Taxman still keeping watch even with higher threshold for e-invoicing exemption

BY **ESTHER LEE**

The government's announcement earlier this month that taxpayers with an annual revenue of less than RM1 million will be exempted from implementing e-invoicing beginning in 2026 has lifted a great burden off micro, small and medium enterprises (MSMEs) as it removes compliance and administrative costs.

The Small and Medium Enterprises Association (SAMENTA) Malaysia estimates that the new scope for exemption means that another 200,000 SMEs will be excluded from mandatory e-invoicing.

Previously, only taxpayers with an annual revenue of less than RM500,000 were to be exempted from implementing e-invoicing. The threshold had been raised from the RM150,000 initially announced by the government.

This raises the question of whether the exclusion of certain categories of taxpayers from mandatory e-invoicing will result in potential revenue loss for the government.

"Some potential revenue leakage cannot be ruled out, as excluding this segment may reduce authorities' visibility over taxpayers operating below compliance thresholds. Comprehensive transactional reporting through e-invoicing would otherwise have helped bring such businesses into the tax net," says KPMG Malaysia e-Invoicing leader Ng Wei Wei.

Ultimately, the aim of e-invoicing is to strengthen the efficiency of tax administration management and accelerate the digitalisation of the tax system in the country. It is also intended to reduce under-reporting of income and over-claiming of expenses, PwC Malaysia tax director Mohd Haizam Abdul Aziz points out.

However, he acknowledges that the additional revenue that could potentially be collected from SMEs that under-report income would be relatively small compared with the revenue collected from the larger businesses, all of which would have implemented e-invoicing by next year.

Under the latest implementation schedule by the Inland Revenue Board (IRB), those with an annual revenue of up to RM5 million will be the last category of taxpayers to roll out e-invoicing on Jan 1, 2026.

While those with revenue below the RM1 million threshold may be exempted from mandatory e-invoicing, Ng cautions that this does not mean they will be exempted from tax scrutiny. She highlights the IRB's e-Invoice Compliance Review Framework that was issued recently, which sets out the rights and responsibilities of compliance officers, taxpayers and tax agents.

"Under this framework, only comprehensive audits are conducted [as opposed to general audits], involving interviews about business operations at the taxpayer's premises or another agreed location. More importantly, the IRB retains audit and compliance review authority beyond e-invoice matters," she warns.

TraTax's Thenesh says companies that make payments to individuals not only have to make the correct determination as to whether the self-billed e-invoice is required, but also retain documentation to justify their stance to IRB

KPMG's Ng: Some potential revenue leakage cannot be ruled out, as excluding this segment may reduce authorities' visibility over taxpayers operating below compliance thresholds

PwC's Mohd Haizam points out that some of the smaller businesses are already visible to the tax authorities as they conduct transactions on e-commerce platforms

"Taxpayers exempted from e-invoicing remain fully subject to general tax compliance and audit provisions under the Income Tax Act 1967. Any taxpayer may be audited at any time, and the scope can cover all business records, not just those related to e-invoices."

Transactions between businesses provide natural cross-verification mechanism

Mohd Haizam says some of the smaller businesses are already visible to the tax authorities as they conduct transactions on e-commerce platforms. In such cases, the obligation lies with the e-commerce platform provider, even though the transactions are made by the businesses.

Furthermore, there is the self-billed e-invoice obligation placed on buyers who have already implemented e-invoicing that will also provide information on some of the smaller businesses that conduct such transactions.

"Based on this information, the tax authorities have already been able to identify businesses that have not been filing their tax returns or not paying their tax instalments," he points out.

In other words, through the various transactions made between businesses, most of which will have to adopt e-invoicing next year, a natural cross-verification mechanism takes place. Ng says this will offer visibility into the economic activity without directly mandating e-invoicing for smaller businesses.

The tax consultant emphasises that e-invoicing is only one component of a broader compliance framework.

"This ecosystem incorporates traditional audits, third-party data matching, risk analytics, taxpayer education and voluntary compliance initiatives. The chosen threshold reflects the understanding that distinct compliance strategies are more effective for different segments of the business landscape," she says.

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E-invoicing implementation timeline

Targeted Taxpayers	Implementation Date
Taxpayers with an annual turnover or revenue of more than RM100 million	1 August 2024
Taxpayers with an annual turnover or revenue of more than RM25 million and up to RM100 million	1 January 2025
Taxpayers with an annual turnover or revenue of more than RM5 million and up to RM25 million	1 July 2025
Taxpayers with an annual turnover or revenue of up to RM5 million	1 January 2026
Taxpayers with an annual turnover or revenue of less than RM1,000,000 are exempted from e-Invoice implementation	

However, the higher threshold of RM1 million comes with challenges as well for large businesses making payments to individuals.

"When a company makes payment to an individual, the company is required to issue a self-billed e-invoice to the individual if he is not carrying on a business. However, if the individual is carrying on a business, the company will not issue a self-billed e-invoice in respect of the payment," says TraTax executive director Thenesh Kannaa.

He goes on to say that oftentimes, the company or payer may not have full information to know whether or not the payee is carrying on a business.

"At times, the badges of trade [to determine whether proceeds or profit are taxable income in nature] are subjective to apply even with full facts on hand. Hence, the company has to rely on information and declarations given by the payee to determine whether or not a self-billed e-invoice is required," he says.

Thenesh highlights that it is important for companies that make payments to individuals to not only make the correct determination as to whether or not the self-billed e-invoice is required, but they are also required to retain documentation to justify their stance to the IRB during compliance reviews, especially if the position taken is that the self-billed e-invoice is not required. "Each business must carefully consider factors and develop internal policies to ensure compliance," he adds.

Compliance-wise, it is worth noting that the exemption from mandatory e-invoicing does not apply to every taxpayer with an annual turnover of less than RM1 million. Thenesh points out that companies that are part of a larger group or have a related company with an annual turnover of more than RM1 million will still be required to implement e-invoicing by July 1, 2026 — the concessionary implementation date. "This rule ensures that the exemption benefits only MSMEs, and not small entities that are part of larger groups," he notes.

It should be highlighted that the e-invoicing implementation date is determined based on taxpayers' revenue for financial year 2022. The IRB says on its frequently asked questions page that if an entity's revenue for FY2022 is below RM1 million but exceeded the RM1 million threshold anytime in FY2023, FY2024 or FY2025, the entity is required to implement e-invoicing effective from the concessionary implementation date of July 1, 2026.

"Hence, July 1, 2026, is still a relevant date for e-invoicing implementation, especially for high-growth start-ups and smaller entities that are part of larger groups," says Thenesh.

Raising threshold seen as prudent

Ng says the higher threshold of RM1 million is a prudent move to address a range of concerns.

"Mandating digitalisation for businesses lacking the necessary resources and technical capacity would create unnecessary operational stress. As businesses grow and approach the RM1 million threshold, they will naturally need to implement the e-invoicing system. This creates a progressive compliance pathway that aligns with business maturity and capacity," she adds.

Mohd Haizam shares a similar view. He opines that as e-invoicing is intended to support the growth of the country's digital economy, it would be just a matter of time before every business is part of the e-invoicing ecosystem.

"Any current e-invoicing exemption can be reviewed and updated from time to time by the tax authorities. Hopefully by then, the implementation issues faced by the early adopters would have been resolved, the e-invoicing systems would have been stabilised and become more efficient, leading to lower costs, and eventually resulting in easier acceptance and more seamless implementation of e-invoicing by these smaller businesses."

More importantly, the threshold does not undermine e-invoicing's core effectiveness, says Ng. With larger businesses still accounting for the majority of high-value transactions, it ensures broad visibility across the formal economy's primary revenue streams while the cross-verification mechanism together with continued audit powers will help ensure smaller businesses remain within the compliance framework, she adds.

"This represents sound tax policy — achieving maximum impact where digitalisation delivers clear benefits while avoiding unnecessary burden where traditional methods remain more appropriate and cost-effective. The simultaneous release of the e-Invoice Compliance Review Framework demonstrates coordinated planning to ensure all businesses, regardless of size, remain accountable within a fair and transparent compliance system," she says. E