MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT
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Business Payment Practices Act 2023

Initial guidance for reporting entities

The Business Payment Practices Act requires certain entities to publicly disclose information about their payment terms and timeframes. This fact sheet contains key information about the disclosure requirements that are set out in the Act and its regulations.

KEY POINTS ABOUT THE ACT

- Public and private entities with more than $33 million in annual revenue and $10 million third party expenditure will be required to disclose information about their payment practices every six months.
- Reporting entities will need to disclose how long it takes to pay invoices, and their payment terms.
- The disclosed information will be published on a publicly available and searchable register that is administered by MBIE. There will be no charge for users to provide and access disclosed information.

WHO THE DISCLOSURE REQUIREMENTS APPLY TO

The Act's definition of "entity" includes but is not limited to companies (including overseas companies that carry on business here), trusts, partnerships, incorporated societies, government departments, Crown entities and local authorities.

A reporting entity under the Act is an entity which, in each of its two preceding financial years (excl. GST):

- had total revenue of more than $33 million, and
- had total operating expenditure of more than $10 million (excluding wages and salaries, and payments to entities within the same group).

Each entity is responsible for determining if it is required to report for any specific disclosure period.

WHEN DISCLOSURE PERIODS START

- The first disclosure period will run from **1 July 2024** to **31 December 2024**. This start date applies to reporting entities that have had total annual revenue (GST excl.) of more than $100 million in each of their two financial years before the beginning of the disclosure period.
- The second disclosure period will run from **1 January 2025** to **30 June 2025**. <u>All</u> reporting entities will need to disclose payment practices information for this disclosure period, and onwards. This start date will apply to reporting entities that have had total annual revenue of more than $33 million (GST excl.) in each of their two financial years before the beginning of the disclosure period.
- Following each disclosure period, reporting entities will have **three months** to upload the necessary information onto the Business Payment Practices register.

<u>Example</u>

Example Company Ltd has financial year 1 October – 30 September.

- If it had revenue of more than $100m in each of its financial years ending **September 2022** and **September 2023**, it is required to report for the **first disclosure period** (July – December 2024).
- If it had revenue of more than $33m in each of its financial years ending **September 2023** and **September 2024**, it is required to file for the **second disclosure period** (January – June 2025).

Specific details of the disclosure requirements

INFORMATION THAT MUST BE REPORTED

Reporting entities will need to disclose the following information, as set out in the Act's regulations.

1. **Average time to pay an invoice**
2. **Percentage of the total number of invoices paid within specified time periods**
3. **Percentage of the total value of invoices paid within specified time periods**
4. **Whether the entity allows eInvoicing as an option for its suppliers**
5. **Whether the entity uses standard payment terms and if so, what those are**

Optional reporting measures

Two fields on the register are optional. Reporting entities can choose to fill these out, or leave them blank.

6. **Whether the entity offers preferential payment terms to small businesses**
7. **Contextual information**

HOW IS AN INVOICE DEFINED?

"Invoice", for a disclosure period, means a written or electronic document issued to the entity:

(a) that relates to the supply of goods or services to the entity before it pays for the goods or services; and

(b) that notifies an obligation to pay the amount set out in the document.

It is important to read this inclusively. An invoice is simply a document or electronic message that signals a requirement to pay for goods or services that the supplier issuing the invoice has provided the reporting entity.

This definition includes eInvoices, and automated invoicing systems. An invoice does not need to list the goods and services provided, have a due date, date of issue, contact information etc, nor be labelled "tax invoice".

TRANSACTIONS THAT NEED NOT BE INCLUDED IN THE CALCULATIONS

The Act sets out that reporting is not required for invoices that relate to:

- salary or wages to employees or office holders
- income tax, goods and services tax, or any other form of tax
- rent or a lease
- charges related to electricity, gas, telecommunications services, or other utilities
- local body rates and charges.

The regulations set out some other transactions that need not be reported on. These are:

- settling a credit card statement that was issued by a bank
- invoices paid in foreign currency
- payments for goods and services supplied by members of the same corporate group
- royalty payments to the Crown
- invoices that don't require payment due to a credit note.

Reporting entities can choose to report on some or all of these transactions if they wish to. If that is the case, this should be consistent through all their reporting measures for that disclosure period.

THE FINER DETAILS

Payment times are measured in calendar (not business) days, starting from the date of receipt of the invoice until the day the invoice has been paid in full. Each calendar day starts at 12:00am and finishes 24 hours later.

Reported values are:

- rounded to one decimal place
- in New Zealand dollars
- GST inclusive.

The following applies to all reporting measures:

- Invoices are recorded as paid only once payment has been made in full. Part invoices (eg for instalments or deposits) are each counted separately, and full payment of a part invoice counts as full payment of that invoice.
- All invoices that are paid during the disclosure period must be reported on, regardless of when they were received.
- An invoice is received as soon as it has been provided to the reporting entity in accordance with the invoicing requirements of the relevant contract (either written or oral).
- In the absence of knowing when an invoice was received, the date on the invoice may be used. This, however, should not be the norm. Reporting entities will need systems that accurately capture invoice receipt dates.

UPLOADING INFORMATION TO THE REGISTER

The Business Payment Practices register is being developed, and will be available to upload information closer to the end of the first reporting period. MBIE will develop detailed practitioners' guidance, including web content on how to use the register and upload information. In due course, this information will be available here: https://www.companiesoffice.govt.nz/all-registers/business-payment-practices/.

Methodology for each reporting measure

The section below sets out the methodology for each reporting measure, using examples from a fictional reporting entity called *Example Company Ltd*. It received 10 invoices over its six month disclosure period. The amount of each invoice, and its payment time, is set out below. Reported figures are rounded to one decimal place.

Invoice No.	Amount	Time to pay (days)
1	$50	10
2	$50	10
3	$50	10
4	$50	25
5	$50	25
6	$100	35
7	$100	35
8	$200	35
9	$200	40
10	$500	65
TOTAL	**$1,350**	**290**

REPORTING MEASURE 1 - AVERAGE TIME TO PAY AN INVOICE

Methodology

(a) Add together the individual payment times for all invoices paid during the disclosure period (the period of time between when each invoice was received and when it was paid).

(b) Divide (a) by the total number of invoices paid during the disclosure period.

Example

Example Company Ltd paid a total of 10 invoices during the disclosure period. The total time to pay was 290 days. The calculation is 290 / 10 = **29 days average payment time**.

REPORTING MEASURE 2 - THE PROPORTION OF THE TOTAL NUMBER OF INVOICES PAID WITHIN VARIOUS TIME PERIODS

Methodology

For each of the following time brackets:

(a) Add together the number of invoices paid within that time bracket

(b) Divide (a) by the total number of invoices paid in the reporting period

0-15 days
16-30 days
31-60 days
61-90 days
91-120 days
More than 120 days

Example

Example Company Ltd groups its invoices into time to pay brackets as per the table below.

Time to pay	Number of invoices paid in that period	% of invoices paid in that period
0-15 days	3	30
16-30 days	2	20
31-60 days	4	40
61-90 days	1	10
91-120 days	0	0.0
>120 days	0	0.0
Total	10	100

REPORTING MEASURE 3 - THE PROPORTION OF TOTAL VALUE OF INVOICES PAID WITHIN VARIOUS TIME PERIODS

Methodology

For each of the following time brackets:

0-15 days
16-30 days
31-60 days
61-90 days
91-120 days
More than 120 days

a) Add together the dollar value of invoices that were paid within that time bracket

b) Divide that sum by the total combined value of all invoices paid in the disclosure period.

Example

For each time to pay bracket, Example Company Ltd adds the total value of invoices paid within that bracket and converts this to a percentage of the total value of all the invoices it paid over the disclosure period.

Invoice No.	Amount	Time to pay (days)	Percentage of total paid
1	$50	10	3.7
2	$50	10	3.7
3	$50	10	3.7
4	$50	25	3.7
5	$50	25	3.7
6	$100	35	7.4
7	$100	35	7.4
8	$200	35	14.8
9	$200	40	14.8
10	$500	65	37.0
TOTAL	**$1,350**	**290**	**99.9**

These figures are then summed as per the table below.

Payment period	Total value of invoices paid in that period	Percentage value of invoices paid in that period
0-15 days	$150	11.1
16-30 days	$100	7.4
31-60 days	$600	44.4
61-90 days	$500	37.0
91-120 days		0.0
>120 days		0.0
TOTAL	**$1,350**	**99.9**

For example, in the 0-15 day time to pay bracket, three invoices of $50 each were paid (each comprising 3.7% of the total value of invoices paid). This is a total value for that time to pay bracket of $150. $150 out of a total value of invoices paid for that disclosure period of $1,350 is 11.1%.

REPORTING MEASURE 4 - WHETHER THE ENTITY ALLOWS eINVOICING AS AN OPTION FOR ITS SUPPLIERS

Methodology

This is a yes / no response. Information about eInvoicing can be found here: https://www.einvoicing.govt.nz/

Example

Example Company Ltd states: *"Yes"*

REPORTING MEASURE 5 - THE ENTITY'S STANDARD PAYMENT TERMS

Methodology

These are the normal payment terms that would apply in the absence of negotiating bespoke payment terms. For example, many firms pay their invoices of the 20th of the month.

If the entity does not have standard payment terms, it should report its most frequent payment period (ie the mode of all its payment times during the disclosure period).

Example

Example Company Ltd states that: "*Our standard payment terms are the 20th of the month following receipt of an invoice. However, suppliers who use eInvoicing can expect payment within 15 calendar days or less.*"

Optional reporting measures

REPORTING MEASURE 6 - WHETHER THE ENTITY OFFERS PREFERENTIAL PAYMENT TERMS TO SMALL BUSINESSES

Methodology

Some firms offer small business suppliers better payment terms than their standard payment terms. This field is an opportunity for reporting entities that do this to explain what these preferential terms are, who can access them, and how. This is important information for small business operators who are using the register.

Example

Example Company Ltd states that: "*We offer a special 10-day payment turnaround for our regular small businesses suppliers. To qualify, they need to invoice us at least six times a year and use eInvoicing.*"

REPORTING MEASURE 7 - CONTEXTUAL INFORMATION

Methodology

Some reporting entities may want to provide context for the numeric reporting measures (1 – 3 above). This field is an opportunity for them to do that. For example, firms in a particular sector may commonly have certain payment arrangements that are reflected in their numeric disclosures.

Example

Example Company Ltd states that: "*We prefer to agree specific payment terms depending the nature of the goods and services involved, and how regularly we purchase them. For example, we often have extended payment terms for large capital items. On the other hand, we try to pay small invoices for perishable goods as soon as possible. We are open to negotiating preferential payment terms with regular suppliers. Our website examplecompany.co.nz has more information about how to contact an account manager.*"

Managing errors in disclosures

The Act allows for "permitted departures" in the numeric reporting measures. Any error that is not a permitted departure must be notified to the Registrar of Business Payment Practices and corrected. Errors relating to non-numeric reporting fields must be notified to the Registrar and corrected in all cases.

For measures 1 – 3, a permitted departure is **any variation of less than 2%** between the number(s) reported and the number(s) that should have been reported.

Example A – an error that is **not** a permitted departure

A reporting entity reports that its average payment time is 10.4 days. The margin of error for permitted departures is 2% of either side of the reported 10.4 days.

2% of 10.4 is 0.208

The acceptable margin of error is therefore from 10.192 to 10.608 (or 10.2 to 10.6 after rounding).

It is subsequently discovered that the reporting entity's average payment time was in fact 10.7 days.

10.7 is higher than the highest accepted margin of error around the figure that was reported (10.608), therefore this error is not a permitted departure. In this case, the entity will need to notify the Registrar of the error so it can be corrected.

Example B – an error that **is** a permitted departure

A reporting entity reports that its average payment time is 10.4 days. The margin of error is 2% of either side of the reported 10.4 days.

2% of 10.4 is 0.208.

The acceptable margin of error is therefore from 10.192 to 10.608 (or 10.2 to 10.6 after rounding).

It is subsequently determined that the reporting entity's average payment time was in fact 10.6 days.

10.6 is lower than the highest accepted margin of error around the figure that was reported (10.608), therefore this error is a permitted departure. In this case, the entity does not need to take any further action.