



# Taxavvy

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## E-invoicing



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## Implementation of e-invoicing

Recently the Inland Revenue Board (IRB) announced that the e-invoicing initiative is slated to be implemented in phases beginning from 2024.

Internationally, e-invoicing has also been implemented or is in the process of being implemented in Europe, Americas, as well as countries closer to home, such as Philippines, Singapore, India, Australia and New Zealand.



As part of the wider initiative for Malaysia to be a fully digitally-driven, high-income nation and regional leader in the digital economy, the National e-invoicing Initiative (NEI) is one part of the comprehensive agenda for the digitalisation of business documents and will commence with implementation of interoperable e-invoices before subsequently including other business documents such as delivery, cataloguing and order documentation.

A Memorandum of Understanding for strategic cooperation in the implementation of the NEI was entered between the IRB and the Malaysian Digital Economy Corporation (MDEC) on 25 October 2022.

Hence, the IRB is gearing towards enabling taxation needs to be included in the development of the e-invoicing framework that will be implemented in Malaysia. The implementation timeline is as follows:

2023	June 2024	January 2025	January 2026	January 2027
Preparation of infrastructure and launching of pilot projects with: <ul style="list-style-type: none"> <li>selected companies</li> <li>companies joining on a voluntary basis</li> </ul>	Mandatory implementation for businesses with annual revenue <b>in excess of RM100 million</b>	Mandatory implementation for businesses with annual revenue <b>in excess of RM50 million</b>	Mandatory implementation for businesses with annual revenue <b>in excess of RM25 million</b>	Mandatory implementation for all businesses
	Implementation on a voluntary basis from January 2024 onwards for businesses not falling within the above mentioned thresholds			

Source: National Tax Seminar 2023

## What is e-invoicing

There are many descriptions on what e-invoicing is, and generally most descriptions commonly explain it as data collected in a structured digitalised format. The European Commission (EU) under its Digital Europe Programme has explained e-invoicing, or electronic invoicing, as:

- The exchange of an invoice that has been issued, transmitted and received in a structured data format which allows for its automatic and electronic processing.
- It does not include a visual presentation of the invoice data although it can be temporarily rendered during processing or transposed into visual formats.
- It is not invoice data issued in PDF or Word formats, or images of the invoice as JPG or TIFF, or HTML on a webpage.
- There are two requirements of an e-invoice:
  1. It needs to be created with the correct structure.
  2. It needs to be transferred from the seller's system to the buyer's system.

## Characteristics of e-invoicing

In its Tax Administration 3.0 and Electronic Invoicing report (published in 2022), the OECD explains that from a tax administration perspective, an important focus of e-invoicing is on its use in compliance management and service delivery in a reporting regime. In e-invoicing systems, transactional data is submitted electronically just before, during or shortly after the actual exchange of such data to record a transaction between a supplier and customer. The OECD further explains that:

*“Tax administrations receive this transactional data in the form of:*

- *a structured electronic invoice directly from a business from which data can be extracted automatically within the tax administration;*
- *a defined data set already extracted from the invoices by the business, but not the invoices themselves; or*
- *a combination of the above.”*

This is commonly referred to as the Continuous Transaction Controls (or CTC) where information is obtained directly from the data management systems of businesses in real-time or near-real-time basis which provides tax administrators with “visibility” of the transaction as it happens rather than long after it has been concluded. There are two ways in which an e-invoice can be transmitted from vendors to their customers depending on whether pre-authorisation from the tax authorities is required and they are explained below.

### **Clearance model**

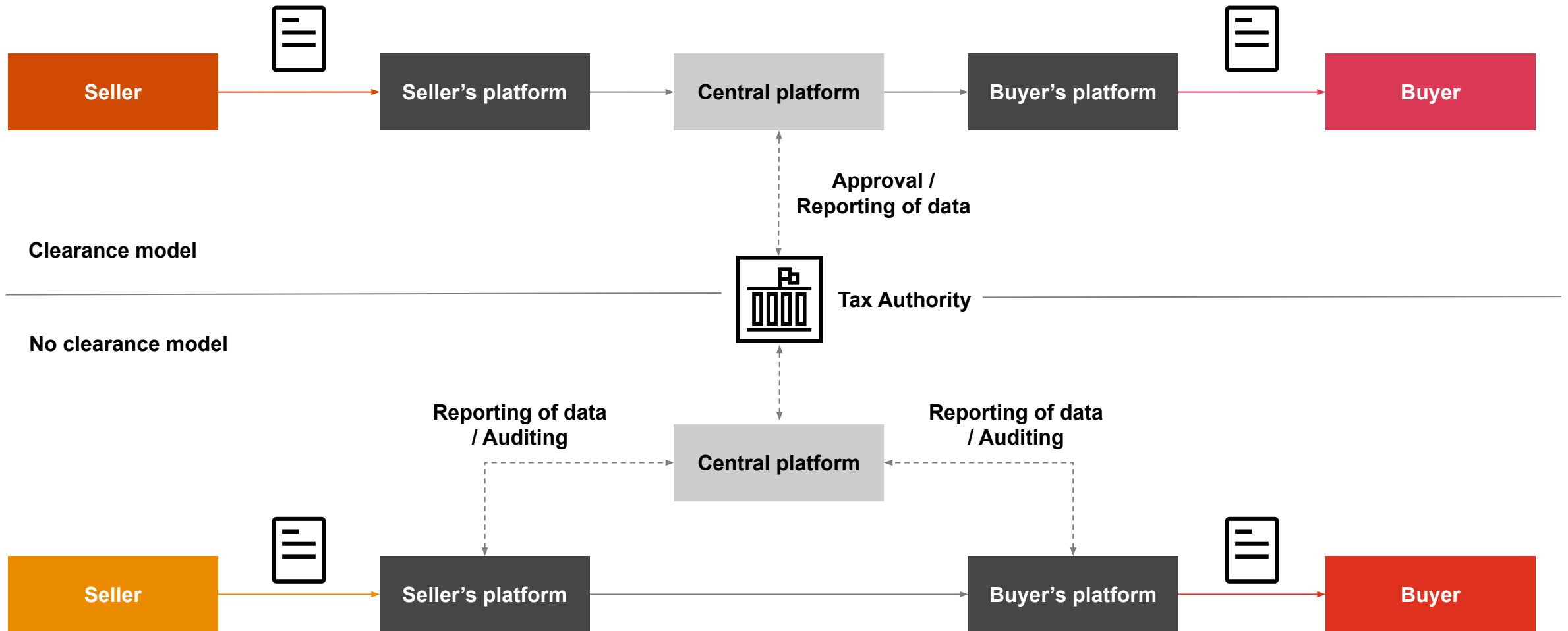
The clearance model provides tax authorities with real-time data of a transaction while it is being undertaken as businesses are required to obtain a preliminary authorisation from the tax authority first before the e-invoice can be delivered to its customers. Under this model, the clearance can take place through a central platform administered by the tax authority, or it may be outsourced to an accredited third party service provider who would then report back to the tax authority.

### **No-clearance model**

In a no-clearance model, the e-invoice can be transmitted from a supplier to its customer without first obtaining clearance from the tax authorities. Under this model, there is periodical reporting of data to the tax authority and random audits may be undertaken. Businesses therefore will need to ensure the authenticity of the data.

### Example of how the data flows

The following diagram depicts what could potentially be the data flow under a clearance model and no clearance model:



## Benefits of e-invoicing

In a world that is increasingly more connected by digital means, e-invoicing is an important pillar of the digital architecture of tax administration from both the taxpayers' and the tax authority's perspectives.

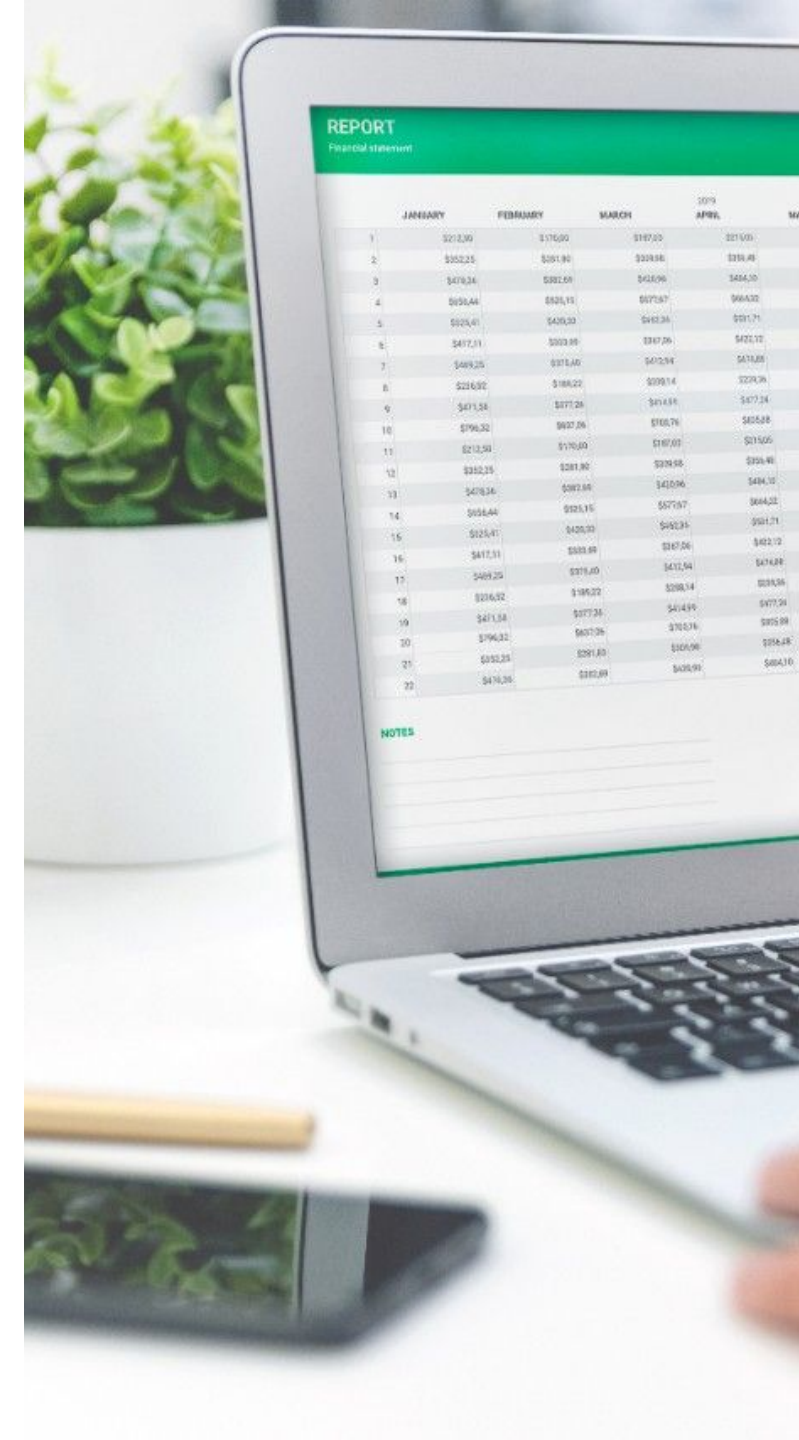
### The benefits

From the tax authority's perspective, the potential benefits for e-invoicing include:

- Reduction of compliance burden through a more efficient, centralised auditing process and compliance enforcement, hence, cutting administrative cost and improving taxpayer delivery services.
- Earlier and more timely detection of fraud schemes or irregularities.
- Greater transparency and reduction of tax leakages from the shadow economy which is estimated at RM300 billion or 21% of the nation's gross domestic product as quoted by the Finance Minister in 2020.
- A better and real-time analytical insights of taxpayers' transactional patterns, which will be very valuable in impact analysis of economic data for tax policy/administration development and implementation.

The potential benefits from the business' perspective include:

- Improved efficiency and operational effectiveness.
- Time and cost savings from not needing to manually input data or scan invoices into systems of the business.
- More efficient financial and tax reporting.



## Considerations of e-invoicing

### Trust and governance

Key to any data-centric system are:

- Data security and privacy - that only authorised persons within the organisation or government agency will have access only to the relevant and required data, and that there is no breach of the system's security.
- Authenticity - that the identity of the legal entity or person validating the e-invoice is authenticated.
- Integrity - that the data and e-invoices within the system cannot be modified.
- Non-repudiation - that the legal entity or person validating the e-invoice cannot repudiate the e-invoice.

### Cost

There will be an initial investment cost as existing enterprise resource planning (ERP) systems will need to be reconstructed and integrated with the e-invoicing system before the benefits can be reaped.

### Workforce

Organisations will require talent to be deployed to implement and manage systems which involve learning time for existing staff or the employment of new staff

### Cross-border interoperability

Each jurisdiction may adopt different e-invoicing solutions and this gives rise to issues around interoperability between systems. This is a factor that would affect multinational groups of companies with businesses operating across borders and for companies with international trade.

### Regulatory frameworks

A review will have to be undertaken on the current domestic legislative framework to determine the amendments and policy changes that are to be made for effective implementation of e-invoicing, covering areas such as:

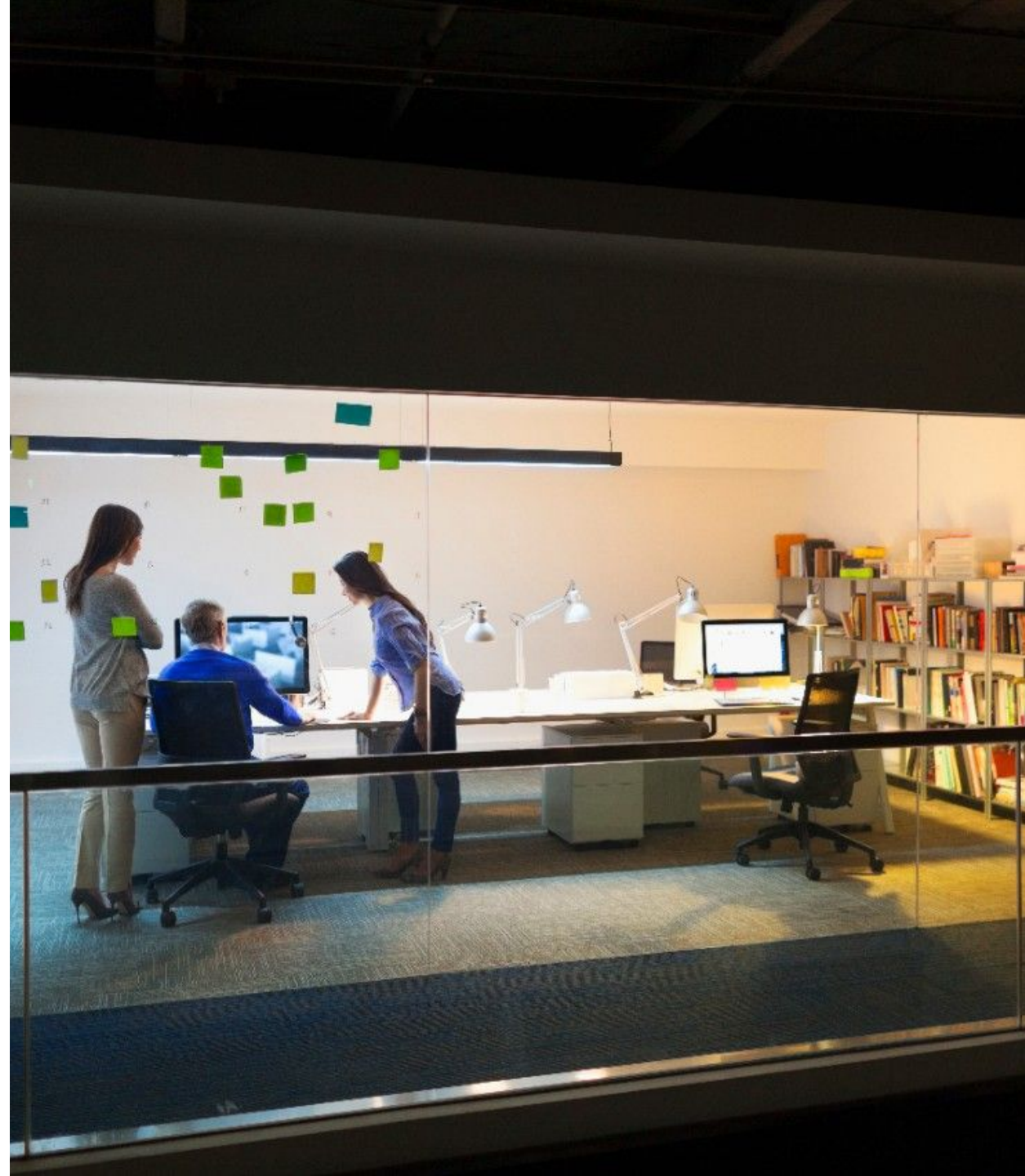
- the authenticity and integrity in the e-invoicing process,
- the storage and archiving of e-invoices, and requirements for supporting documents for audit purposes.
- the type of documents produced by and used in businesses, the different economic sectors, and the different sizes of enterprises.
- data privacy and digital security matters.

## Is there a standard framework

There is no one global standard framework for e-invoicing. Different countries may have their own preferred standard or format. In its Tax Administration 3.0 and Electronic Invoicing report, the OECD's preliminary conclusion was that global standardisation interoperability could not realistically be achieved in the near-term. This is because different implementation options have been adopted by different countries based on domestic considerations. However, it is noted that one standard framework that has been widely adopted in the EU and also in countries such as Canada, New Zealand, Australia and Singapore, is PEPPOL. PEPPOL was initially developed as the standard for the EU region but has gained traction in other countries around the globe.

## Preparing for implementation in Malaysia

With the first mandatory phase slated to commence in June 2024 for businesses with annual revenue in excess of RM100 million and for all businesses to adopt e-invoice from January 2027, businesses should begin planning for the adoption of e-invoice. Until further announcement on the technical details on the Malaysian infrastructure by the authorities, some of the steps which businesses can take now include taking stock of existing ERP systems looking into the global and domestic business requirements. It would be important for organisations to consider data governance and management looking into how data is being received, processed and generated throughout the chain of business transactions reliably, who takes ownership of each step of the process and processes in place to maintain quality of data. Workforce / talent requirements would also need to be planned ahead.



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