Ready or not, e-invoicing has arrived

BY **ESTHER LEE**

Come Aug 1, Malaysia will begin its first phase of e-invoicing, which will apply to businesses with an annual revenue exceeding RM100 million.

Understandably, the new initiative has been a topic of discussion among businesses, with concerns revolving around system readiness when implementation takes place.

"I've asked my IT guys whether the systems are ready," says a managing director of a company in the consumer goods space. "They say we are, but there are many systems involved. What if 19 work but one does not? So, we cannot say for sure until it goes live on Aug 1."

Given the threshold of RM100 million and above, the first phase of e-invoicing would affect largely multinational corporations and big businesses.

The level of preparedness among companies varies. According to the Federation of Malaysian Manufacturers (FMM), most of the 4,000 companies that would come under the first phase of the implementation are still in the preparation stage.

"The government has been promoting awareness and providing guidelines, but readiness for implementation varies among companies — from the technology aspect, including on decisions to integrate the e-invoicing system with their current systems in place or relying on a middleware solution.

"This would really depend on the size of the company, complexity of the existing systems, budget and resources available as well as business needs according to invoicing volumes and compliance requirements," says FMM in an email reply to *The Edge*.

Cognisant of this point, the Inland Revenue Board (IRB) is prepared to make a concession for companies in the implementation of e-invoicing by assisting the transition and giving them the leeway to submit their e-invoices on a consolidated monthly basis.

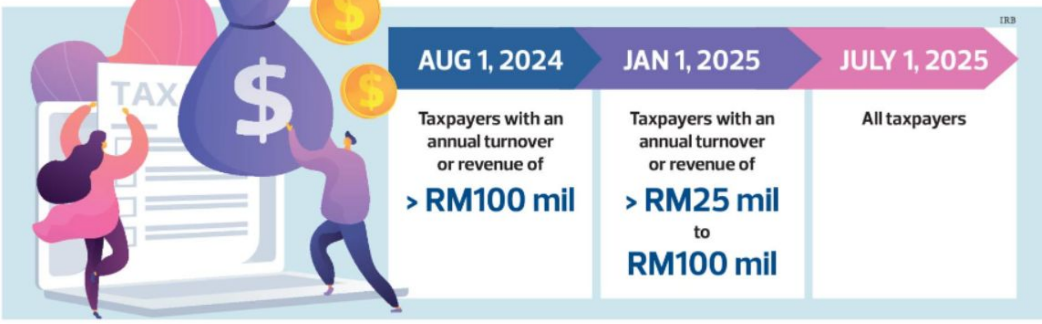
Last Friday, IRB also announced at a press conference that it would provide taxpayers that have yet to be fully ready with even greater ease of preparing e-invoices for a period of six months.

"This flexibility is extended to all industries and activities, allowing for the issuance of consolidated e-invoices, including self-billed e-invoices. Any transaction descriptions can be included in the 'Product or Service Description' field.

"If a buyer requests an e-invoice, sellers are permitted to issue a consolidated e-invoice instead of separate e-invoices for each transaction," IRB CEO Abu Tariq Jamaluddin told the press conference.

The tax authorities even threw in a sweetener for those who are able to comply with the e-invoicing requirements — without utilising the relaxations — in that the period to claim capital allowance for the purchase of information and communication technology (ICT) equipment and computer software packages would be reduced to two years from three previously, starting from the Year of Assessment 2024/25. This could mean that companies would benefit from a higher capital allowance rate over a shorter period. The rate has not been disclosed at this juncture. Currently, capital allowance for ICT equipment and computer software is at 40% initial allowance and 20% annual allowance for the first year, followed by 20% annual allowance for subsequent years.

To put to rest fears of non-compliance, IRB also assured businesses that there would be no penalties imposed in the event of non-compliance of e-invoice requirements during the relaxation period, provided the taxpayer fulfils the requirement to submit a consolidated invoice within the prescribed monthly deadline.




TRATAX's Thenesh: The [consolidated e-invoice] is a lifesaver for any business that faces teething problems or a delay in system-readiness


PwC's Mohd Haizam says PwC believes that, with the concessionary approach, a 'reasonable' number of businesses should be able to make their submissions


PwC's Lavindran says the main challenge for taxpayers is that collating the TIN may give rise to some submission errors

TRATAX Sdn Bhd executive director and Asia-Pacific international tax leader Thenesh Kannaa points out that the six-month relaxation period should not be misunderstood as "no action required" until January 2025, as Aug 1 is still the effective date of e-invoicing.

"Companies with an annual turnover exceeding RM100 million must ensure that the first consolidated e-invoice is performed by Sept 7, 2024, amid flexibility on data fields," Thenesh stresses.

According to PwC Malaysia tax director Mohd Haizam Abdul Aziz, interactions with some taxpayers under the first phase of the e-invoice implementation have led PwC to conclude that, with the latest concessionary approach announced last Friday, a "reasonable" number of businesses should be able to make their submissions, as they are unlikely to be able to fulfil all the e-invoicing requirements according to the timelines given.

"These taxpayers will also be relying on IRB's MyInvois portal, particularly the batch uploading function, to submit their e-invoices on a temporary basis while continuing to work on integrating their system with IRB's MyInvois system, either directly or through a middleware," Mohd Haizam says.

Thenesh says the consolidated e-invoice is applicable to both business-to-consumer and business-to-business transactions, and it requires only minimal data. He notes that none of the customer data is needed for the consolidated e-invoice, thus there is a low risk of rejection in the validation process.

"The consolidated e-invoice is a feature that allows different transactions throughout the month to be combined under a single validation with IRB. The feature is a lifesaver for any business that faces teething problems or a delay in system readiness. Should there be the issue of incomplete customer information such as TIN (Tax Identification Number) or system hiccups in issuing a validated e-invoice on each transaction, businesses may continue with their existing billing practice and submit the data to IRB at the end of the month by way of a consolidated e-invoice," Thenesh explains.

"Sales transactions to multiple customers are allowed to be included in a consolidated e-invoice because this document is not given to any customer. In loose terms, a consolidated e-invoice is a registry of total sales in any given month," he says, referring to the impact that the flexibility will bring.

Thenesh points out that of the 55 data fields in e-invoicing, taxpayers should note that fewer than 35 are mandatory. He adds that it is not necessary to have to display all the information on the visual layout of the invoice given to customers.

"It is enough for the current visual layout to be amended to include only the QR code to access IRB validation of the respective invoice," he says.

As e-invoicing is an electronic invoice that serves as a digital proof of transaction between a supplier and a buyer, and passes through a platform where the IRB will act as the interface to validate these invoices, a lot of information can be gleaned from it.

In an article in January on e-invoicing, EY Asean tax leader Amarjeet Singh says the initiative will allow tax administrations to collect rich and robust data on business activities in real time, providing a transparent and traceable trail of invoice data that will facilitate in the detection of discrepancies and mitigates potential tax fraud.

"Ultimately, this helps tax administrations tackle tax leakage and improve tax compliance, allowing them to collect their fair share of taxes," he says.

Many countries around the world have already adopted e-invoicing for more than a decade. Countries such as Mexico, Brazil and Chile were early adopters of the system.

Studies have shown that e-invoicing in Mexico has been successful at reducing the tax gap from indirect tax collection by more than 50%. It also brought more than four million micro-businesses into the formal economy.

Hiccups expected

Some issues are expected to crop up when the initiative goes live on Aug 1. PwC e-invoicing leader and tax partner Lavindran Sandragasu says while the main challenge for taxpayers in collating the TIN may have been mitigated by the concessionary approach for now, the issue needs to be resolved before full implementation, as it may give rise to some submission errors later.

"The implication of selecting certain codes may not be well understood by taxpayers, and this may lead to certain validations being triggered by IRB's system that the taxpayers may not be aware of, leading to errors in submission," he observes.

Lavindran adds that the responsiveness and stability of IRB's system, which was highlighted by taxpayers during the trial phase, could still be a challenge because of the expected increase in transaction volume upon implementation.

FMM says IRB's approach of not going hard on businesses for non-compliance and evaluating cases individually is welcomed and seen as a pragmatic and supportive move that will encourage more businesses to proceed with their transition to e-invoicing without fear of immediate penalties.

"The flexible approach taken by IRB would also help reduce the anxiety about the potential technical and financial challenges to be faced and allows them to focus on finding suitable solutions," says the federation, adding that IRB's current approach will also help build trust between the businesses and the authorities.

Bite the bullet

There have been calls from various parties to defer the implementation of e-invoicing, saying that the timeline given has been too short.

Generally, for countries that have already implemented e-invoicing, taxpayers were given roughly two years from the time that guidance on e-invoicing was first provided to seek clarification and prepare their stakeholders and systems for implementation, notes PwC's Mohd Haizam.

In Malaysia, the first guidelines were given in July 2023 and subsequent guidelines were provided as recently as this month as taxpayers continued to seek clarification on the e-invoicing treatment of various scenarios and transactions.

Mohd Haizam believes the initiative should proceed, as there will still be issues to deal with even with a deferment.

"Corporates are making their best efforts to comply with these requirements and, as seen in other countries as well, it should be appreciated that the implementation of e-invoicing is a journey for both the authorities and businesses before a stable state is achieved. In terms of the imposition of penalties/prosecution, IRB has also announced that it will be lenient towards taxpayers that comply with the concessionary e-invoicing requirements," he says. E