

Digital adoption incentives:
Digitally enabled SMEs at the core of
Australia's economic recovery in 2021

MYOB 2021-22 Pre-budget submission
January 2021

myob

The Treasury
Langton Crescent
PARKES ACT 2600
AUSTRALIA

Dear Assistant Treasurer Sukkar,

On behalf of MYOB, I'm pleased to provide the following pre-budget submission with MYOB's recommendations regarding priorities for the 2020-21 Budget.

MYOB welcomes the opportunity to make this submission to provide the Government with key input and to help continue to develop the right frameworks and market conditions that allow SMEs to start, survive and succeed.

I hope you find the submission beneficial as the Government continues to develop the policy. We look forward to the future outcomes.

If you require further information or have any questions, please contact Collette Betts at collette.betts@myob.com

Yours sincerely,



Greg Ellis
Chief Executive Officer
MYOB

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ABOUT MYOB

MYOB is a trusted business platform for 1.2 million small businesses and 40,000 accounting and bookkeeping partners across Australia and New Zealand. With a core purpose of helping more businesses in Australia and New Zealand start, survive and succeed, MYOB operates across four key verticals: small and medium enterprises (SMEs) with 0-50 employees, enterprise businesses (>50 employees), practices (Accountants and Bookkeepers) and financial services.

MYOB offers integrated financial solutions that help businesses of any size confidently manage the flow of funds. Businesses can get paid and pay others faster with in-built payment and invoicing options and for when it's needed, MYOB delivers clever cashflow options that allow SMEs to access additional funding to bridge the gap.

This is underpinned with rich visibility of a business' current and future financial situation. Transaction overviews tell the business what's owed, what's coming up and provides data-led predictions for cashflow needs in the future.

MYOB is deeply integrated with quality financial services partners to provide additional value to businesses, meaning they can manage all elements of their cashflow through MYOB.

MYOB seeks to empower small businesses to move to a cashless and digitally enabled operating paradigm. We see this goal as complementary to the Government's policy positions on small business digital transformation, reducing payment term periods, providing payment security to the small business supply chain and eliminating taxation leakage by addressing the black economy.

INTRODUCTION

An inadvertent outcome of the COVID-19 pandemic has been the rapid acceleration of digital adoption by a large proportion of Australian SMEs. This has enabled various forms of digital transformation such as the streamlining of operations, performance of critical tasks online and allowing business continuity during the crisis.

As Prime Minister Scott Morrison highlighted¹ ahead of the 2020/21 budget, many businesses moved online quickly when the pandemic hit, undergoing a decade of change in just months. It is MYOB's assessment that the Government must capitalise on this momentum and utilise this once-in-a-generation opportunity to accelerate SMEs to move wholly online, contribute to and reap the benefits from the digital economy.

Recent Government data indicates² that SMEs are less prepared for a COVID-19 normal operating environment and that most SMEs would benefit from investing in digital technology.

The data further indicated that current investment in digital technology by SMEs sits at an average spend of \$5,000 per annum. This represents less than 1% of revenue. SMEs are also using the internet to connect with customers and suppliers at only half the rate of larger Australian businesses and are less likely to use digital technology to support their business processes. The same data represented that 70% of Australians said they wanted to support small businesses but found it difficult to engage due to a limited online presence.

¹ <https://www.pm.gov.au/media/digital-business-plan-drive-australias-economic-recovery>

² <https://www.communications.gov.au/documents/riding-digital-wave-report-covid-19-trends-and-forward-work-program>

Creating a thriving Australian digital ecosystem by providing SMEs with digital incentives and a structured framework to adopt digital solutions could have a profound impact on business recovery and provide the basis for SMEs success in this post-COVID phase of economic growth.

The latest MYOB Business Monitor findings show³ it's more important than ever for business owners to be digitally enabled, and that online businesses have the best chance at success. Further evidence of the imperative is highlighted by a recent Optus report⁴ that states a lack of digital expertise is holding back Australian SMEs, with findings showing 39% of SMEs are failing to grasp opportunities offered by new technologies and 31% are “struggling” to maintain pace with technological changes deemed critical to their success.

Government is aware through anecdotal evidence from the Australian Small Business and Family Enterprise Ombudsman that SMEs are not adopting digital due to associated costs of investment in IT, security and training.

Evidence indicates clear opportunities for improvements to drive productivity and growth:

- 34% do not have an online presence⁵
- 24% only have a business website
- 21% have both a business website and a social media site
- 41% have no accounting software and 24% have no accounting solution at all⁶

Many of the pressures felt by Australian SMEs such as attracting new customers or managing utilities or profitability could be eased through technology-driven and digital solutions.

Digitisation is not just about using social media or designing a smart website. It's about capitalising on the efficiencies and insights that digital technology provides in terms of productivity, accuracy and making smarter business decisions.

The JobKeeper payment scheme was a lifeline for countless SMEs during 2020 and the Government should be commended for the critical assistance provided that safeguarded the health and livelihoods of Australians during unprecedented and uncertain times.

With Jobkeeper now scheduled to cease at the end of March 2021 and as the economy transitions into the next phase of COVID-19 recovery with an emphasis on economic growth, SMEs are suitably positioned as the engine room of the economy to lead the country's recovery. For example, if the remaining 26% of SMEs currently not taking advantage of the digital economy were to digitise it could contribute an extra 20.3%⁷ increase in SMEs sector contribution which would equate to approximately 6.9% injection into the Australian economy.

The Government has an excellent track record of supporting SMEs, especially during COVID-19, and while we welcome the \$800mm investment to enable businesses to take advantage of digital technologies delivered as part of last year's budget, we believe it can go further to deliver direct support for SMEs and accelerate digital adoption.

The spark now needed to turbo charge the economy and get it back on track should be led by the Government and implemented via a new digital incentives program specifically designed for

³ <https://www.myob.com/au/about/media-centre/myob-reports>

⁴ <https://tda.edu.au/wp-content/uploads/2020/08/Critical-Role-of-Blue-Tech-and-Digital-Skills-in-Australias-Economic-Recovery-August-2020.pdf>

⁵ MYOB Business Monitor December 2020

⁶ MYOB Brand Monitor March 2019-2020

⁷ MYOB Economist

SMEs. The year 2020 proved that as an economy we must break from treating digitisation and technology adoption as a future state; MYOB's Business Monitor survey has shown us that 34% of respondents still don't have any online presence. This urgently needs to change, and it's why we're calling for digital adoption incentives to be introduced in the 2021/22 budget.

The Government could adopt a phased rollout approach, prioritising industries that were profoundly impacted by the outbreak of COVID-19 such as Accommodation and Food services, followed closely by the Arts and Recreation services⁸.

Recommendation 1: Introduce Digital Adoption Incentives for SMEs

MYOB welcomed the \$22.2mn⁹ distributed as part of the 2020/21 Budget to help SME operators take advantage of digital technologies through an expansion of the Australian Small Business Advisory Service. However, we believe real success in terms of SME digital adoption can only be generated by a direct investment into an incentive based program to reduce cost barriers that still exist.

MYOB believes the Government should direct and implement a digital adoption incentive program designed for SMEs that are implementing digital solutions to accelerate the growth and scale of a business post COVID-19.

Digital incentives could materially enhance the adoption of digital technology software by SMEs and while the *Instant Asset Write Off* is an excellent program for physical technology assets, such as hardware and servers, with business moving to the cloud, policy adjustment to accelerate digital transition is simultaneously required.

Government could then define the incentive as available for those digital solutions most likely to provide ROI for SMEs and that are used for productive intentions: cashflow products, business management products (such as accounting software), recruitment products and eCommerce. The focus on the incentive is in supporting Australian-grown businesses to encourage local innovation.

Data from the Australian Bureau of Statistics shows that¹⁰:

- Only 50% of Australian businesses have a web presence
- Even less are using software for accounting and invoicing
- 25% of SMEs are sceptical about the value digital tools will bring to their business
- while only 41% of microbusinesses even have a website

However, research from Deloitte¹¹ shows that when SMEs are digitally engaged, they are:

- 50% more likely to be growing revenue
- eight times more likely to be creating jobs
- seven times more likely to be exporting
- 14 times more likely to be innovating new products or services

⁸ <https://www.rba.gov.au/publications/bulletin/2020/sep/the-covid-19-outbreak-and-access-to-small-business-finance.html>

⁹ <https://www.pm.gov.au/media/digital-business-plan-drive-australias-economic-recovery>

¹⁰ <https://ministers.dese.gov.au/cash/first-digital-champions-announced>

¹¹ <https://www2.deloitte.com/au/en/pages/economics/articles/connected-small-businesses-google.html/>

The automation and digitisation of numerous analogue processes not only frees up time for small business owners but it can lead to a reduction of stress and anxiety levels¹², *Small Business Digital Champions Project* results indicated these factors help SME owners put their full attention on what is important — spending time with their family and growing their business.

The Small Business Digital Champions Project (no longer accessible), was labour intensive and only provided 100 Australian SMEs with support for digital transformation. This was a small fraction of Australia's SME sector, which represents 99% of all business in Australia and employs 5.7mn Australians¹³. We request that new and innovative steps are taken by Government in this next budgetary round to incentivise participation in the digital ecosystem – paving the way for the Prime Minister's vision that Australia become a leading digital economy and society by 2030¹⁴ to be realised.

The adoption of digital tools is no longer a nice-to-have, but a critical business enabler, essential for the current and future success of SMEs. Many businesses would not have survived 2020 without digital tools as they became the only way to connect with customers, colleagues and communities at large.

There are various methods the Government could consider to deliver this program of work. Two options we believe will help propel SMEs into the digital economy –

- 1. A Digital Adoption Tax Incentive** in the form of tiered deductions (based on amount of digital spend, the more you adopt, the larger the return) or via a refundable rebate. This could materially enhance the adoption of digital technology by SMEs similar to the Instant Asset Write Off program for technology hardware (e.g. servers) that is designed specifically to drive the uptake of business management software. Furthermore, the *Temporary Full Expensing* measure should be extended beyond 30 June 2022 for digital technology spend (eg website costs). This ensures that SMEs receive the full tax benefit of the spend as well as the rebate incentive.
- 2. Digital Adoption Incentive Voucher** distributed to SMEs that do not yet have access to essential digital tools. Registered businesses could purchase digital software products that include online website, e-commerce, finance and business management tools to be redeemed from pre-approved Australian software suppliers, which has the further value of supporting local technology businesses in parallel.

It is MYOB's recommendation that a digital adoption incentive program for SMEs who do not yet have access to essential digital tools would serve benefits to both SMEs and Government through the support for post-COVID recovery for SMEs and addressing the Government's goal of \$50 billion Black Economy reduction through increased digitisation of transactions and online compliance.

Global best practice

We know digital incentive-based schemes are having success in other jurisdictions including Canada where the Government of Ontario, in partnership with the federal government, recently announced a new \$57 million initiative that will assist SMEs to go digital and reach more customers online. The *Digital Main Street Grant*¹⁵ will support close to 23,000 Canadian SMEs to

¹² <https://www.nra.net.au/app/uploads/2019/06/Small-Business-Digital-Champions-Project-Industry-Association-Guidelines.pdf>

¹³ <https://ministers.dese.gov.au/cash/leading-entrepreneurs-partner-help-small-businesses-go-digital-0>

¹⁴ <https://www.pm.gov.au/media/digital-business-plan-drive-australias-economic-recovery>

¹⁵ <https://digitalmainstreet.ca/ontariogrants/>

create and enhance their online presence and improve the efficiency of their digital operations by providing a \$2500 grant to adopt new digital technologies. Digital Main Street will also create jobs for more than 1,400 students.

Closer to home, MYOB and other industry participants have partnered with the Victorian Government on the *Small Business Digital Adaptation Program*¹⁶ designed to help Victorian small businesses build their digital capability. This program allows eligible businesses to trial and then receive access to digital products, tools and training they can use to build digital capability in their day-to-day operations. Once businesses have purchased a product, they can apply for a rebate of \$1,200 to access the product for 12 months. The program also offers free digital adaptation training and workshops to help registered businesses adopt and implement online tools in their business.

Recommendation 2: Mandate B2B e-invoicing while providing an incentive

The \$3.6mm¹⁷ committed in the 2020/21 budget towards mandating the adoption of electronic invoicing for all Commonwealth government agencies is a fantastic starting point although a much greater economic imperative exists in the mandating of B2B e-invoicing and the provision of a digital incentive program to reduce cost barriers and adopt the correct software to roll it out.

Australian SMEs are primed to take advantage of e-invoicing. Our recent survey of 1000 SMEs found 43% had heard of e-invoicing and understand it to be the direct, electronic exchange of invoices between suppliers' and buyers' financial systems, this rises to 49% for sole traders.

Furthermore, 53% of those who understand e-invoicing called for business-to-business e-invoicing to be mandatory, rising to 61% for sole traders. Those that are already online more likely to know about e-invoicing (51% of those with a business website were aware).

More than a third (38%) of respondents say it will save them the equivalent of a working week in time each year.

This data illustrates there is little need for the Government to take a softly-softly approach with the e-invoicing mandate; SMEs are ready. They understand how it works, the benefits of faster payment times and the reduced administration that it brings.

It is therefore in the interest of the Australian economy to bring in the B2B mandate as soon after the government deadline as possible paving the way for a cost saving¹⁸ of close to \$23.5bn for the economy.

E-invoicing is key to digital adoption by SMEs

E-invoicing is a more efficient, accurate and secure way to deal with suppliers and buyers, allowing businesses to save money and time through the removal of paper-based or PDF invoices.

It is MYOB's belief that mandating B2B e-invoicing is the single most important digital acceleration tool Government currently has at its disposal, with e-invoicing adoption by end-users across the entire economy being critical, and must be strategically at the heart of Government's solution for economic recovery post COVID-19.

¹⁶ <https://www.business.vic.gov.au/support-for-your-business/grants-and-assistance/business-resilience-package/Small-Business-Digital-Adaptation-Program>

¹⁷ <https://www.pm.gov.au/media/digital-business-plan-drive-australias-economic-recovery>

¹⁸ MYOB Economist

Digital incentives could materially enhance the adoption of e-invoicing by SMEs and as previously stated, while the Instant Asset Write Off is an excellent program for physical technology assets, policy adjustment to accelerate digital transition is required for the uptake of cloud and SaaS solutions, and highly relevant to such an important economic driver as e-invoicing.

Comparable to the digital adoption incentive mentioned above, the Government could then define the incentive as available for digital solutions most likely to provide the right foundation for SMEs to implement e-invoicing, thus preparing the SME to take full advantage of their digital evolution.

MYOB agrees with the Government's assumption that e-invoicing will increase the resilience of businesses and create new opportunities for SME growth and digital adoption.

Key benefits of e-invoicing include:

- SMEs can save money by adopting e-invoicing, with Deloitte Access Economics research finding it costs \$30 to process a paper invoice, \$27 for an emailed PDF and under \$10 to process an e-invoice¹⁹
- With over 1.2bn invoices exchanged annually in Australia, that's a cost saving over \$11,000 per SME per annum.
- Business owners can save time, leading to faster payments to suppliers, reduced human errors such as lost invoices and incorrect addresses, which cause payment delay.
- Provides a significant benefit for 29% of SMEs that cite cashflow as being a source of 'extreme' or 'a lot' of pressure.
- E-invoices are exchanged more securely than email, reducing the risk of email scams and ransomware. Built-in databases deliver accurate invoices to correct addresses, requiring secure authentication for both payer and payee, thereby reducing security and cyber-fraud concerns for SMEs.
- It also has benefits for compliance purposes, with the correct tax treatment flowing through from a trusted source. The flow on effect equates to further time saving for accountants when completing GST, BAS and EOFY processing for clients.
- E-invoicing data can deliver faster, more accurate and complete data, supporting real time business decisions for cash flow, procurement, and stock management.

We have seen firsthand where positive legislation has yielded fantastic results for the nation through the mandating of STP, with ATO data indicating it was adopted by 166,604 businesses in June 2019 rising impressively to 696,420 in June 2020, resulting in gains for Government of better visibility and accuracy of information.

Government investments in healthy digital policy foundations, such as single touch payroll, e-invoicing and digital identities, help catapult businesses towards the digital frontier²⁰.

It is MYOB's recommendation that the Government considers introducing a digital adoption incentive that SMEs could take advantage of to accelerate the adoption of new technologies to support e-invoicing.

¹⁹ <https://www.ato.gov.au/Business/e-invoicing/e-invoicing-for-businesses/#Costsavings>

²⁰ <https://www.pmc.gov.au/digital-technology-taskforce/moving-more-businesses-digital-frontier>

Global experience

We know there's precedent: e-invoicing is a growing global trend with many countries mandating its adoption to assist tax compliance.

Market success case studies include Brazil, who since 2006 have put in place a staggered introduction of B2B electronic invoicing. Mandating has taken on a gradual roll-out with an industry-by-industry focus, concentrating on the logistics sector as a primary means of strengthening the flow of goods to the country. Local companies also gained great benefits according to the Brazilian Tax Authority (SEFAZ), including administrative flexibility and savings on cost and time, significantly enhancing administrative efficiency and document security while delivering a decrease in accounting errors.

In November 2020, the Independent Authority for Public Revenue in Greece implemented new regulation to encourage businesses to adopt the new Greek e-invoice regime, a range of incentives are being offered to businesses opting for e-invoicing through a licensed provider, under the condition that they apply such method exclusively for the issuance of the sales documents, the following tax incentives will be granted²¹:

- the statute of limitation period for the tax administration to issue an act of administrative, estimated or corrective tax assessment is reduced to 2 years (from 5 years)
- the expenditure for the initial procurement of technical equipment and software required for the implementation of e-invoicing is fully amortized in the year of its realization (increased to 100%)
- the expenditure incurred for the production, transmission and electronic archiving of e-invoices for the first year of issuance of e-invoices is fully deductible (increased to 100%)
- the deadline for the completion of tax refunds to companies is reduced from 90 to 45 days

Conclusion

MYOB believes the Government must capitalise on the digital adoption momentum brought about by COVID-19 and utilise this once-in-a-generation opportunity to help accelerate SMEs online to start contributing to and benefiting from the digital economy via a dedicated incentive-based program.

Furthermore, by implementing legislation that mandates B2B e-invoicing along with the provision of incentives for uptake is the single most important digital acceleration tool Government currently has at its disposal for SMEs and will serve to create an environment in which SMEs can start, survive and succeed.

²¹ https://www.ey.com/en_gr/tax/tax-alerts/e---invoicing--prerequisites-for-the-provision-of-tax-incentives

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