

Strengthening Australia's cyber security regulations and incentives

MYOB Submission
27 August 2021

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Dear Home Affairs,

MYOB welcomes the opportunity to submit our views on the discussion paper, *Strengthening Australia's cyber security regulations and incentives*. Our analysis is focused on creating a healthy operating environment for small business and progressing Australia's position as a leader of innovation.

We believe Australia has a significant opportunity to increase business productivity and export scalability through secure digitisation. If pursued in a policy landscape that fosters innovation led growth, our business environment will be better positioned to meet the aims of the Government's Digital Economy Strategy by 2030.

We applaud the Government's current digital privacy initiatives, such as the Consumer Data Right and Privacy Act Review, which seek to help small businesses protect consumer data.

However, we also know one in five SMEs – nearly half a million businesses – have no or very low levels of digital engagement and need extra assistance in securely engaging with digital tools. Our analysis reveals digitising these businesses would return \$10.5bn to the Australian economy.

Australia has an opportunity to create a world-leading, secure business landscape. By fully utilising our agile tax system and embracing the reform possibilities of MYEFO, Australia can create a safe and secure landscape where technology and digital businesses can thrive.

A push-pull approach of matching taxation incentives with mandated B2B e-invoicing would promote digital business transformation and, we believe, is the next step Government can take to propel Australia to being a global digital leader.

If you require further information or have any questions, please contact Liv Monaghan at



Yours sincerely,



Helen Lea
Chief Employee Experience Officer & Policy Lead
MYOB

BACKGROUND

MYOB has been a trusted Australian business platform for 30 years, providing local solutions to a significant proportion of the small business, accounting and bookkeeping communities across Australia and New Zealand.

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.

The latest Government reports indicate small businesses employ 41% of the business workforce, making the sector Australia's biggest employer¹. Ensuring they are empowered to use digital tools safely and securely is crucial in ensuring a cyber resilient small business sector.

MYOB welcomes the Government's work to protect the Australian business ecosystem against cyber-attacks and to encourage the uptake of healthy online business practices. We would support the adoption of a voluntary small business health check regime. However, knowing that many small businesses have little to no digital comfort, placing them at greater risk of fraud and other attacks, we believe that incentivising small to medium enterprises (SMEs) to adopt digital tools in a safe, secure manner will underpin the regime's success.

MYOB POLICY PRIORITY: CLOSING THE DIGITAL GAP FOR SMES

We believe enabling small businesses to engage with digital tools will be crucial to business growth, and to a strong foundation of cyber security awareness.

Digital adoption reaps rewards for small businesses and Government. Deloitte Access Economics research shows the adoption of digital technologies in Australia contributed over \$104 billion in the decade to 2014, a contribution to steady-state 5.8% GDP per capita growth².

More recent analysis by EY and the Business Council of Australia (BCA) illustrates the ongoing economic opportunity of digitisation for Australia. They report that accelerating the transition to a digital economy – through tax incentives for digital adoption, regulatory reform, and enhanced digital skillsets – could provide a \$210 billion return for the economy and a \$41-56 billion increase in tax revenue over the next 20 years³.

Digital tools are a key driver of small business success. Digitally advanced SMEs are found to be 50% more likely to grow revenue and earn 60% more revenue per employee⁴. They are 8 times more likely to create jobs and 14 times more likely to offer new products or services⁵.

The burgeoning business digital gap

However, there is a burgeoning digital gap in Australia, and many SMEs risk being left behind by technological change. MYOB research estimates there are nearly **half a million (466,062) SMEs – one in five Australian small businesses – that have no or very low digitisation** of their business processes, with 79,458 of these businesses in the construction sector alone⁶.

¹ Australian Small Business and Family Enterprise Ombudsman (ASFE0), *Small Business Counts*, 2020.

² Qu et al. How do digital technologies drive economic growth? *Economic Record*, Vol 93, Issue S1 2017.

³ Making Australia a world-leading digital economy, Ernst and Young. April 2021.

⁴ Connected Small Business 2017, Deloitte Access Economics

⁵ Connected Small Business 2016, Deloitte Access Economics

⁶ 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

Our own research, conducted in 2021, indicates only 14% of SMEs use online tools to manage staff rostering and work allocation, while 34% still do not have an online presence⁷. Considering these data points, it is unsurprising that 85% of SMEs admit to being unprepared for the disruption caused by the pandemic⁸.

Adding further support to our findings, a 2020 Venture Insights report found 39% of SMEs are failing to grasp opportunities offered by new technologies and 31% are struggling to keep up with technological changes deemed critical to their success⁹.

Cyber crime is a big problem for small business

For those small businesses who are using digital tools, many are not doing so in a secure manner. The ASBFEO's Cyber Security Guide identifies that 33% of small businesses (with less than 100 employees) are not taking proactive measures against cyber security breaches¹⁰.

Further, the Australian Cyber Security Centre (ACSC) 2021 small business survey found that one in five Windows users have an operating system that stopped receiving security updates in January 2020. Nearly 50% of respondents could not, or would not, spend more than \$500 a year on IT security. It is clear SMEs require support to get online and to do so in a safe and secure manner.

Secure small businesses are innovative businesses. The 2021 Google IT Leaders Research Report found that 33% of respondents identified security risks as key inhibitors of innovation¹¹.

For Australian small businesses, innovation pays. The 2020 ASBFEO Small Business Counts report found that small businesses with the space and ability to innovate outperformed their non-innovating counterparts on all measures. These small businesses were more productive, employed more staff, generated greater profit, had higher sales, and invested more in IT¹².

Using existing Government avenues to encourage the adoption of digital tools would empower small businesses to make informed choices about how they engage online – shifting cyber-security approaches from reactive to proactive. Additionally, it would create the space for small businesses to safely and securely innovate, fostering a more resilient small business ecosystem. MYOB's research found 27 per cent of SMEs believe an incentive, such as a tax deduction, would help get them started with digital tools.

Incentivising Secure Digital Adoption: Benefits to Government

Empowering small businesses to securely engage with digital tools, reducing the digital gap, will return significant benefits to both small businesses and Government. Our analysis reveals that improving access for the one in five that have little to no digital presence will lead to a 1.8 per cent increase in SME GDP – equivalent to a \$10.5 billion gain for the Australian economy.

MYOB estimates 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, economic

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.

⁷ MYOB Business Monitor December 2020

⁸ MYOB Business Monitor – COVID Edition June 2020

⁹ Technology and connectivity critical for Australian SMEs. Venture Insights. July 2020

¹⁰ ASBFEO, [Cyber Security Guide](#).

¹¹ GoogleCloud 'IT Leaders Research Report', 2021.

¹² ASBFEO, Small Business Counts, December 2020.

resilience, and tax receipts, is an attractive proposition as the Government seeks initiatives to fuel the country's economic momentum.

SAAS: A SOLUTION TO SME CYBER VULNERABILITY

Software as a service (SaaS) reflects the way Australians are increasingly doing business. SaaS enables businesses to access a vendor's cloud-based software remotely through the web or an API, replacing traditional 'in a box', on-premise approaches to software.

SaaS tools provide more security than on-premise software solutions, with on-premise sites being three times more at risk of cyber-attack than cloud providers¹³. Further, SaaS tools present a less risky choice for SMEs as cyber-security is managed directly by the vendor¹⁴. For small businesses first engaging with digital tools, removing this risk and uncertainty helps to make the adoption of digital business practices more attractive.

As a SaaS business, at MYOB we secure our SaaS products through partnerships with world class suppliers in key infrastructure and services. These include monitoring for suspicious activity, physical security, server and power redundancy, and built-in firewalls. To further protect our customers from cyber threats we regularly test our products for flaws, update software frequently to address newly emerging external threats, secure data through automatic backups, and have round-the-clock monitoring by an internal security team. These processes and standards are beyond the financial and operating capabilities of many small businesses.

Almost 10% of all technology spending is now in the cloud¹⁵, with this figure expected to rise as more software products are delivered through this model. For SMEs in particular, SaaS is set to become the predominant delivery model of digital tools and technologies, with SaaS products and services now available across the full spectrum of business processes and operations.

A rise in fraudulent online activity makes the best practice security features of leading SaaS providers all the more critical. As Australia seeks to grow a world-class startup ecosystem, these emerging companies will preference SaaS products for their ease and safety and, as a result, will accelerate faster than traditional companies who rely on legacy systems.

THE POLICY OPPORTUNITY: MAKING AUSTRALIA A SECURE DIGITAL HUB

In response to this need to assist SMEs in moving online securely, MYOB proposes a tax incentive for SMEs on new SaaS subscriptions. This would be aimed at businesses with 0-199 employees for the first year of spend on new SaaS subscriptions. A tiered structure that considers business size and volume spent on new SaaS products and services, could promote broad SaaS adoption and the end-to-end digitisation of small business.

We believe there would be significant benefits from offering this incentive on a fixed-term basis. Our modelling is based on a digital adoption tax incentive scheme that is limited to the first twelve months of new SaaS subscriptions only – it is not an ongoing subsidy for SaaS use. As such, the scheme would drive new SaaS adoption by overcoming the initial cost barrier, providing a window for the SME to experience the benefits of the software, and providing the Government with a strong return on their investment.

¹³ Beyond Software: SaaS versus On-Premise

¹⁴ *Ibid.*

¹⁵ Blue Sky Thinking. The Economist, 24 October 2020, p11

We have found a limited scheme would result in immediate return in terms of securing the small business ecosystem, fostering small business growth, and delivering an economy-wide boost.

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%

A tax offset represents the broadest possible incentive approach, promoting widespread adoption across industries and SME sizes. It is also more targeted and transparent than alternatives such as grants, while the ubiquity of tax returns across all SMEs would empower accountants and other trusted advisors to drive digital literacy and engagement within the small business sector, further encouraging adoption.

E-INVOICING AS AN ESSENTIAL COMPONENT OF THE DIGITISATION AGENDA

In addition, combining mandated business-to-business (B2B) e-invoicing with a digital adoption tax offset could provide a powerful push-pull dynamic, minimising invoicing fraud and scam risks and driving widespread digitisation of business.

E-invoicing has established itself as the most efficient, accurate and secure way for businesses to transact with their suppliers and customers. By removing the manual generation and handling of invoices, the opportunity for scammers to create fake invoices and target businesses with little digital nous is removed. Economic benefits would also flow to small businesses from mandated B2B invoicing, with processing costs reducing from \$30.87 for paper invoices and \$27.67 for PDF invoices, to just \$9.18 per e-invoice¹⁶.

¹⁶ Australian Taxation Office. E-invoicing for businesses

Mandated B2B invoicing is something that small businesses want. MYOB research has found strong literacy and support for e-invoicing amongst SMEs, with **38% believing e-invoicing would save the equivalent of a working week in time each year.**

In addition to helping protect small businesses against fraud and other cyber-attacks, mandated B2B invoicing would return a financial benefit to the Government. With more than 1.2 billion invoices exchanged in Australia annually¹⁷, 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.

E-invoices also represent a more secure exchange of information than email, reducing the risk of scams and the impacts of business email compromise, while secure authentication procedures reduce cybersecurity threats and fraud.

SUMMARY

As many Australian SMEs continue to operate remotely, it is increasingly important for business owners to protect themselves and their operations against cyber-attacks. The combination of a tax incentive for SaaS matched with a B2B e-invoicing mandate will drive secure digitisation and, with it, Australia's position as a leading digital economic centre.

Taken together, mandatory e-invoicing and a digital adoption tax incentive could turbocharge Australia's digital economy and align Australian with its competitors in the region who have adjusted their tax system to be a secure, welcoming investment environment for the technology and innovation sector.

We believe the Government has an opportunity to strengthen Australia's small business landscape. Using existing tax levers to incentivise digitisation would empower Australian small businesses to take safe steps towards securing growth.

We are enthused by the whole-of-government efforts to create resilient small businesses, including through the creation of a voluntary small business health check regime, and look forward to being part of the regime's ongoing development.

¹⁷ *Ibid.*

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