

E-INVOICING IN AUSTRALIA IS NOW LIVE – WHAT DO YOU NEED TO KNOW TODAY?

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LESSONS LEARNED FROM EUROPE & LATIN AMERICA

Moving to e-invoicing is no longer an option for businesses, it's becoming an obligation. Propelled by the goal of preventing tax evasion, **mandatory e-invoicing legislation is on the rise globally**, driving the transition from paper to electronic invoicing and archiving.

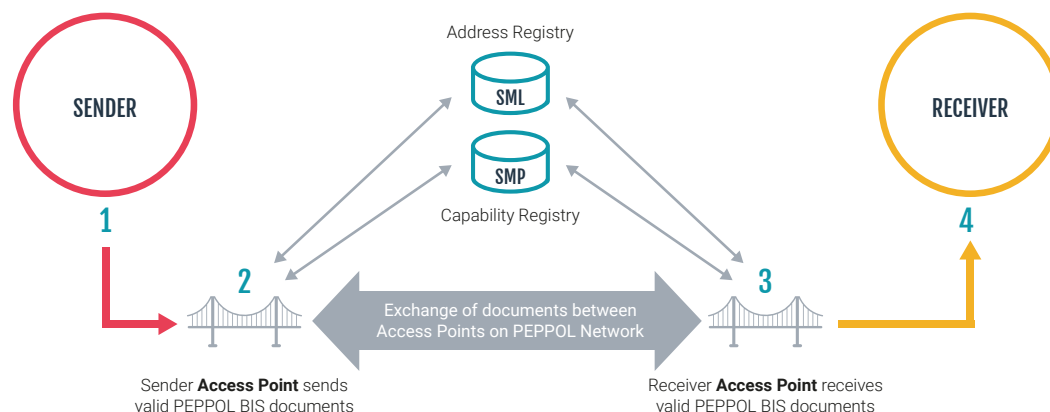
Latin America was the first to enforce the use of e-invoicing in the late 2000s, using the clearance tax audit system (real-time invoice verification by the local tax authority). In Europe, the EU Directive on e-invoicing and public procurement was put in place to make e-invoicing the predominant method of invoicing in Europe in the coming years. To support this directive, many governments introduced legislation requiring vendors to send e-invoices to all Public Administrations (PA). Italy has gone even further to become the first European member state to mandate B2B and B2C e-invoicing for Italian businesses. Other European states seem willing to follow this lead.

The growing number of governments and corporations adopting e-invoicing means that **companies need to send e-invoices if they want to do business and get paid**. However, the increasing number of rules, formats, platforms and certificates brings a lot of complexity to compliance. Additionally, the time from when the requirement is published, to the deadline for businesses to comply, is very short, while the number of regulations continues to grow.

E-INVOICING IN AUSTRALIA & NEW ZEALAND

In October 2018, the Australian and New Zealand governments agreed to take practical action around common approaches to e-invoicing with **the Trans-Tasman Electronic Invoicing Arrangement**. The main objective of the Arrangement is to create a seamless Australia and New Zealand e-invoicing approach in order to improve productivity and reduce the costs of doing business for both governments and industries through **an interoperable single digital economic market**.

The initial idea was to leverage the work from the Australian Digital Business Council who had previously worked on an interoperability framework and extend the specifications to include New Zealand requirements. However, as this model was very similar to the **Pan-European Public Procurement Online (PEPPOL)** 4-corner model, the Australian and New Zealand Prime Ministers announced in February 2019, that both countries intended to adopt the PEPPOL interoperability framework for e-invoicing. The PEPPOL framework is used in over 34 countries and is increasingly being adopted worldwide, helping to support international trade.



Both the Australian Taxation Office (ATO) and the New Zealand Ministry of Business, Innovation and Employment (MBIE) became PEPPOL Authorities and have already developed local invoice specifications based on the PEPPOL BIS Billing 3.0 standard, an Electronic Data Interchange (EDI) standard format.



Although Australia and New Zealand have separate PEPPOL Authorities, the functions and technical support activities have been aligned to support one another.

There is already a number of Access Points accredited by ATO and MBIE and the first e-invoices were exchanged on the PEPPOL network in December 2019.

There is **currently no mandate in Australia or New Zealand to enforce e-invoicing** via PEPPOL. But history has shown in some other countries that e-invoicing has become a mandate after a few years, initially for B2G then extended to B2B. For now, the Australian and New Zealand governments are putting forward incentives for broader adoption locally. For example, the Australian government has announced its commitment to pay all e-invoices under \$1 million within 5 working days as of 1 January, 2020. The Department of Finance and Services as well as Services Australia will be the first government departments to adopt PEPPOL e-invoicing with other agencies following suit over the next year. The Australian government intends to further develop the use of PEPPOL and plans to continue introducing incentives for suppliers over the coming months. Businesses, more specifically SMEs, will see immediate benefits such as faster payment from government agencies, reduced manual work and added value to the customer experience.

WHAT IS E-INVOICING?

Just to clarify what we are talking about, an e-invoice is a data file exchanged between businesses (system to system) in a commonly agreed upon electronic format and not always human readable. Data manually typed into a web portal to automatically generate an invoice is also considered an e-invoice. The main benefit is that **e-invoicing allows a smooth and secure exchange of messages between companies, and can be fully automated**, making documents computer readable so it is easier to book in a financial system without manual intervention. This boosts efficiency, simplifies transactions and increases cost savings.

There are many different e-invoicing formats, but the most common file formats are based on XML or EDI, however a global standard is currently missing.

EDI has been a popular standard for a long time and a growing list of governments worldwide has selected UBL (an XML based format) as its preferred format. There is an increasing focus to **standardise public procurement and simplify document exchanges including e-invoices** between companies and public entities. One example is PEPPOL that Australia and New Zealand have just adopted as mentioned above. PEPPOL provides a set of specifications enabling businesses to communicate electronically with public buyers and private businesses, not only for e-invoicing but in various stages of the e-procurement process.

EXAMPLES OF E-INVOICING STANDARDS AROUND THE WORLD:

- EDIFACT
- UBL (*Universal Business Language*) [10]
- Finvoice (*Finland*)
- EHF (*Elektronisk handelsformat*) (*Norway*)
- E-Invoice (*Estonia*) [11]
- FacturaE (*Spain*)
- FatturaPA (*Italy*)
- CFDI (*Mexico*)
- ISDOC (*Czech republic*)
- E-faktura (*Poland*)
- OIOUBL (*Denmark*)
- PEPPOL BIS (*Austria, France, Belgium, Singapore, Australia, New Zealand*)
- Svefaktura (*Sweden*)
- UBL-OHNL (*Netherlands*)
- Nota Fiscal Eletrônica (*Brazil*)
- Facturación Electrónica (*Ecuador*)
- DTE (*Chile*)

WHAT ABOUT PDF INVOICES? AREN'T THEY ELECTRONIC?

In this context, a PDF invoice is not considered an e-invoice but rather a **digital invoice** that can be viewed and processed digitally. A scanned paper invoice also falls into this category. The digital invoice is easy to archive and connect to accounting software but will typically require manual data input from an administrator or an OCR-based automation solution to book the invoice in the buyer's financial system.

Until now, it has been possible for businesses to send and receive image based PDF invoices by email (with or without e-signatures); however, **with growing government legislation mandating structured e-invoice exchange worldwide**, PDFs are no longer sufficient. Businesses must generate and manage structured invoice data for all outbound and inbound invoices to remain compliant and to get paid.

But exchanging EDI-only files may not be suitable for all businesses. Small and medium businesses often struggle to manage EDI, whereas PDFs can easily be created from most ERP systems. Additionally, for companies of all sizes, **invoice content must be available in a human readable format** (PDF) for accounts receivable (AR) and accounts payable (AP) departments to validate it. Even in the case where governments have mandated e-invoices, it is still required to generate a human-readable format along with the e-invoice data so that the e-invoice can be processed by a computer and the human-readable version visualised and understood by a human. For businesses to be successful and compliant, they must do both EDI and PDF.



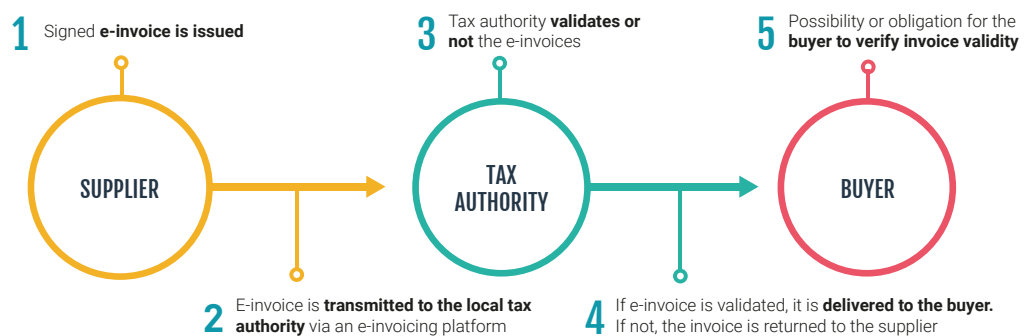
E-INVOICING ON THE RISE

"Overall, I believe e-invoicing volumes will grow each year for the next five years: 15% in Europe, 20% in North America and 25% in Asia. I foresee very strong growth rates, and I expect to see a positive impact from all these business-to government initiatives in the private sector." Bruno Koch, Billentis.

The private sector was the main driver for initial market development of EDI due to its incredible efficiency. Big businesses were the first to encourage their partners to send or receive EDI invoices while today, governments are increasingly requiring it.

As more and more companies replace their costly paper-based invoice processes with less expensive and more efficient e-invoicing delivery and archiving solutions, they are discovering new ways to help increase their competitive advantage and business efficiency (e.g., reduced invoice-related errors, time and cost savings, faster payment, etc.).

Some governments push EDI to digitise B2B exchanges and increase productivity and EDI-invoicing has become a legislative obligation **for tax control** in some countries. Reducing the VAT/GST leakage is the main accelerator for the digitisation of business, fiscal, reporting, inventory, trade and logistical documents. Tax authorities mandate that businesses in a country exchange invoices in EDI format and encourage or even require the use of a real-time clearance model.



Clearance model: Invoices must be reported and authorised by the tax administration before or during the exchange process between the supplier and the buyer. This helps reduce VAT fraud allowing them to monitor end-to-end business transactions.

While e-invoicing is beginning to realise its potential, one of the reasons it has not been widely adopted so far is the confusion around aforementioned tax compliance.

CAN A SINGLE E-INVOICING SOLUTION HELP ACHIEVE GLOBAL COMPLIANCE?

Companies that rely on multiple service providers to ensure e-invoicing compliance in different countries find it difficult to meet strict local specifications and manage numerous service providers. Selecting the most suitable solution is a challenge. Indeed the most suitable solution needs to address needs and requirements from legal, business process, technical and commercial aspects. Here are the five key points to consider:

- **Increase visibility:** An international organisation, located in multiple countries, requires a solution that provides visibility over all invoices worldwide as well as on a subsidiary or entity-level. Multi-user solution access improves collaboration among AR teams.
- **Compliance with local regulations:** Businesses must comply with different e-invoicing regulations in the countries in which they do business to avoid penalties, either by formatting their invoices into EDI format or finding a way to be connected with tax authorities' platforms to submit their invoices (e.g., PEPPOL).
- **Anticipate future mandates:** As e-invoicing regulations continue to evolve, businesses need to ensure that they are up to date on new requirements and able to quickly respond to changes.
- **Improve internal processes:** Companies are always looking to speed up internal processes and improve team productivity, particularly in AR and AP processes. By automating these processes, businesses can manage 100% of invoices regardless of format, reduce errors and costs associated with manual handling, and lower DSO.
- **Enhanced user experience:** Solution user adoption rates are greater when only one solution is used.