



# Closing the digital gap: an incentive for SMEs

May 2021



# CEO foreword

**While the COVID-19 pandemic is one of the most devastating health, social and economic events in a century, it has acted as a dramatic catalyst for digitisation, significantly expediting consumer and business digital adoption across the planet. For many small and medium enterprises (SME), digitisation was, and remains, the lifeline they needed to survive and ultimately succeed through the pandemic and the various restrictions they have endured. Digitisation has opened a new world of benefits that have enabled businesses to not only grow, but save their most precious resource – time.**

Despite the rapid acceleration of digital adoption over the past 12 months, we estimate half a million Australian SMEs still have no or low levels of digitisation. It's a missed opportunity for these businesses and for the nation. SMEs are responsible for over a third of Australia's economic output and employ nearly half of the nation's workforce. Closing the digitisation gap could not only provide SMEs with a multitude of benefits, it could lead to a 1.8 per cent increase in SME GDP, or a \$10.5 billion gain for the Australian economy – a valuable contribution to Australia's recovery from the COVID-19 recession.

MYOB believes a digital tax incentive could materially increase the adoption of digital technology by SMEs. Our latest survey found 27 per cent of SMEs believe an incentive, such as a tax deduction, would help get them started. Moreover, a digital tax incentive could encourage further adoption, helping businesses that currently utilise just one or two digital tools with a narrow scope to become a fully integrated digital business that's better enabled to succeed in Australia, and even globally.

We estimate every dollar the Australian Government invests in a digital adoption tax incentive could generate an extra \$25 for the Australian economy. A 25x return on investment, stemming from an increase in productivity and economic growth, along with increased economic resilience and tax receipts, is an especially attractive proposition as the government seeks to implement initiatives to fuel the country's economic momentum in the wake of the pandemic. Furthermore, a digital tax incentive could help facilitate mandatory electronic invoicing (e-invoicing), unlocking a further \$23.5 billion of annual cost savings. Taken together, mandatory e-invoicing and a digital adoption tax incentive could turbocharge Australia's digital economy.

There's no doubt a digital tax incentive would also provide a boost to the Australian technology industry, and more specifically, to SaaS providers, including MYOB. However, we recommend limiting the incentive to the first twelve months of new SaaS subscriptions to: ensure the SaaS products stand on their own merit; prevent price inflation; and foster continued competition and the benefits that flow for consumers. A strong and growing digital ecosystem would drive innovation, the development of new products and services and the continued creation of successful Australian technology companies to service other great Australian companies.

MYOB commends the Australian Government for its investment in numerous initiatives to help SMEs start, survive and succeed, especially during the pandemic. Equally, we are supportive of the Australian Government's commitment to make Australia a leading digital economy by 2030.

To this end, a digital adoption tax incentive – one that promotes cloud-based technology that is providing critical national infrastructure today and in the future – is a prudent next step. With SMEs contributing an estimated 35 per cent of total Australian GDP, it's imperative they aren't left behind as we strive to become a leading digital economy. It's a goal that cannot be achieved without them.

**Greg Ellis**  
Chief Executive Officer  
MYOB

May 2021

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# 1. Executive summary

## SMEs and the digital gap

A vibrant, dynamic and prosperous small and medium business (SME) sector is vital to the Australian way of life. As well as being responsible for over **a third of Australia's economic output** and employing 40 per cent of the nation's workforce, SMEs sit at the heart of Australian society, playing a central role in the daily lives of Australians and their local communities.

In a time of economic uncertainty, rapid technological advancement and sweeping change to the way in which business is conducted, it is imperative that SMEs are able to access the tools they need to start, survive and succeed in a post COVID-19 economy.

Despite the rapid acceleration of digital transformation driven by the COVID-19 pandemic, many SMEs risk being left behind. MYOB estimates that nearly **half a million** Australian SMEs have no or very low levels of digitisation and are candidates for further digitisation. It is these businesses that represent Australia's SME digital gap.

MYOB forecasts that closing this gap, by digitising or increasing the level of digitisation of SMEs, could lead to a 1.8 per cent increase in the SME contribution to GDP, or a **\$10.5 billion gain** for the Australian economy.

## SaaS and the digital incentive disconnect

Software as a service (SaaS) – with its compelling alternative to traditional technology delivery models enabling even the smallest of businesses to access state-of-the-art technology – stands ready to provide the digital solutions required.

SaaS products and services are now available across the full spectrum of business processes and operations. From growing revenue to driving innovation; more effective marketing; compliance; workforce management and other operational efficiencies, a multitude of digital solutions are now available to help businesses succeed, all through a scalable subscription model. For SMEs in particular, SaaS provides access to the digital tools and technologies that could become the **foundational infrastructure of Australia's future economy**.

Despite the broad benefits of SME digitisation being well documented, and myriad digital tools now easily accessible to SMEs via a SaaS delivery model, it is the challenge of driving digital technology adoption – particularly across the nearly half a million SMEs MYOB's modelling has identified – that must be overcome.

Unfortunately, the cloud-based nature of SaaS has led to a **disconnect with existing technology investment incentives** for SMEs, and cost remains the biggest barrier to adoption of the digital infrastructure that would empower Australian SMEs to fully participate in, and benefit from the digital economy.

## SaaS rebate: a new digital tax incentive

A new, targeted incentive to stimulate investment in technology solutions provided through a SaaS model is required if we are to successfully empower up to half a million Australian SMEs to close the digital gap.

To this end, MYOB encourages the Australian Government to consider the introduction of a new digital tax incentive in the form of the **SaaS refundable rebate scheme** described in this paper.

MYOB's proposed incentive is a rebate for SMEs on the adoption of new SaaS business products and services, with the rebate amount a function of business size and technology spend, helping to incentivise broad technology adoption and end-to-end digitisation of small business in Australia.

MYOB believes a SaaS rebate for SMEs on new subscriptions to digital infrastructure, tools and services could help all SMEs realise the potential of a digital economy, improving national economic resilience, productivity and growth.

**Empowering e-invoicing**

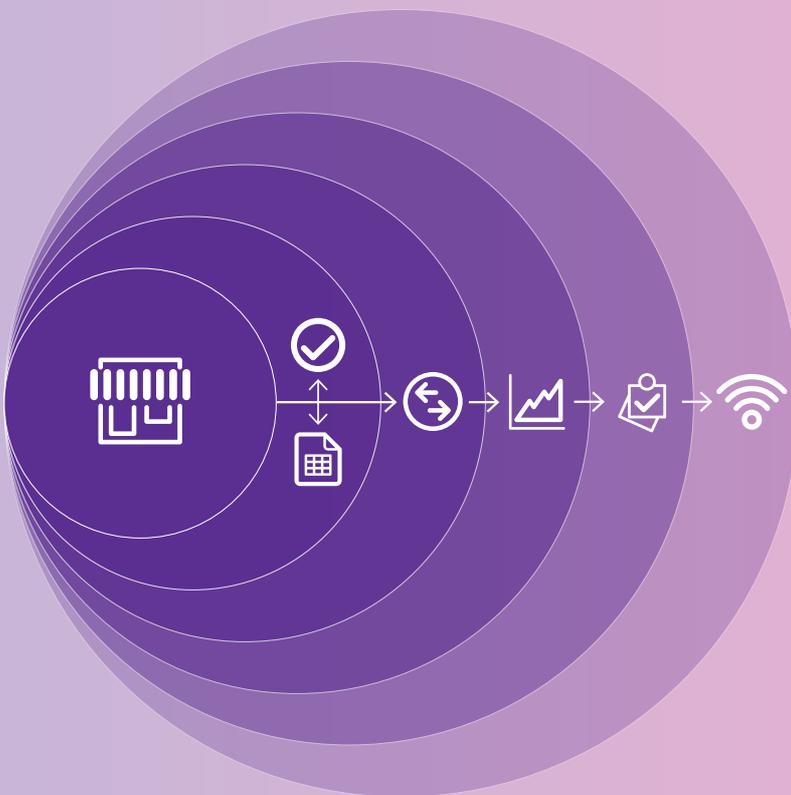
Following mandatory adoption of electronic invoicing (e-invoicing) for all Commonwealth Government agencies, the prudent next step is mandatory e-invoicing for all B2B transactions. A digital tax incentive could offset the cost of adopting the digital platforms required to unlock the **\$23.5 billion**, or \$11,000 per SME annual cost savings e-invoicing could bring.

In this way, the government could implement a digital tax incentive together with mandated e-invoicing in a **two pronged approach**, providing a powerful **push-pull dynamic** on the SME sector to drive widespread digitisation, cost savings and compliance.

Digital tools have proved essential for the continued functioning of business during the COVID-19 pandemic, while also providing the critical infrastructure required for the successful roll-out of the Australian Government’s various stimulus packages.

The unprecedented circumstances created by the COVID-19 pandemic have created a **unique opportunity** to further engage SMEs in the benefits of digitising their business.

MYOB requests that **new, innovative policy** is introduced by the Australian Government to incentivise participation in, and the development of, the digital ecosystem – enabling Australia to realise the Prime Minister’s vision that it become a **leading digital economy** by 2030.



**Australian SMEs:**  
2.29m companies | \$575.6b GDP | 4.8m employees

**Digital tax incentive: SaaS rebate:**  
Enabling adoption of digital platforms

**e-invoicing**  
Mandatory for all B2B transactions

**Outputs:**  
Cost savings, efficiencies, cashflow, transparency, compliance

**Outcomes for SMEs:**  
+\$10.5b growth, +\$11,000 annual savings per SME,  
↑ time for business owner, ↑ productivity per employee

**Economic outcomes:**  
↑ Productivity, resilience, jobs, innovation, tax receipts, growth

**A leading digital economy by 2030**

## 2. Small business and digitisation

### 2.1 The engine room of the Australian economy

Small and medium businesses (SME) – defined by the Australian Bureau of Statistics as those with fewer than 200 employees – are a key driver of the Australian economy. Numbering **2.29 million** at the most recent count, SMEs make up around 95 per cent of Australian businesses, employ 4.8 million workers and contribute an estimated \$575.6 billion in annualised GDP, or 35 per cent of total Australian GDP.<sup>1</sup>

Moreover, SMEs are ubiquitous across Australia, representing every private industry and demographic. From a family-owned business that sits at the heart of its local community, to an innovative startup with major growth ambitions, SMEs have long been at the centre of Australian society and prosperity.

Many SMEs, however, risk being left behind by technological change. A recent Venture Insights report found 39 per cent of SMEs are failing to grasp opportunities offered by new technologies and 31 per cent are struggling to keep up with technological changes deemed critical to their success.<sup>2</sup> In an increasingly digital global economy, in which B2B customers regard digitally enabled sales channels as being twice as important to their customers as traditional sales channels,<sup>3</sup> it is imperative that every effort is made to enable Australia's SMEs to adopt the digital technologies that would allow them to survive and succeed in a post COVID-19 economy.



## SMEs and the Australian economy<sup>1</sup>

**2,288,177** the number of Australian companies with < 200 employees (SMEs)

**\$575.6b** estimated annualised GDP of Australian SMEs

**35%** estimated SME share of Australian GDP

**4,799,910** number of Australian's employed by SMEs

### 2.2 Small business and the digital gap

The digitisation of business can be thought of as the development of a digital business ecosystem, in which digitally enabled businesses benefit from connectivity; digitally skilled staff; the use of digital technologies and services; the use of electronic data, information exchange and cloud-based services and platforms; and the ability to interact digitally with all levels of government.

<sup>1</sup> Counts of Australian Businesses, Australian Bureau of Statistics, Feb 2021

<sup>2</sup> Technology and connectivity critical for Australian SMEs. Venture Insights. July 2020

<sup>3</sup> The B2B digital inflection point: How sales have changed during COVID-19. Mckinsey. April 2020



## Australian SMEs and the digital gap



**34%**

do not have an online presence<sup>11</sup>



**24%**

only have a business website<sup>11</sup>



**41%**

have no accounting software<sup>9</sup>



**87%**

not taking full advantage of digital tools<sup>8</sup>



**31%**

are struggling to keep up with technological changes critical to their success<sup>2</sup>



**85%**

were unprepared for the disruption caused by COVID-19<sup>2</sup>

Increased levels of digitisation have been strongly associated with numerous benefits, including economic resilience; lower emissions; health and welfare; innovation; improved productivity; and economic growth. Deloitte Access Economics research has shown that the adoption of digital technologies across the Australian economy contributed over \$104 billion in the decade to 2014, or a contribution to steady-state GDP per capita growth of approximately 5.8 per cent on average.<sup>4</sup>

Recent analysis by EY and the Business Council of Australia illustrates the ongoing economic opportunity of digitisation for Australia, finding that accelerating the transition to a digital economy – by providing tax incentives for digital adoption; regulatory reform; and improving digital skill sets – could provide a \$210 billion return for the economy and a \$41-56 billion increase in tax revenue over the next 20 years.<sup>5</sup>

At a company level, the use of digital tools has become a key driver of success. Digitally advanced SMEs, when compared with SMEs with only basic digital engagement, were found to be 50 per cent more likely to grow their revenue and earn 60 per cent more revenue per employee,<sup>6</sup> as well as 8 times more likely to be creating jobs and 14 times more likely to be offering new products or services.<sup>7</sup>

Digital technologies could help Australian SMEs across all operational aspects of their business; from generating revenue to managing staff; suppliers; work in progress; cashflow; and compliance – driving efficiency and productivity. In addition, increased digitisation provides transparency and insight across the business, improving accuracy and informing decision making and strategy.

<sup>4</sup> Qu et al. How do digital technologies drive economic growth? Economic Record, Vol 93, Issue S1 2017.

<sup>5</sup> Making Australia a world-leading digital economy, Ernst and Young. April 2021.

<sup>6</sup> Connected Small Business 2017, Deloitte Access Economics

<sup>7</sup> Connected Small Business 2016, Deloitte Access Economics

Despite these advantages, Australian SMEs have been slow to digitise. A 2017 survey found 87 per cent of Australian SMEs were not taking full advantage of digital tools.<sup>8</sup> More recent research conducted by MYOB in the wake of the pandemic indicates that of Australian SMEs, 41 per cent have no accounting software<sup>9</sup> and only 14 per cent use online tools or apps to manage staff rostering and work allocation,<sup>10</sup> while 34 per cent still do not have an online presence.<sup>11</sup> Perhaps unsurprisingly, 85 per cent of SMEs admit to being unprepared for the disruption caused by the COVID-19 pandemic.<sup>12</sup>

Within the SME sector, MYOB estimates that there are nearly half a million (466,062) SMEs that have no or very low digitisation of their business processes, with 79,458 of these businesses in the construction sector alone.<sup>13</sup> It is these companies that represent Australia's SME digital gap. In a COVID-19 normal operating environment, it is also these companies that are most at risk of being left behind and even failure.

'MYOB estimates that there are **nearly half a million (466,062) SMEs that can further digitise their business processes.** It is these companies that represent Australia's SME digital gap.'

## Australian industry snapshot: Construction

- 390,000 SMEs
- 79,458 SMEs with no or low digitisation
- Plays a central role in local economies across the nation
- Strong interaction with government and big business
- Large contributor to underground production in the black economy
- High opportunity sector for increased digitisation<sup>13,14</sup>

## Australian industry snapshot: Manufacturing

- 84,139 SMEs
- 17,122 SMEs with no or low digitisation
- Supplier to large business and an important source of exports
- Digital tools will drive competitiveness in a global marketplace
- Digitisation aligns with Australian Government's Modern Manufacturing Strategy
- Local manufacturing key for national economic sovereignty and Australia's economic recovery

<sup>8</sup> Connected Small Business 2017, Deloitte Access Economics

<sup>9</sup> MYOB Brand Monitor March 2020

<sup>10</sup> MYOB Business Monitor June 2021

<sup>11</sup> MYOB Business Monitor December 2020

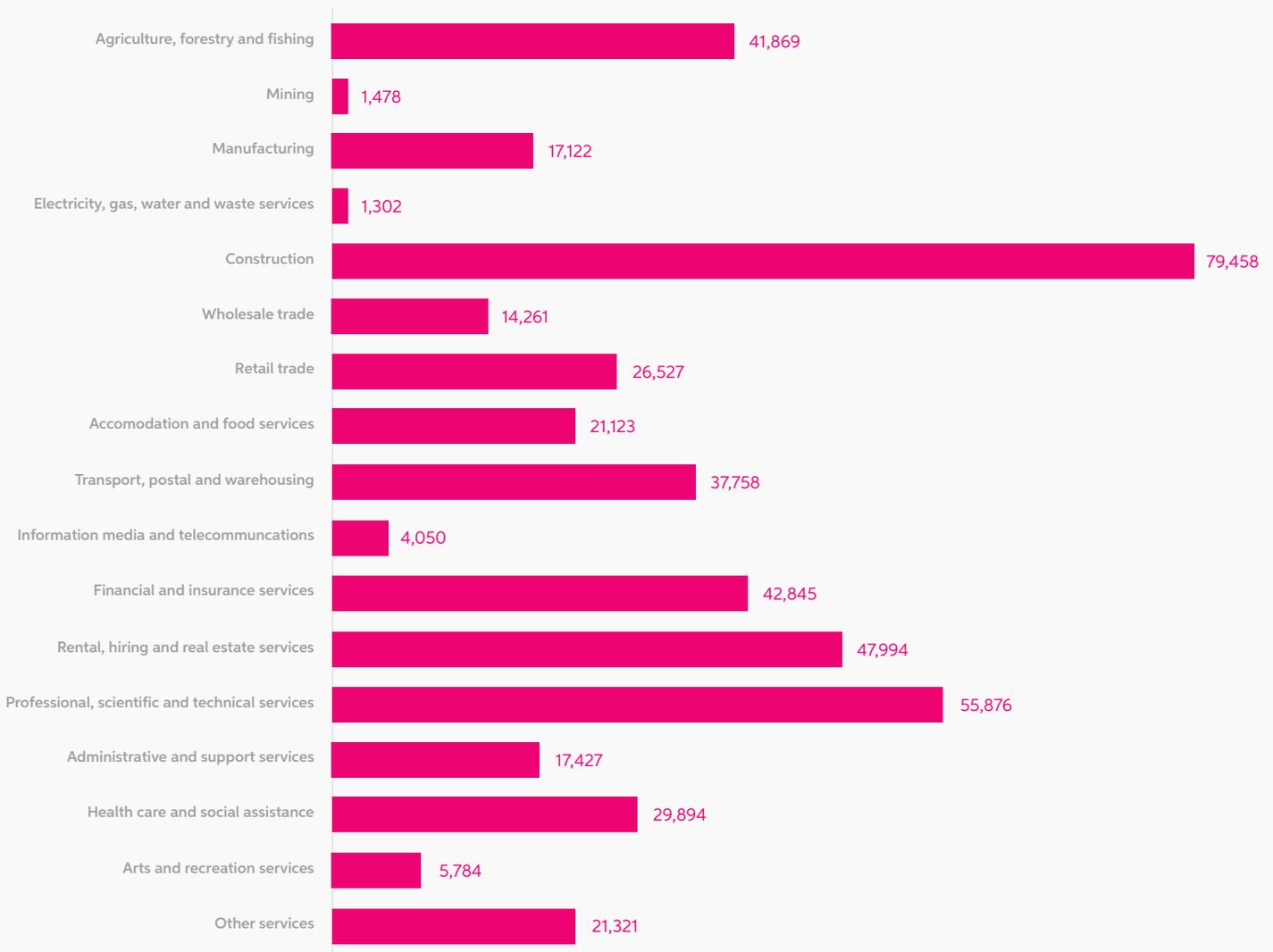
<sup>12</sup> MYOB Business Monitor – COVID Edition June 2020

<sup>13</sup> MYOB forecast based on SMEs, with no or low levels of digitisation, digitising or further digitising: Accounting; Production & Services Operation; Invoicing; Stock Control; Marketing; Human Resources (including Payroll); and Business Planning processes. SMEs are defined as < 200 employees. Growth comes from 100% of SMEs with low or moderate levels of digitisation, in addition to 50% of SMEs with no digitisation. This equates to a net of 36.6% of all SMEs (varying between 35.8% - 47.9% of SMEs depending on industry). Excludes Financial & Insurance Services; Public Administration & Safety; and Education and Training (due to insufficient data). Assumes a productivity-related revenue uplift of 9% based on international benchmark.

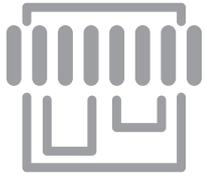
<sup>14</sup> Making Australia a world-leading digital economy, Ernst and Young. April 2021.



# The gap: number of Australian SMEs who may digitise<sup>13</sup>



Total: 466,092



The gap:

**466,062**

Aussie SMEs have no or very low digitisation<sup>13</sup>

MYOB forecasts that digitising or increasing the level of digitisation of these SMEs across the core business processes of revenue generation and the management of suppliers; staff; work in progress; cashflow; and compliance, would lead to a 1.8 per cent increase in SME GDP. That equates to a 0.6% increase in Australian GDP, or a \$10.5 billion gain for the Australian economy.<sup>15</sup>

For many SMEs, the adoption of digital tools and processes could be essential to their future survival and success. For a recovering Australian economy, a potential \$10.5 billion reward makes closing the SME digital gap an economic imperative.

Closing the Australian SME digital gap could also have broader benefits across the economy. A strong and growing digital ecosystem would drive innovation, the development of new products and services and the continued creation of successful Australian technology companies that service the SME sector.

The transparent and data rich reporting that digitisation provides would drive greater oversight of SMEs, reducing administrative costs in the public sector and improving the knowledge base upon which future policy settings will be built. Moreover, the digitisation of SME invoicing, payments, compliance and reporting could be a key tool in combating a persistent and growing black economy.<sup>16</sup>

Estimated to be worth up to 3 per cent of GDP, or over \$50 billion,<sup>17</sup> Australia's black economy not only materially reduces tax revenue and increases welfare costs, but detracts from the fabric of Australian society; facilitating criminal groups, exploiting workers and increasing the burden on law abiding Australian taxpayers.

The Australian Government has long stated its aim to counter the black economy; clawing back tax revenue, reducing crime and promoting a more equitable society. To this end, robust tools that digitise invoicing, transactions and compliance could act as powerful drivers of transparent and accurate reporting.

*'For a recovering Australian economy, a **potential \$10.5 billion reward makes closing the SME digital gap an economic imperative.**'*

**Closing the digital gap for Aussie SMEs would generate:<sup>15</sup>**

**+1.8%**  
in SME GDP

**+\$10.5b**  
in SME GDP

**+0.6%**  
in Australian GDP

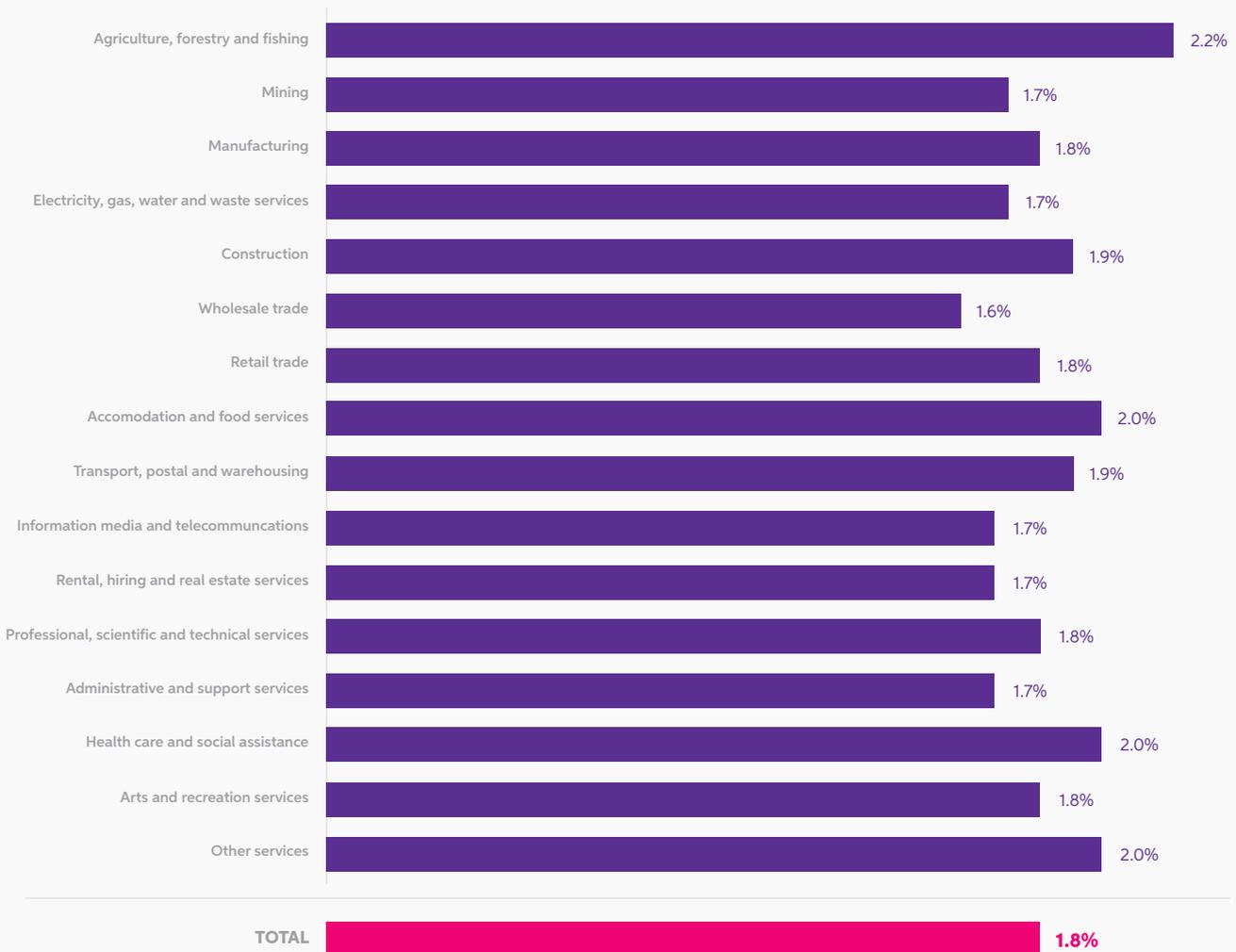
<sup>15</sup> MYOB forecast based on SMEs, with no or low levels of digitisation, digitising or further digitising: Accounting; Production & Services Operation; Invoicing; Stock Control; Marketing; Human Resources (including Payroll); and Business Planning processes. SMEs are defined as < 200 employees. Growth comes from 100% of SMEs with low or moderate levels of digitisation, in addition to 50% of SMEs with no digitisation. This equates to a net of 36.6% of all SMEs (varying between 35.8% - 47.9% of SMEs depending on industry). Excludes Financial & Insurance Services; Public Administration & Safety; and Education and Training (due to insufficient data). Assumes a productivity-related revenue uplift of 9% based on international benchmark.

<sup>16</sup> Black Economy Taskforce, Final Report, October 2017

<sup>17</sup> Black Economy Taskforce, Final Report, October 2017



## Forecast growth in SME GDP with digitisation<sup>15</sup>



### 2.3 SaaS: driving the digitisation of small business

Software as a service (SaaS) provides a compelling alternative to the traditional software model. In place of building servers and installing and configuring applications, SaaS enables businesses to access a vendor's cloud-based software remotely through the web or an API. A simple, usage based monthly or annual subscription replaces large upfront capital investment in both hardware and software, plus the ongoing maintenance costs and financial risk associated with a rapidly aging and depreciating technology asset.

SMEs are particularly well suited to cloud-based SaaS products and services. Even the most sophisticated of software offerings are now accessed by the smallest of businesses through a SaaS delivery model, a scenario previously prohibited by the high hardware and licensing costs of traditional technology acquisition. User licenses, computational power, storage requirements and software functionality are simply scaled with the business as it grows, while maintenance costs, regular upgrades and cybersecurity are managed directly by the vendor.

What's more, the increasing ease of use of most SaaS, with intuitive interfaces, sophisticated guides, best practice examples and advanced customer support, make digital tools accessible to SME owners and employees with limited previous digital experience or training.

Although some businesses are mindful of security concerns regarding their data being stored in the cloud,<sup>18</sup> research has shown on-premise sites are three times more likely to be subject to cyberattacks than cloud providers.<sup>19</sup> Most businesses, and particularly SMEs, lack the in-house knowledge to maintain secure digital systems. For leading cloud providers, technology and data security are their core business. An ever increasing cybersecurity threat and rise in fraudulent online activity make the best practice security features of leading SaaS providers all the more critical.

Almost 10 per cent of all technology spending is now in the cloud,<sup>20</sup> with this figure expected to rise further as more and more software products become hosted in the cloud and delivered through a SaaS model. For SMEs in particular, SaaS looks set to become the predominant delivery model of digital tools and technologies.

SaaS products and services are now available across the full spectrum of business processes and operations. From driving innovation, to more effective marketing, workforce and customer relationship management, a multitude of digital solutions could help businesses grow. For example, digitally enabled SMEs have been found to be 14 times more likely to develop new products and services,<sup>21</sup> while businesses that use customer relationship management software have been found to generate 32 per cent more leads and 26 per cent more deals.<sup>22</sup> Businesses with advanced levels of digitisation are not only more likely to grow, but are also 7 times more likely to export their products or services.<sup>23</sup>

Poor cashflow is responsible for 90 per cent of SME failure, with late payments locking up \$19 billion of capital from Australian businesses every year.<sup>24</sup> E-invoicing reduces the cost of processing an invoice by up to 70 per cent,<sup>25</sup> while digital payment systems enable faster payment times and improved cashflow for digitised SMEs. Moreover, digital accounting tools enable improved access to additional capital with pre-approval for loans with credit partners via in-product data analysis.

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**'Even the most sophisticated of software offerings can be accessed by the smallest of businesses through a SaaS delivery model.'**

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**'An ever increasing cybersecurity threat and rise in fraudulent online activity make SaaS take up even more critical'**

<sup>18</sup> Deloitte Access Economics analysis based on Dynata survey data (2019)

<sup>19</sup> SaaS vs On-Premise. Beyond Software.

<sup>20</sup> Blue Sky Thinking. The Economist, 24 October 2020, p11

<sup>21</sup> Connected Small Business 2017, Deloitte Access Economics

<sup>22</sup> Salesforce digital SMEs. Deloitte Access Economics. 2018

<sup>23</sup> Connected Small Business 2017, Deloitte Access Economics

<sup>24</sup> ScotPac Business Finance. The true cost of late payments. March 2020

<sup>25</sup> E-invoicing for business. Australian Taxation Office.

In addition to growing revenue and reducing costs, SaaS is an invaluable tool for SMEs to save time. For accounting software alone, MYOB product research demonstrates that by automating processes and improving accuracy and reporting, SMEs reduced the time required to manage compliance by 27 per cent.

Perhaps most strikingly, digital tools have proved essential for the continued functioning of business during the COVID-19 pandemic. Online and cloud based working tools have not only kept staff engaged and productive in unprecedented circumstances, but enabled remote workers to drive productivity and growth.

Building upon this momentum, digital solutions could further drive productivity gains across the workforce, enabling businesses to break down traditional geographic and gender barriers to engage a greater diversity of talent from across workforce demographics. This includes workers from rural and regional Australia, as well as those requiring more flexible working arrangements due to parenting or caring responsibilities.

Similarly, digital solutions, in conjunction with robust rural digital infrastructure and connectivity, could enable a partial decoupling of geographic location and industry. This could serve to improve economic resilience, particularly in regional areas where local economies remain highly exposed to downturns in individual industry sectors.

Despite these advantages, recent MYOB research has found that only half of SMEs are using cloud-based software to manage cashflow and tax, falling to 46 per cent for compliance; 40 per cent for work-in-progress; 38 per cent for managing people; and 37 per cent for growth or marketing.<sup>26</sup> Therefore, across these six core business processes, between half to two thirds of SMEs are yet to reap the benefits of digitisation.

## 2.4 Towards a fully digital small business sector

With the broad benefits of digitisation for SMEs and the Australian economy clear, and myriad digital tools now easily accessible via SaaS, removing any remaining barriers to closing the digital gap is the obvious next step.

The Australian Government should be commended for its \$800 million investment in its digital business plan as part of the 2020 Federal Budget. Initiatives such as the Digital Identity system and Modernising Business Registers program help remove out-dated regulatory barriers and provide important foundational building blocks for Australia's digital business ecosystem.

Furthermore, the \$19.2 million committed to expand the Australian Small Business Advisory Services – Digital Solutions program will help improve digital literacy and skills in the SME sector, which following cost and time, are the most common barriers to digital engagement.<sup>27</sup>

Ongoing initiatives that help to educate Australian SMEs on the advantages of digitising their business will continue to play a crucial role in driving digital engagement. In particular, promoting a shift in perspective from digital tools as discrete solutions for individual business problems, to a holistic view of digital transformation that drives an end-to-end digitisation of business processes, represents a significant opportunity for improved productivity and growth within the SME sector.

Digital literacy and training initiatives, however, do not address the biggest barrier to SME digitisation – cost. Despite the benefits of digital tools, ease of adoption and the mitigation of upfront capital requirements and risk provided by the SaaS model, cost and time remain the biggest barriers to SMEs utilising more digital tools.<sup>28</sup> Clearly, for the 466,062 Australian SMEs that have no or very low digitisation, a more direct incentive is needed.

<sup>26</sup> MYOB Business Monitor. June 2021

<sup>27</sup> Deloitte Access Economics analysis based on Dynata survey data (2019)

<sup>28</sup> MYOB Business Monitor. June 2021

Small businesses currently invest less than 1 per cent of revenue in all digital technology, with an average spend of \$5,000 per annum.<sup>29</sup> Given the minimal upfront cost of subscribing to SaaS solutions, a relatively small incentive for SMEs has the potential to unlock significant proven growth opportunities, both for small business and the Australian economy more broadly.

## 2.4.1 The digital incentive landscape

Tax incentives have proven to be a highly effective way of driving private sector investment. The Australian Government's instant asset write-off and backing business investment – accelerated depreciation schemes have stimulated private sector investment across a range of industries and asset types. Australian businesses, and particularly SMEs, however, no longer need to invest capital in servers, software licenses, high performance computers and other physical assets. As such, existing incentive schemes are not applicable to the cloud-based digital technologies that should be the foundational infrastructure of Australian business.

Similarly, the research and development tax incentive has played a critical role in incentivising private sector R&D activities across Australia. MYOB supports the expansion of the R&D tax incentive for software development, or the Senate Select Committee on Australia as a Technology and Financial Centre's recommendation that a separate software-specific R&D tax incentive scheme is established.<sup>30</sup> However, while such measures would provide significant support to the further development of leading Australian technology companies and products that service Australian SMEs, they would not directly assist in the challenge of driving digital adoption amongst the SME sector.

Grants, such as the Small Business Digital Champions scheme, offer an alternative stimulus mechanism to a tax incentive. Such programs are important to provide best practice examples of digital transformation and to assist in broader digital literacy and engagement.

The nature of such schemes, however, mean they are inherently limited in scale. In addition, grant schemes often prove challenging to administer, including monitoring compliance, ensuring investment is targeted effectively and measuring the return on investment for the taxpayer. Furthermore, the same poor digital literacy and engagement that the grant is targeting may lead to limited awareness amongst small businesses on availability and eligibility.

A new, targeted and scalable solution to stimulate investment in technology solutions provided through a SaaS model is required if we are to successfully digitise and grow businesses across the full spectrum of small and medium business in Australia.

**'Existing incentive schemes are *not applicable to the cloud-based digital technologies* that should be the foundational infrastructure of Australian business.'**

<sup>29</sup> Riding the Digital Wave: Report on COVID-19 Trends and Forward Work Program. The Australian Broadband Advisory Council. Nov 2020.

<sup>30</sup> Select Committee on Australia as a Technology and Financial Centre. Second interim report. April 2021

## 2.4.2 The post COVID-19 opportunity

The COVID-19 pandemic has acted as a dramatic catalyst for the global digitisation of business, with consumer and business digital adoption vaulting five years forward in a matter of just eight weeks.<sup>31</sup> MYOB's research found that 46 per cent of Australian SMEs moved more of their business online when the pandemic hit, while 85% of small businesses that moved online during the pandemic say this was the reason their business stayed afloat.<sup>28</sup>

As well as being critical to the continuation of business during a global pandemic, digital infrastructure proved critical to the rapid and successful roll out of the Australian Government's economic stimulus packages, such as JobKeeper and the cashflow boost for small and medium enterprises, that provided a lifeline to SMEs during the COVID-19 pandemic. With those schemes now ended, and with the Australian economy moving strongly into a phase of recovery and economic growth,<sup>32</sup> we believe the time is right to continue to invest in the growth opportunities of the digital transformation of SMEs across Australia.

In November 2019, the Australian Prime Minister announced the government's intention to help make Australia a leading digital economy by 2030. The relative success of Australia's handling of the COVID-19 health crisis and the impact of the various economic stimulus measures enacted, make Australia well placed to reach its goal as a global digital leader ahead of time. The economic recovery post COVID-19 provides a unique opportunity to harness this momentum, promoting end-to-end adoption of digital solutions across SMEs, boosting productivity, job creation and economic resilience.

There is no doubt the world is digitising, accelerated by the COVID-19 pandemic. However, the pandemic did not close the digital gap and small business risks being left behind. We believe that further support – in the form of a tax incentive to adopt software solutions across a range of business processes – could provide the impetus required for the up to half a million Australian SMEs that are yet to benefit from the digital economy.

*'The economic recovery post COVID-19 provides a unique opportunity to harness this momentum, promoting end-to-end adoption of digital solutions across SMEs, boosting productivity, job creation and economic resilience.'*

## 3. A digital adoption incentive

MYOB believes a digital adoption tax incentive scheme, designed specifically to drive the uptake of business management software, could materially enhance the adoption of digital technology by SMEs. MYOB encourages the Australian Government to consider the introduction of an incentive program designed to help SMEs implement the digital solutions that could improve their resilience, productivity and growth, post COVID-19.

<sup>31</sup> The COVID-19 recovery will be digital: A plan for the first 90 days, McKinsey Digital. May 2020

<sup>32</sup> World Economic Outlook, International Monetary Fund. April 2021

### 3.1 A SaaS rebate framework

MYOB proposes a new digital adoption tax incentive scheme in the form of a refundable rebate for SMEs on new SaaS subscriptions. The incentive would provide businesses with 0-199 employees with a refundable rebate on the first year of their annual spend on new SaaS subscriptions. A tiered incentive structure, as described below, in which the rebate received is a function of business size and annual spend on new SaaS products and services, could promote broad SaaS adoption and the end-to-end digitisation of small business.

The proposed digital adoption tax incentive scheme would be limited to the first twelve months of *new* SaaS subscriptions only. It would not provide an ongoing subsidy for SaaS use. As such, the scheme would be highly targeted towards driving new SaaS adoption by overcoming the initial cost barrier, providing a window for the SME to experience the benefits of the software and the government with a strong return on their investment.

## A digital adoption tax incentive: a SaaS rebate framework

Digital incentive tax rebate as a function of business size and annual SaaS spend

		 Annual spend on new SaaS (\$)		
		0 - \$499	\$500 - \$1,999	\$2,000+
 Business size (employees)	Sole trader and micro (0-4)	25%	30%	40%
	Small (5-19)	20%	25%	30%
	Medium (20-199)	10%	20%	25%

Following the end of the first twelve month subscription period, the SME would no longer be eligible for a rebate on that SaaS product or service. SaaS products and services must therefore stand on their own merits if SMEs are to continue the new engagement beyond the first twelve months. This approach helps to prevent any price inflation that could be caused by an ongoing rebate, and to ensure strong competition amongst SaaS providers on price, customer service and product features.

Rather than limiting the rebate's eligibility to a pre-approved list of providers or technologies, we propose that all business SaaS products should be eligible for the rebate. This could help foster competition and innovation amongst technology providers and avoid limiting the scope of future SaaS solutions, promoting the development of new SaaS offerings and growth in the technology sector.

Expanding the number of digital tools businesses use has been found to help businesses think about digital solutions holistically and develop business strategies that incorporate digital technologies.<sup>33</sup> In this way, digital engagement promotes further digital engagement. By incentivising the adoption of new SaaS products and services across all business processes and operations, SMEs could be encouraged to transition from a business that utilises one or two digital tools with a narrow scope to becoming a fully integrated digital business.<sup>34</sup>

A tax rebate scheme represents the broadest possible incentive approach, incorporating all SMEs in Australia and promoting widespread adoption across industries and SME sizes. A tax rebate scheme is also more targeted and more transparent than grants or other alternatives, while the ubiquity of tax returns across all SMEs could help empower accountants and other trusted advisors to drive digital literacy and engagement within the small business sector, further encouraging adoption.

A tax rebate scheme enables the Australian Government to leverage the existing infrastructure of the Australian Taxation Office for the purpose of incentivising digital adoption amongst SMEs. This could enable increased automation and improved compliance, helping to minimise the administrative burden of introducing a digital incentive.

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**'Digital engagement  
drives further digital  
engagement.'**

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**'A tax rebate scheme  
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drive digital literacy and  
engagement.'**

<sup>33</sup> Strategy, not technology, drives digital transformation. MIT Sloan 2015.

<sup>34</sup> Connected Small Business 2016, Deloitte Access Economics

## Closing the gap: the ROI for Australia



If all **466,062 SMEs** estimated to have no or low digitisation were to further digitise their businesses, including subscribing to new SaaS products and services, the total estimated **cost** to Government would be **\$419.4 million<sup>35</sup>**, unlocking a potential **\$10.5 billion benefit** to the Australian economy.<sup>15</sup>

In much the same way that the private health insurance rebate encourages the uptake of private health insurance, reducing the burden on the Medicare system and taxpayers, a SME SaaS rebate could help to drive digitisation of small business, boosting productivity and economic growth, building economic resilience and increasing tax receipts.

Given the unique set of economic circumstances created by COVID-19 and the digital transformation momentum the pandemic has generated, we encourage a digital incentive to be introduced in the 2023 financial year, with the first rebates to take effect from 1 July 2022. To improve the cashflow benefits of the rebate scheme, additional consideration should be given to SMEs that pay PAYG quarterly to have their rebate applied against each instalment.

We estimate that if all 466,062 SMEs considered able to further digitise were to take advantage of a SaaS tax incentive, the approximate cost to Government would be \$419 million,<sup>35</sup> with a potential benefit of \$10.5 billion to the Australian economy.<sup>36</sup>



**For every dollar spent digitising Aussie SMEs, the Australian economy can generate an extra \$25.<sup>15,35</sup>**

<sup>35</sup> Assumes an average spend of \$3,000 per SME on new SaaS with an average rebate of 30%

<sup>36</sup> MYOB forecast based on SMEs, with no or low levels of digitisation, digitising or further digitising Accounting; Production & Services Operation; Invoicing; Stock Control; Marketing; Human Resources (including Payroll); and Business Planning processes. SMEs are defined as < 200 employees. Growth comes from 100% of SMEs with low or moderate levels of digitisation, in addition to 50% of SMEs with no digitisation. This equates to a net of 36.6% of all SMEs (varying between 35.8% - 47.9% of SMEs depending on industry). Excludes Financial & Insurance Services; Public Administration & Safety; and Education and Training (due to insufficient data). Assumes a productivity-related revenue uplift of 9% based on international benchmark.

## 4. E-invoicing for SMEs

E-invoicing has clearly established itself as the most efficient, accurate and secure way for businesses to deal with their suppliers and customers. By removing the manual generation and handling of invoices, invoice processing costs have been shown to reduce from \$30.87 for paper invoices and \$27.67 for PDF invoices, to just \$9.18 per e-invoice.<sup>37</sup> With over 1.2 billion invoices exchanged in Australia every year,<sup>38</sup> MYOB predicts the adoption of e-invoicing could deliver an annual cost saving of \$23.5 billion for the economy and an average of over \$11,000 per SME each year.

As well as dramatically reducing administrative costs, e-invoices lead to reduced errors and faster payment times, improving critical access to working capital for Australian businesses – particularly the 43 per cent of SMEs that cite cashflow as a source of either a lot of, or extreme pressure.<sup>39</sup>

E-invoices also represent a much more secure exchange of information than email, reducing the risk of scams and ransomware attacks, while built-in databases and secure authentication procedures for both transacting parties reduce cybersecurity threats and fraud.

Furthermore, e-invoicing provides significant compliance benefits, enabling accurate tax treatments to flow through all payments from a trusted source of truth, saving accounting time and cost and improving accuracy and reporting.

Given these benefits, MYOB believes that mandated B2B e-invoicing represents the single most important legislative opportunity for accelerating the digitisation of the Australian economy.

The Australian Government should be commended for the \$3.6 million committed in the 2020/21 budget towards mandating the adoption of electronic invoicing for all Commonwealth Government agencies.<sup>40</sup> Following this first step, and with SMEs poised to benefit most from e-invoicing, we believe the time is right for the government to go further and mandate the use of e-invoicing across all B2B transactions.

Precedent for mandatory e-invoicing comes from international jurisdictions such as Italy and Brazil, where the benefits of improved administrative efficiency, accuracy and security are already being realised.

**‘MYOB predicts the adoption of e-invoicing will deliver a cost saving of \$23.5 billion for the economy and over \$11,000 per SME each year.’**

<sup>36</sup> Australian Taxation Office. E-invoicing for businesses

<sup>37</sup> Australian Taxation Office. E-invoicing for businesses

<sup>38</sup> Australian Taxation Office. E-invoicing for businesses

<sup>39</sup> MYOB Business Monitor June 2020

<sup>40</sup> Digital business plan to drive Australia’s economic recovery. 29 Sep 2020

Furthermore, internationally proven standards and frameworks, as well as sophisticated local Australian technology providers, stand ready to empower Australian SMEs to embrace e-invoicing.

MYOB research has found strong literacy and support for e-invoicing amongst SMEs, with 38% of respondents to an MYOB survey believing e-invoicing would save them the equivalent of a working week in time each year.

In mandating the use of B2B e-invoices, however, we must be wary of subjecting SMEs, many of whom are still recovering from the effects of the COVID-19 pandemic, to an increased regulatory burden. Many SMEs may need both time and support to adopt the digital platforms that could enable exclusive use of e-invoicing across all B2B transactions.

To ease this cost burden on SMEs, a digital adoption tax incentive, such as the SaaS rebate proposed in this paper, could help SMEs offset the required investment in foundational digital infrastructure and unlock the \$23.5 billion annual cost savings e-invoicing could deliver.

Together, the combination of mandated B2B e-invoicing with a digital adoption tax incentive could provide a powerful push-pull dynamic, driving widespread digitisation of business and enabling Australian SMEs to take full advantage of the benefits of the digital economy.

## 5. Conclusion

MYOB believes a digital adoption tax incentive could help SMEs overcome the key cost barrier to digital engagement, materially enhancing the adoption of digital technology solutions and closing the digital gap for up to half a million Australian SMEs.

MYOB encourages the Australian Government to consider the introduction of a new digital adoption tax incentive, in the form of the SaaS rebate scheme described in this paper. A SaaS rebate for SMEs, aimed at new subscriptions to digital infrastructure, tools and services, could drive the digitisation of small business in Australia, helping all SMEs unlock the potential of a fully digital economy and improving national economic resilience, productivity and growth.

A digital tax incentive could also offset the cost of adopting the digital platforms required to unlock the \$23.5 billion, or \$11,000 per SME annual cost savings e-invoicing could bring, while mandating the use of e-invoicing across all B2B transactions could drive further adoption of digital platforms and tools.

In this way, the government could implement a digital tax incentive together with mandated e-invoicing in a two-pronged approach, providing a powerful push-pull dynamic on the SME sector to drive widespread digitisation.

MYOB recommends that these new and innovative steps are taken by the Australian Government to incentivise participation in, and the development of, the digital ecosystem – enabling Australia to realise the Prime Minister's vision that it become a leading digital economy by 2030.

***'The combination of mandated B2B e-invoicing with a digital adoption tax incentive can provide a powerful push-pull dynamic, driving widespread digitisation and enabling Australian SMEs to take full advantage of the benefits of the digital economy.'***

## 6. About MYOB

MYOB is a leading business platform with a core purpose of helping more businesses in Australia and New Zealand start, survive and succeed.

MYOB delivers end-to-end business, financial and accounting solutions direct to businesses employing between 0 and 1000 employees, alongside a network of accountants, bookkeepers and consultants.

For more information visit [myob.com](https://myob.com) or follow @MYOB on Twitter.



**Closing the digital gap: an incentive for SMEs**

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