data quality; data that is often used to make decisions.
4	Secure and reliable	• Suppliers can be confident that invoices have been received by the buyer. This removes any manual follow up required to ensure the invoice was properly received • The built-in security systems and standards authenticate participants and users, adding an extra layer of security over email channels • Businesses can implement internal quality checks and procedures around the e-invoicing systems.
5	Compatibility with account software	• E-invoicing can operate in your accounting system, regardless of what system the sender/receiver is using.
6	Improved record keeping	• The streamlined nature of e-invoicing will facilitate improved record keeping which will assist in businesses reporting obligations • Increased cash flow as a result of reduced accounts receivable time periods.
7	International interaction	• There is an international framework in place which will facilitate the sending of invoices overseas.
8	Fraud detection	• E-invoicing will reduce invoice fraud that is prevalent in current paper-based/email processes • E-invoicing can also minimise threats of invoice interception via email • E-invoicing can implement three-way matching processes by automatically matching purchase orders that are in the system against the invoice. By automating the third match, discrepancies cab easily be identified with little manual intervention.
9	Strategic spend management	• Strategic spend and supplier decisions are informed by data that is timely, complete, and accurate.

Getting ready for e-invoicing

While e-invoicing is not currently mandatory in Australia, e-invoicing may still have significant productivity benefits to businesses as outlined above. Businesses who sell to the Commonwealth Government in particular may wish to review whether e-invoicing is appropriate to them in the context of mandatory e-invoicing required by Commonwealth agencies and the 5-day payment terms.

Businesses with operations globally may further wish to review whether they are operating in any jurisdictions under which e-invoicing is mandatory or is the process of implementation as this may impact their operations and liquidity.

Some key steps to take to get ready for e-invoicing include:

- **Market Scan:** scan the countries, vendors and buyers in your ecosystem for e-invoicing readiness
- **Access Point:** Select an Access Point service provider that provides Peppol access point integration with accounting software
- **Integrate:** Integrate the Peppol Access Point with accounting software, including Accounts Payable (including Vendor Invoice Management) and Accounts Receivable processes
- **Cleanse**: Good governance suggests regular cleansing of master data. When preparing for a transition to e-invoicing, consider a one-off cleanse as part of the business readiness checklist
- **Spend analysis**: take the opportunity to review spend more broadly. A spend analysis can identify cost savings, improve supplier performance, and help streamline operations
- **Payment methods**: review payment methods and decide on the optimal policy and mix of invoice and corporate cards, for example
- **Review:** Review and standardise systems and Processes, including but not limited to:
    - End-to-end procure-to-pay and order-to-cash cycles
    - Accounts Receivable solution for functionality to send credit memos
    - 2-way or 3-way matching principles and processes
    - Exception processes e.g. duplicate invoices
    - Reporting and tracking of e-invoices and collection of supporting documentation
    - Consider how you will identify suppliers and buyers who are e-invoicing enabled that will switch to e-invoicing.
- **Liquidity:** Consider impact on liquidity and cash reserves in the event that the payment of invoices may become automated
- **Communication:** communication of changes to suppliers, customers, and internal staff.

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Contacts

Chris Jenkins

Partner
Tel: +61 8 9365 8013
chjenkins@deloitte.com.au

Andre Spnovic

Partner
Tel: +61 2 9322 5104
aspnovic@deloitte.com.au

Gary Funston

Partner
Tel: +61 3 9671 7464
gfunston@deloitte.com.au

Justin Ward

Partner
Tel: +61 3 9671 6184
jusward@deloitte.com.au

James Petterson

Partner
Tel: +61 7 3308 7188
jpetterson@deloitte.com.au

Sasha Smith

Partner
Tel: +61 2 9322 5232
sashasmith@deloitte.com.au

Rhys Cormick

Account Director
Tel: + +61 2 6263 7157
rcormick@deloitte.com.au

David Watkins

Partner
Tel: +61 2 9322 7251
dwatkins@deloitte.com.au