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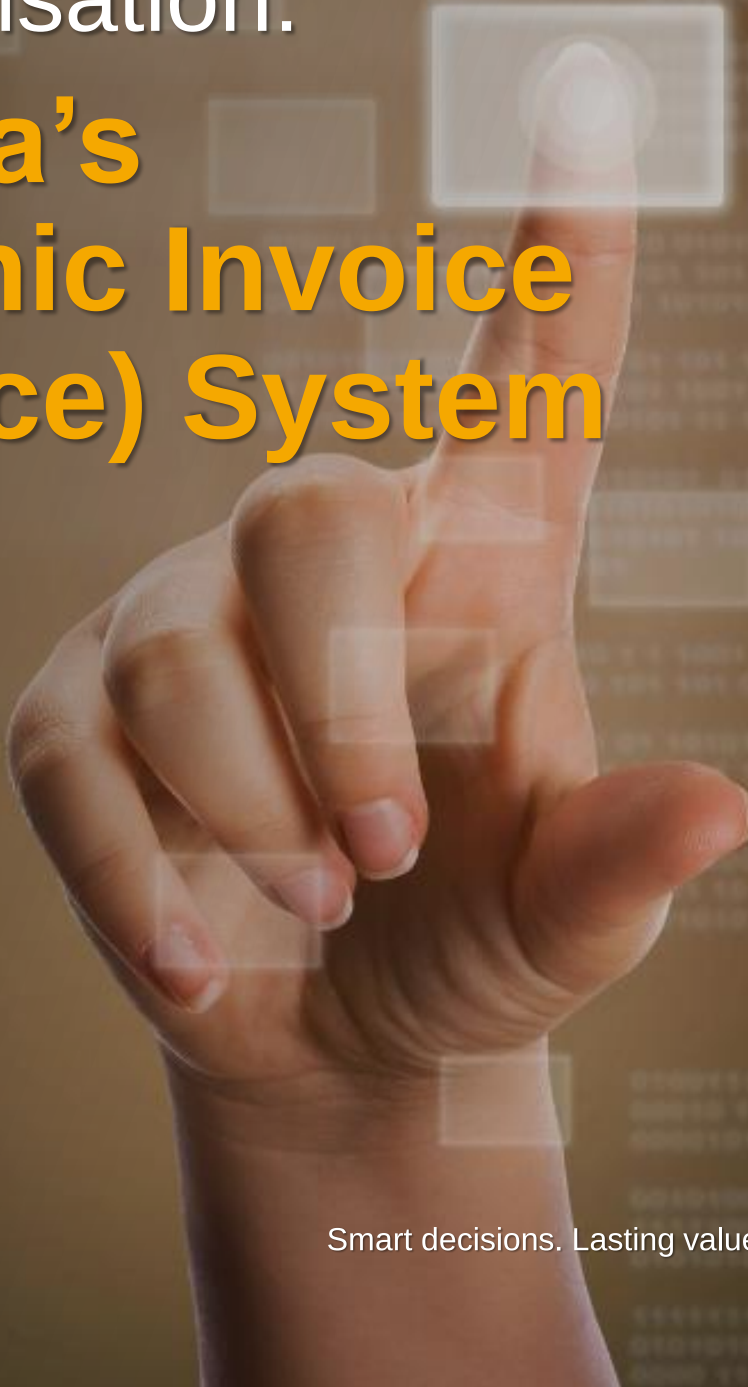
A Giant Step Towards Tax Digitalisation:

Malaysia’s Electronic Invoice (e-Invoice) System

August 2023



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Introduction

The global digital transformation has brought significant changes to traditional business practices. One area that has undergone substantial transformation is invoicing. With the rise of technology and automation, businesses are increasingly shifting towards electronic invoicing, or e-invoicing, to enhance efficiency, reduce costs and improve overall financial management. The Government announced its intention to implement e-invoice in stages in an effort to enhance the efficiency of Malaysia's tax administration management.

Against this backdrop, the Inland Revenue Board of Malaysia (IRBM) issued the much-awaited e-Invoice Guideline Year 2023 (Guideline) on 21 July 2023. The Guideline addresses the scope of implementation of the e-invoice which comprises the simplified e-invoice concepts, the step-by-step guidance on key aspects of e-invoice, practical examples and common questions regarding e-invoices.

What is an e-invoice?

An e-Invoice is a digital representation of a transaction between a supplier and a buyer. An e-Invoice shall replace any other invoice formats that are presently adopted by businesses. These include paper invoices, scanned invoices, invoices in pdf format, etc.

An e-Invoice contains almost similar information as a traditional invoice, for example, supplier's and buyer's details, item description, quantity, price excluding tax, tax and total amount. The difference is that an e-Invoice is a file created in the format specified by the IRBM which can be validated by the IRBM's MyInvois Portal.

E-Invoices cover typical transaction types such as Business-to-Business (B2B), Business-to-Consumer (B2C) and Business-to-Government (B2G) transactions.

Who will be required to comply with the e-invoicing requirements?

The e-Invoice applies to all taxpayers undertaking commercial activities in Malaysia. This includes businesses engaged in the provision of goods and services and certain non-business transactions between individuals.

All individuals and legal entities are required to comply with e-invoice requirements, including the 14 categories of taxpayers:

- Corporations
- Association
- Body of persons
- Branch
- Business trust
- Co-operative societies
- Limited liability partnership
- Partnership
- Property trust fund
- Property trust
- Real estate investment trust
- Representative office and regional office
- Trust body
- Unit trust

What types of transactions are covered in the e-invoicing requirements?

The Guideline sets out 2 scenarios that require e-invoices to be issued:

a) **Proof of income:** e-invoices are to be issued by the taxpayer when a sale or other transaction is made to recognise income.

b) **Proof of expenses:** e-invoices issued by a vendor / supplier should be in place as evidence to support taxpayers' expenses, such as purchase of goods and services, payment of business expenses, return of goods and discounts given. For purchases of goods or services from a foreign supplier, the IRBM states that the Malaysian party (i.e. purchaser) will need to issue a self e-invoice to document such expense incurred. This is because foreign suppliers do not issue e-invoices under the MyInvois System and require the Malaysian taxpayer to issue a self e-invoice instead.

There are 4 types of e-invoice documents to be issued which seek to address different transactional needs of a business:

- **Invoice –** Records sales transactions of suppliers for sales made to buyers, including self-issued invoices by the Malaysian buyer to document expenses invoiced by foreign suppliers
- **Credit note –** Records reduction in the value of the original e-invoice (does not involve a refund of monies by the supplier to the buyer)
- **Debit note –** Records increase in the value of the original e-invoice
- **Refund e-invoice –** Records refund of the overpayment by a buyer

A supplier / seller needs to issue e-Invoices for its sales to local buyers (domestic sales) as well as foreign buyers (international sales).

When is the e-Invoicing implementation date?

To facilitate existing taxpayers in their full transition to the e-invoicing system, the implementation will be staggered over 3 years from June 2024 to December 2026. The date of implementation shall depend on the taxpayer's annual sales turnover in the reference year which is the taxpayer's financial year ended in 2022.

The timelines for existing taxpayers (those which commenced business in either 2022 or in a prior year) and new taxpayers (those which commenced business in 2023 or after) are shown in the table below:

No	Existing or New Taxpayer	Annual Sales Revenue in 2022	Implementation Date
a.	Existing	More than RM100 million	1 June 2024
b.	Existing	More than RM50 million and up to RM100 million	1 January 2025
c.	Existing	More than RM25 million and up to RM50 million	1 January 2026
d.	Existing	RM25 million or below, and certain non-business transactions between individuals (details not available at this juncture)	1 January 2027
e.	New	Not applicable	1 January 2027

For taxpayers who are ready for early adoption of the e-invoicing system, they may opt to do so at an earlier date.

The IRBM has also clarified in the Guideline that the annual turnover or revenue for 2022 in ascertaining the date of implementation can be obtained from:

- audited financial statements for the financial year ended 2022, or
- tax returns (e.g. Form C, Form B, Form PT, etc.) for year of assessment 2022 filed to the IRB for taxpayers without the audited financial statements.

Further, if the taxpayer's financial year for 2022 exceeds or falls short of the normal 12 months period due to a change of accounting year end, the taxpayer's turnover or revenue will be pro-rated to a 12-month period for purposes of determining the e-Invoice implementation date.

How does the e-Invoicing system work?

The IRBM has developed two e-Invoice transmission mechanisms for taxpayers:

1. MyInvois Portal hosted by the IRBM

A taxpayer may issue e-invoices directly from the MyInvois Portal provided by the government. As a web application, the MyInvois Portal is user-friendly and accessible by all taxpayers without additional IT costs. The downside is that the MyInvois Portal requires manual input and may not be suitable in handling a high volume of transactions efficiently.

2. Application Programming Interface (API):

For taxpayers who are prepared to invest for operational efficiency, they can develop their own interface software, i.e. API, to connect their ERP systems (Enterprise Resource Planning is a type of software system that helps organizations to automate and manage core business operations such as accounting, human resources, sales, inventory, customer relationship management, etc.) to the IRBM's MyInvois Portal. The API allows taxpayers to submit e-invoices directly to IRBM.

Taxpayers would need to configure the API integration by setting up call-backs (specific taxpayers system addresses) and log into the available IRBM APIs via the Digital Certificate issued by IRBM (authentication mechanisms).

This method is capable of handling large transaction volume. The formats that will be available for transmission of e-Invoice data via API are Extensible Markup Language (XML) and JavaScript Object Notation (JSON).

Under both models, the e-invoices are processed by the IRBM in real time mode (i.e. instantly or near instant) when they are submitted to the IRBM for validation as the IRBM is adopting the Continuous Transaction Control (CTC) model.

How does the e-Invoicing system work? (cont.)

Depending on their specific needs and business requirements, a taxpayer is given the option to select either MyInvois Portal or API to transmit e-Invoices to the IRBM. Whether a taxpayer chooses to use MyInvois Portal or API, the workflow for both models is almost similar. An overview of the relevant steps are summarised below:

1. Issuance of e-invoice by the supplier for sharing with MyInvois Portal
2. Real time validation of e-invoice by the MyInvois Portal and a unique identifier number will be issued to the supplier
3. Notification of validated e-invoice by the IRBM to both the supplier and the buyer
4. Sharing of validated e-invoice embedded with QR code by the supplier to the buyer
5. The e-invoice may be cancelled by the supplier or rejected by the buyer within 72 hours from the time of validation
6. The e-invoice is stored in the MyInvois Portal and the records are accessible by the supplier or the buyer in the future

The detailed procedures involved in each of the above steps are explained in the Guideline.

Are you ready for e-Invoicing?

With the first mandatory implementation date slated to begin on 1 June 2024 for taxpayers with annual turnover / revenue of more than RM100 million, affected businesses should begin to plan for the implementation of e-invoicing. Taxpayers need to allocate sufficient financial and other resources to plan, implement and adopt the e-invoicing system, as they are faced with a myriad of action plans before them, including:

- Reviewing existing processes for issuing transaction documents (invoices, debit notes, credit notes, refunds, etc.)
- Sourcing a vendor to develop an API that integrates their ERP system with MyInvois
- Communicating any revisions in the invoicing arrangement with their suppliers and customers
- Training personnel to handle the new system
- Procuring the necessary IT equipment to support the e-invoice requirements

All these tasks should be carried out either concurrently or consecutively to ensure full compliance by the implementation date

What are the tax and non-tax related practical issues?

The IRBM's Frequently Asked Questions seek to address as many problems as possible prior to the implementation of the new system, and provide the necessary guidance to the taxpayers in implementing the e-invoicing system in their organisations. Despite this, it is anticipated that more questions will arise before and during the implementation stage.

From the practical aspect, certain grey areas or tax issues that have not been addressed at this stage are as follows:

- Staggered implementation dates may pose operational issues to the supplier and the buyer if either one party is not registered under the MyInvois Portal. Unless a matching in the system is not required in MyInvois, this mismatch may give rise to the question of whether the MyInvois is able to process the validation task if either the buyer or supplier is not registered.
- For micro and smaller businesses dealing mostly in cash, the question arises as to the relevancy of e-invoice system to them and how the e-invoice system will affect their operations.
- It is not clear at this point whether "other transactions" mentioned in the IRB Guideline that require e-invoices to be issued will include income such as dividend, interest, disbursements / reimbursements, advance receipt, deposit received, etc.
- In relation to issuing self e-invoice for expenses payable to foreign suppliers, whether the expense will be disputed for tax deduction if the e-invoice is not issued under the MyInvois Portal.
- Businesses may prefer co-existence of the old system with the new system until the parties involved (i.e. supplier and buyer) are more familiar with the e-invoicing system. For example, a supplier may issue an invoice (under the existing system) and issue an e-invoice subsequently upon receiving payments from customers. Another example is for those businesses which have a practice of issuing a "proforma invoice" followed by a "final invoice" after receiving payment from the customer. These businesses would prefer to issue an e-invoice as the final invoice. However, these practices may be disputed by the IRBM.
- Not all businesses are able to transit to e-invoicing without major hiccups. This includes property development businesses and construction businesses which issue progress claims to their customers so they will need to sort out the types of invoices for the same customers during the transition. There are also many businesses that supply goods and services to individual customers which may not have a Tax Identification Number (TIN) for validation by the MyInvois Portal.

The list above is non-exhaustive, hence, both businesses and the IRBM have to work together to resolve any issues that may arise to ensure a smooth implementation of the e-invoice system in the country.

Conclusion

The implementation of an e-invoicing system offers businesses of all sizes and sectors in Malaysia an opportunity to streamline their financial processes, reduce costs and enhance transparency. Embracing e-invoicing implementation enables businesses to stay ahead in an increasingly digital world.

The Government stands to benefit from the implementation of e-invoice as this system helps to increase tax compliance, reduce tax leakage from the shadow economy and improved tax collections as the e-invoicing system will help to facilitate tax return filing and more accurate tax reporting in the future.

From the tax administration's angle, a unified invoicing process with all businesses submitting data electronically to the IRBM through the e-invoice system is a form of automation of data entry which reduces manual work, minimises human errors and helps to ease he administrative burden of the IRBM.

This article was written by **Foo Meng Huei**, Head of Tax at Crowe Malaysia. If you wish to seek clarification on any of these issues, please contact **menghuei.foo@crowe.my**

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