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**PAYMENT TIMES REPORTING SCHEME**

# RETHINKING PAYMENT PRACTICES

December 2020

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## A SPIRIT OF COLLABORATION REQUIRED ACROSS THE ECONOMY



According to the Australian Small Business and Family Enterprise Ombudsman (ASBFE0)

**53%** of invoices are paid late

and on average

**23** days overdue.

After one of the toughest years many Australian organisations have faced, there is one constant that has remained – the need for transparency and a spirit of collaboration and partnership. With a view to delivering this, and providing greater commercial certainty for small businesses, the Australian Government has introduced the Payment Times Reporting Scheme (PTRS).

Starting on 1 January 2021, the scheme will require large organisations and certain Government enterprises (referred to as Payment Times Reporting Entities) to report on their small business payment terms and times. This information will be published by the Federal Government twice a year on a public register. A Small Business Identification Tool will also be available in due course (scheduled for release in December 2020) which will assist businesses with finding out who their small business suppliers are. As a small business it is also possible to opt out of being identified by this tool.

BDO welcomes the scheme because, with increased transparency surrounding large business' payment times, Australia's small businesses will be able to make informed decisions about which large organisations they will supply, hence proactively managing their cash flow. Large organisations will also be incentivised to pay their small businesses on time to avoid unfavourable public reporting and improve payment practices to avoid potential reputational risk among small business customers.



# WHO IS CAPTURED?



Entities will be required to self-identify as a reporting entity and it is estimated that this scheme will cover 12,000 entities.



## WHO MUST REPORT

The PTRS applies to constitutionally covered entities (CCEs) that carry on an enterprise in Australia and have a total income that exceeds a certain threshold (as detailed below). A CCE includes:

- ▶ A constitutional corporation (a trading or financial corporation formed within the limits of the Commonwealth)
- ▶ A foreign entity
- ▶ A corporate Commonwealth entity or a Commonwealth company, within the meaning of the Public Governance, Performance and Accountability Act 2013
- ▶ An entity, other than a body politic, that carries on an enterprise in a Territory
- ▶ A body corporate incorporated in a Territory taken to be registered in a Territory under section 119A of the Corporations Act 2001.

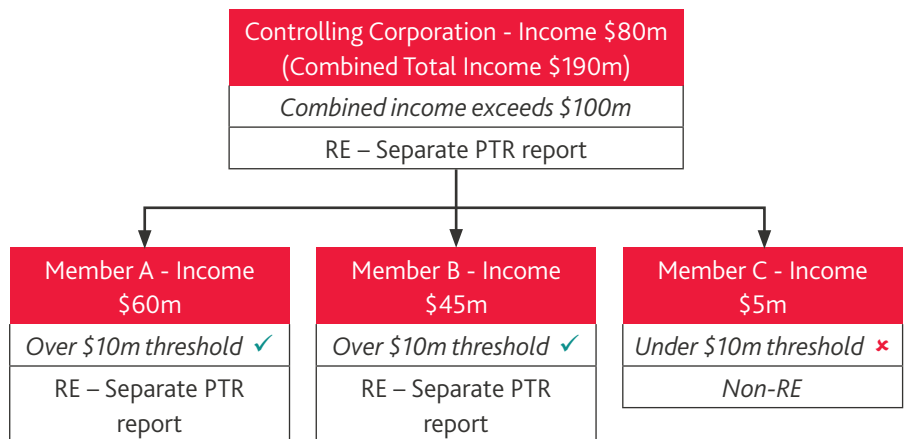
It should be noted that CCEs could include private/public companies, trusts, partnerships, joint ventures, or sole traders.

## INCOME THRESHOLD

An organisation's total annual income in its most recent income year must meet one of the following thresholds to be deemed a Payment Times Reporting Entity:

- ▶ More than \$100 million
- ▶ If the entity is a controlling corporation, the combined total income of the controlling corporations group exceeded \$100 million
- ▶ If the entity is a member of a controlling corporation's group that has a combined income of more than \$100 million, the total income for the entity must have been at least \$10 million.

The diagram presented below demonstrates an example of how the income thresholds are treated in a corporate group structure:





# WHEN AND WHAT DO YOU NEED TO REPORT?

In a standard financial year, there will be two reporting periods, each covering six months of the respective financial year. For non-standard financial years, such as shortened or extended periods, the reporting requirements and therefore the corresponding deadlines may differ.

The first reporting period for entities with standard and calendar income years will begin on 1 January 2021 and run to 30 June 2021 (detailed in the below table). All reporting entities will have a three month period after the end of the reporting period to submit their Payment Times Report for the reporting period - referred to as the reporting window. The table below sets out upcoming reporting requirements for a number of common financial years.

Financial Year Beginning	Reporting Period	Reporting Window (to be published on or before)
1 July 2020	1 January 2021 to 30 June 2021	30 September 2021
1 January 2021	1 January 2021 to 30 June 2021	30 September 2021
1 April 2021	1 April 2021 to 30 September 2021	31 December 2021

## WHAT NEEDS TO BE REPORTED?

For each reporting period, organisations are required to report on the following, in relation to qualifying contracts:

- ▶ The organisation's standard payment terms
- ▶ The organisation's process for resolving disputes related to payment
- ▶ Organisation registration details (organisation name and ABN) including the organisation name and ABN of the controlling corporation (if applicable)
- ▶ The name and type of the entity's governing body (i.e. Constitutional Corporation: the Board, Partnership: the partners, Superannuation Fund: the trustee, Trust: the trustee)
- ▶ Shortest and longest standard payment periods that the entity offers to its small business supplier (at the beginning of the reporting period)
- ▶ The proportion of small business invoices paid within certain time frames (<21 days after invoice, 21-30 days, 31-60 days or more than 60 days)
- ▶ The total proportion (by value) of procurement during the reporting period that was from small business suppliers
- ▶ Details of corporate control over it (by another entity)
- ▶ Changes to accounting period or organisation name
- ▶ Any other information specified by rules made under the legislation.

## FAILURE TO COMPLY

It is a criminal offence to:

- ▶ Fail to publish a report
- ▶ Fail to include the necessary information in the report
- ▶ Fail to report within the specified timelines
- ▶ Provide a false, deceptive or misleading statement within the report, whether it be by a business or individual.

Every director of the organisation, is at risk of committing a criminal offence.

The Payment Times Reporting Regulator is established under the Act. The Regulator is responsible for administration of the Scheme. This includes monitoring and enforcing entities' compliance with the reporting requirements.

Failure for large entities to report could result in daily penalties of 60 penalty points (\$13,320) for an individual and 300 penalty units for a body corporate (\$66,600) per day. If a group of entities fail to report, the cost could be substantial as the penalty relates to each entity in the group per day.

## WHAT ORGANISATIONS SHOULD DO NOW

Organisations who will need to report should prepare by:

- ▶ Ensuring company accounting software can extract the required reporting information
- ▶ Identifying small business suppliers within their customer listing/ledger (the government tool due for release in December 2020 will enable this)
- ▶ Reviewing current policies and procedures relating to payments and, in particular, payments to small businesses
- ▶ Familiarising finance teams with potential penalties for non-compliance with reporting requirements.

Small businesses who supply Payment Times Reporting Entities should be ready to leverage the information reported publicly in their respective industry, so they can make informed decisions about the large businesses they do business with.

# HOW BDO CAN HELP WITH YOUR REPORTING

BDO is well equipped to provide support and guidance with regards to these regulations.

We are a large team of professionals with experience in supporting clients with Best Reporting practices. We can help you with:

- ▶ **Reporting assurance and advisory** including assessment of your current reporting arrangements and capabilities, guidance around managing the demands and requirements of these regulations, and assurance over the accuracy of submissions
- ▶ **Extracting reporting information** from your system, working with our experts to assess and design reports using your systems to extract the data you need to report on
- ▶ **Data validation** to confirm that data reported on is valid, accurate, and is based on sound assumptions, prior to submission of the six-monthly reports
- ▶ **Data analytics and automation** we can provide enhanced assurance over the data held in your systems and help identify anomalies in your data. We can support in reporting automation and dashboard build to improve the overall efficiency of your ongoing reporting requirements
- ▶ **Benchmarking** against best practice policies and procedures seen throughout our wider client base
- ▶ **Registration** in the Reporting Portal and provide guidance on using the portal.



## WHY CHOOSE BDO?

As a firm, BDO strives to base its reputation in the market on the delivery of exceptional client service and we see this as our key differentiator.

Our ambition is to continually drive high performance and quality; recruiting high quality people and providing them with an environment where they are empowered to deliver an exceptional client service.

As such, key drivers of our reputation are our client service attributes

## UNDERSTANDING OUR CLIENT'S NEEDS

Ensuring the content is on the 'agenda' of our key clients.

## BEING PROACTIVE

We contribute to your success. Proactively delivering relevant and distinctive ideas linked to timely action.

## DELIVERY

We know our key clients / contacts' preferences and ensure timely communication.

## VALUE FOR MONEY

Communications are reviewed to ensure they add 'real value' to our clients.

## BDO CAN HELP

If you have any questions about the Payment Times Reporting Scheme and what this means for your business, contact your local BDO Adviser or contact us [here](#).



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