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Sales Tax E-invoicing Feasibility Study – Qualitative Research

Executive Summary

Prepared for the Canada Revenue Agency

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Canada

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Prepared for the Canada Revenue Agency by Sage Research Corporation

May 2021

The Canada Revenue Agency (CRA) commissioned Sage Research Corporation to conduct a qualitative public opinion research study with small and medium size businesses regarding e-invoicing. The CRA will use this research to inform the assessment of feasibility for the adoption of an e-invoicing policy measure for standardized e-invoicing for Canadian markets.

Ten online focus groups were conducted between April 22 and May 5, 2021, with two groups in each of the following regions: East, Quebec, Ontario, Prairies, and B.C. Five focus groups were conducted with Small Businesses and five with Medium Business.

Cette publication est aussi disponible en français sous le titre : Étude de faisabilité sur la facturation électronique de la taxe de vente – Recherche qualitative

Executive Summary

The Compliance Programs Branch of the Canada Revenue Agency (CRA) has launched a multi-year initiative to examine the feasibility of adopting e-invoicing standards and technology that integrates with our tax system. Electronic invoicing (e-Invoicing) refers to the automated exchange and processing of invoice-related data between suppliers and buyers in a structured electronic format. It encompasses the transmission of data from the supplier in a manner that can be integrated into the buyer's Accounts Payable (AP) system without requiring data input from the buyer's AP administrator. E-invoicing is regarded as an integral part of efficient financial supply chain management, optimizing the end-to-end process of Business-to-Business (B2B) and Business-to-Government (B2G) transactions, linking the internal enterprise processes to payment systems.

The focus of the CRA's E-invoicing Initiative is to evaluate how e-invoicing can benefit businesses through efficiencies, as well as to improve sales tax compliance, deter participation in the underground economy, and improve the taxpayer experience. It aims to advance thinking as to how the CRA can shift the focus of its compliance approach from relying on taxpayer completed tax returns and post-filing strategies to include the use of real-time/near-real-time data from business transactions via modern technologies.

The objectives of this research were to:
- Better understand current invoicing practices among SMEs including sending, receiving, reporting and archiving invoices
- Gauge awareness and knowledge of e-invoicing
- Provide insight about perceived challenges and benefits of e-invoicing technology and standards
- Gauge level of interest in adopting e-invoicing among SMEs
- Help identify ways of supporting business to adopt e-invoicing

Results from the research will inform the assessment of feasibility for the adoption of an e-invoicing policy measure for standardized e-invoicing for Canadian markets, including providing input:
- For the feasibility assessment, the concept case, recommended model and interoperability framework
- The stakeholder engagement plan, and addressing the challenges of this technology for SMEs and the benefits

Ten two-hour online focus groups were conducted between April 22 and May 5, 2021, with two groups in each of the following regions: East, Quebec, Ontario, Prairies and B.C. The target group was small (less than 10 employees) and medium (10 to 249 employees) businesses. To qualify, the business had to send 20 or more invoices per year or receive 20 or more invoices per year. There were four to seven participants in each group, for a total of 59 participants. Participants were paid an honorarium of $175.

This research was qualitative in nature, not quantitative. As such, the results provide an indication of participants' views about the topics explored, but cannot be statistically generalized to represent the full population. Qualitative research does, however, produce a richness and depth of response

not readily available through other methods of research. It is the insight and direction provided by qualitative research that makes it an appropriate tool for exploring participants' knowledge and opinions with respect to e-invoicing.

Key Findings

Creating, Sending and Receiving Invoices

None of the participants used e-invoicing in the sense explored in this research (i.e. electronic data interchange between a buyer's accounting system and a seller's accounting system).

The number of invoices sent and received varied widely across participants. The numbers sent/received tended to be substantially smaller for small business participants compared to medium business participants, although there was some overlap in the ranges.

The use of email for sending and receiving invoices was widespread and extensive. Quite often the invoice is an attachment to the email, but it may also be in the form of a link which also gives the recipient an option to pay.

Mailed invoices are relatively uncommon, and none of the participants send or receive the majority of invoices via mail. This suggests that communication about e-invoicing should focus more on comparisons to emailing invoices than to mailing invoices.

Paper invoices may accompany delivery of goods, although this is not always the case. Sometimes only a tracking slip accompanies the delivery and the invoice is sent separately by email. There can also be paper invoices or receipts from goods purchased from local retailers.

There were two mechanisms used by some participants for direct entry of invoice data into a buyer's accounting system: (1) some participants had large companies as customers who required invoices to be entered in an online portal, and one participant appeared to use a portal to receive invoices; (2) several participants used a third-party service to scan invoices and transmit the data into their accounting system.

The most time-consuming phase of sending an invoice is compiling the data driving the invoice amount and content. The most time-consuming phase of processing an incoming invoice is checking and approving the invoice, although the time required can vary widely from minutes to much longer. The time to manually enter invoice data was typically described as being "minutes."

Overall Reaction to E-invoicing

Almost none of the participants were aware of e-invoicing in the sense intended in this project. When asked whether they thought they were using "electronic invoicing" or "e-invoicing", almost all thought they were because of their extensive use of email for invoicing. This indicates that from a communications perspective, the phrase "e-invoicing" is highly prone to be interpreted as something very different from what is intended in this project.

In order to get informed reactions to e-invoicing, participants were given a presentation on what e-invoicing is, how it works, and how to implement it.

Immediately following the presentation, there was a vote on how many would consider using e-invoicing in their business. Note that the question referred to "consider using e-invoicing", not the stronger "would you use e-invoicing." Overall, about one-quarter of small business participants said they would consider it, and about half of the medium business participants said they would consider it. Quite a few of those who would consider using e-invoicing had some reservations, so it was not always a purely positive assessment of e-invoicing based on the information provided.

Qualitatively, the best predictor of likelihood of being interested in considering e-invoicing was number of invoices received per year: the more invoices received, the more likelihood of interest. This helps to explain the higher proportion of those interested among medium business participants compared to small business participants.

Following discussion of perceived benefits and concerns with e-invoicing, participants were asked again about their overall interest in considering using e-invoicing in their business. There was little change in overall interest. In some groups, the question was posed with an added condition, namely to assume that use of e-invoicing is widespread in Canada. This was added because one of the reasons quite a few gave for lack of interest was a belief that there is little value to using e-invoicing if most other businesses are not using it. Adding the condition resulted in a small increase in interest. The fact that adding this condition had only a relatively small effect indicates there were other significant perceived issues with e-invoicing.

Perceived Benefits

Participants were asked on an open-ended basis what if any benefits they thought e-invoicing might provide to their business. This was followed by presentation and discussion of five types of benefits:

> *Increases cost savings*
> *Improves payment times*
> *Reduces fraud*
> *Connect once, trade with many*
> *Encourages trade*

On an unaided basis, the primary reason for interest in considering using e-invoicing was that it could reduce time spent on manually entering data from incoming invoices. This is related to the aided benefit, *Increases cost savings*. Some participants did not think this benefit was meaningful for their business: they did not think that at their invoice volume the cost savings would be significant, and it was suggested this would be a more significant benefit for larger companies that receive large numbers of invoices.

On an unaided basis, some participants thought e-invoicing might facilitate payment of invoices. This was also the point of the aided benefit, *Improves payment times*. Reasons for perceiving the possibility of faster payment times included: elimination of the time between invoice receipt and data entry; elimination of some invoices getting lost; psychological impact in that the recipient knows that the sender knows that the invoice has been received and entered into the accounting system. The main reason the majority of participants said they did not think e-invoicing would lead to faster payment times was because they believed that what drives payment times are (a) payment terms – either as stated on the invoice or based on the payer's payment practices, and/or (b) the payer's cash flow and whether they have the money to make the payment.

E-invoicing was generally not perceived to offer a significant benefit in terms of sending invoices, with one exception associated with facilitating payment of invoices. Some participants said that as a sender it is good to have certainty that an invoice has been received and entered in the accounting system of the buyer. While this might or might not result in more rapid payment, it at least eliminates "lost invoices" as a reason or excuse for nonpayment.

The remaining three aided benefits did not really come up on an unaided basis – i.e. *Reduces fraud; Connect once, trade with many,* and *Encourages trade*.

- *Reduces fraud:* Only a rather small minority of participants believed that e-invoicing could reduce the risk of fraud in their business. There were two main reasons why the majority of participants did not feel that e-invoicing would reduce the risk of fraud in their business:
  - Despite the assurances of safety and security in the presentation of this benefit, they believed that the e-invoicing network – like other electronic databases and systems – can be hacked. Several participants suggested that the e-invoicing network might in fact be a particularly attractive target for hackers because of the large number of companies that would be using the network and the fact that it involves financial transactions.
  - Quite a few participants said that fraud has not been a problem in their business, and so they see this as addressing a problem they do not have.

- *Connect once, trade with many:* About one-quarter of medium business participants perceived this to provide a benefit to their business, while only one small business participant perceived this to be a benefit. The main reason given by those who did not see this as providing a benefit to their company was that they feel they can already do business with a variety of types and sizes of companies and with companies in different parts of the world.

- *Encourages trade:* About one-third of medium business participants perceived this to provide a benefit to their business, while only a few small business participants perceived this to be a benefit. Those reacting positively cited:
  - E-invoicing makes it easier/simpler to send an invoice to another country. It also gives certainty that an invoice has been received.
  - Invoice data will be in a format compatible with the recipient's accounting system.
  - Eliminates potential confusion such as the date format or which number on an invoice is the purchase order (PO) number.
  - The fact that e-invoicing standards have been adopted in more than 65 countries is new information, and conveys that e-invoicing can be useful and maybe even necessary to trade with some other countries.

There were two main reasons some participants gave for why *Encourages trade* would not be a benefit to their business: their business is domestic and does not trade with other countries, or they already do business with other countries and their current systems work well for this purpose.

Perceived Issues

Lack of widespread use of e-invoicing: One barrier to interest in considering using e-invoicing mentioned by quite a few participants is the current lack of widespread use in Canada. Their point

was that if most or all of the businesses or organizations they deal with do not have e-invoicing, then there is no benefit to using e-invoicing and therefore no reason to pay to get e-invoicing.

Current system works fine: Those not interested in considering using e-invoicing quite often commented that how they handle invoicing now works fine, and they do not see any significant added value to using e-invoicing. This suggests a challenge will be how to convince these businesses there is a benefit to e-invoicing. This will particularly be a challenge for businesses that receive a relatively low volume of invoices, as the primary driver of interest in e-invoicing was more efficient processing of incoming invoices.

Participant concern about impact on checking incoming invoices: Some participants were quite concerned that e-invoicing would adversely affect the processes for checking and approving incoming invoices. Current checking and approval processes start with an actual invoice, but with e-invoicing the starting point is invoice information already entered into the accounting system. The concern was that errors in invoices might go undetected and such invoices could end up being paid. Essentially, these participants were concerned that invoices received via e-invoicing would go directly into accounts payable, without review or approval. Some noted they would need to build in new processes for checking and approving invoices. For example, one participant suggested the accounting system would need a "holding tank" for incoming invoices in order to allow for review and approval prior to going into accounts payable. These results suggest that communication about e-invoicing should address how checking and approval of incoming invoices can be accomplished and in an efficient fashion.

Participant concern over changing an invoice already sent or received: Some participants were concerned that with e-invoicing it could be difficult or overly time-consuming to change an invoice sent or received when, under e-invoicing, it has already been entered into the accounting system. Essentially this concern is related to the previous point about detecting errors under e-invoicing: if an error is detected, the concern is then how difficult will it be to correct the error. These results suggest communication about e-invoicing should address not only how invoices can be checked and approved in an efficient manner, but also how changes to invoice information can be made in an efficient manner when necessary.

Participant concern over e-invoicing network security: As noted above, some participants were concerned the e-invoicing network could be hacked, and indeed several suggested these networks would be an attractive target for hackers. This suggests that a communications challenge will be to convince businesses that the networks are secure, particularly in a news environment where stories about systems being hacked are not uncommon.

Participant concern over accuracy of coding of cost categories: A few participants were concerned about how accurately costs on an invoice will be categorized in the accounting system, given that no one is manually entering the data and assigning costs to categories.

Impact of the subscription cost for e-invoicing: In the presentation given to participants about e-invoicing, participants were told that typical costs for small businesses would be $15-$30 per month, and typical costs for medium businesses would be $40-$65 per month. Overall it appears that cost by itself was not a big issue. Participants who were interested in considering using e-invoicing did not complain about the cost. Some of those not interested did say the cost was too high, but our impression is that the issue was not really on the cost side but on the perceived "value

for money" side. That is, they saw little or no benefit to using e-invoicing, and so really were objecting to paying anything at all for it.

Actions That Could be Taken to Encourage E-invoicing

A small number of participants believed that the only way to get to widespread adoption of e-invoicing would be for government to mandate it be used.

A few participants suggested that if large companies could be encouraged to adopt e-invoicing, then smaller companies that deal with those companies would be motivated to adopt e-invoicing.

Many participants essentially suggested making e-invoicing free, or at least very low cost:

- The most common suggestion was to have a free trial period. The rationale was that this would give a business an opportunity to assess whether and to what extent there are benefits to using e-invoicing. It was also suggested this sort of incentive is needed to encourage early adoption in a context where there is not yet widespread use of e-invoicing.
- Several participants suggested it should be completely free.
- Some suggested the CRA should give some sort of rebate or tax break to businesses who adopt e-invoicing. The argument was that because the CRA benefits from the adoption of e-invoicing, it is reasonable to expect the CRA to share at least part of the cost.

Some participants suggested somehow incentivizing the accounting software/service vendors to promote use of e-invoicing among their business customers. This might include incentives to encourage them to offer a free trial period, or more generally a low cost.

In a brief presentation to participants about the CRA's interest in e-invoicing, there was a reference to reducing GST/HST reporting burden. In this context, some participants said this would be a good thing. However, some other participants were less positive. Their reasons included:

- The participants said their accounting software already does a good job of keeping track of GST/HST, and so did not see what added benefit the CRA could provide.
- The GST/HST information the CRA might access because of e-invoicing is perceived to be very likely incomplete, and therefore not useful for, for example, prepopulating a GST/HST return.
- General unease over the CRA somehow accessing information about their company via the e-invoicing network.

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I hereby certify as Senior Officer of Sage Research Corporation that the deliverables fully comply with the Government of Canada political neutrality requirements outlined in the *Communications Policy* of the Government of Canada and Procedures for Planning and Contracting Public Opinion Research. Specifically, the deliverables do not include information on electoral voting intentions, political party preferences, and standings with the electorate or ratings of the performance of a political party or its leaders.

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