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The e-invoice **conundrum**

A look into the challenges of the new digital system which will be made mandatory in stages from Aug 1. > 8 & 9

The e-invoicing dilemma

The government is of the opinion that e-invoicing is a necessary evil to ensure taxes are fully paid. Is it the best solution to having a more effective system?

ECONOMY

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BY now, most of the business world is aware of the looming deadlines for the implementation of e-invoicing.

The thorny subject tends to elicit groans from company owners and their accountants and administrators.

But as the government is postulating, it is a necessary evil in order to ensure taxes are fully paid.

But then again, is it the only option? Is e-invoicing the best solution to having a more effective tax system?

It does seem that it is going to be a painful, expensive and time-consuming exercise, and hence, does the means justify the end?

In July 2023, the Inland Revenue Board (IRB) issued the first guideline under section 134A of the Income Tax Act 1967 for the implementation of e-invoicing.

Companies with revenues of RM100mil or more will have to carry out e-invoicing from Aug 1. Those with a turnover of more than RM25mil will be next, with their deadline being Jan 1, 2025. All companies are to be filing their e-invoices by next July.

Thannees Tax Consulting Services managing director S M Thanneermalai says even though there is about a month left before the first group needs to do the necessary, many of them are unprepared.

"Many companies are waiting to see what will happen to the first batch. The impression that many have is that the e-invoicing deadlines will be postponed, similar to what happened with the low-value goods and high-value goods taxes," he says.

There are parties who disagree with the idea of e-invoicing, especially in a country which has had a goods and services tax (GST) regime in the past. The GST was introduced in Malaysia in 2015 and abolished in 2018.

Tan Sri Soh Thian Lai of the Federation of Malaysian Manufacturers (FMM) says the GST is the panacea for Malaysia's debt woes.

"The GST is a timely lifeline for the country's debt dilemma and a means to shore up adequate fiscal buffers to weather the next economic downturn," he adds, adding that the problem is that the government lacks the political will to reintroduce the GST.

"The government is focusing on short-term measures rather than doing the right thing for the benefit of the nation in the longer term.

"As the GST is a broad tax base system which would increase indirect taxes, it will also give the government flexibility to reduce direct taxes (personal income and corporate taxes) to make the country a more attractive business destination," he says.

Soh notes that some companies have voiced their apprehension of e-invoicing, considering the sheer size, volume and complexity of transactions involved.

"These include export and import transactions that require companies to self-bill for overseas purchases. They are also concerned about the readiness of their systems for implementation and compliance with e-invoicing," Soh says.

So, how complex is e-invoicing going to be? Companies have two ways of digitally filing their invoices to the tax office. One is through the IRB's own MyInvois Portal. But this means that companies need to manually do it and the understanding is that only companies with a small number of invoices can take this route.

This is why the IRB will be providing all companies with application programming interfaces (APIs), which then will allow companies' own systems to directly connect with the tax office, thereby automating the submission process.

This will require companies to upgrade their own systems or invest in a new system. "Companies must automate their existing enterprise resource planning (ERP) systems or use a software that can directly speak to the IRB's MyInvois Portal. Initially, for the first year, it can be a burden to businesses cost-wise, similar to the implementation of the GST back then.

"Companies either have to customise their existing systems (if they are not up to date) or find a suitable middleware. It is going to be expensive," says Thanneermalai.

He notes that businesses may also need to hire consultants, particularly if they require help to navigate the e-invoicing process and understand the required documentation.

"The IRB can provide assistance, but it is already inundated with many questions, making it challenging for it to address individual concerns comprehensively. Hence, the IRB may offer generic answers which may not hold up during audits, potentially leading to problems in the future," he says.

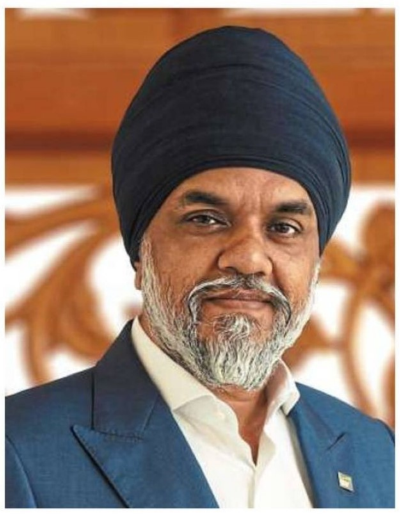
However, others do not think that the cost is going to be prohibitive.

Ernst & Young Tax Consultants Sdn Bhd tax managing partner Farah Rosley says the cost for MSMEs in gearing up for e-invoicing will not be burdensome, as they can access the MyInvois Portal which is free.

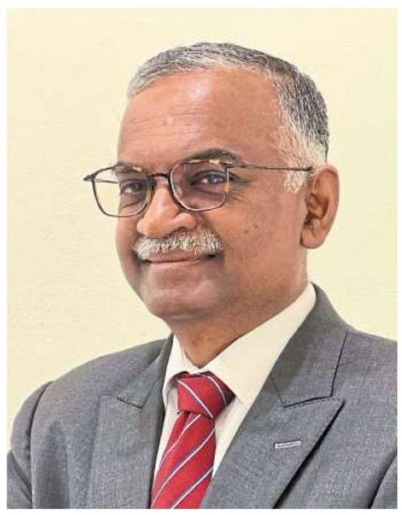
"Larger corporations will typically have the necessary manpower and IT departments to integrate e-invoicing into their existing systems," she adds.

Meanwhile, the government has also announced a tax deduction of up to RM50,000 per year (up to the 2027 year of assess-

In charge: The IRB issued the first guideline for the implementation of e-invoicing in July 2023.



Amarjeet: Many countries that implement the GST also adopt e-invoicing.



Thanneermalai: The impression that many have is that the e-invoicing deadlines will be postponed.

William: The requirements will stretch the ability of MSMEs to comply with the regime.

South-East Asia countries with GST/VAT

Countries	Implementation year	Tax rates
Indonesia	1984	11%
Philippines	1988	12%
Thailand	1992	7%
Singapore	1994	9%
Vietnam	1999	5%, 10%
Cambodia	1999	10%
Laos	2010	10%
Malaysia	2015 (abolished in 2018)	6%
Timor-Leste	NA	NA
Brunei	NA	NA
Myanmar	NA	NA

Note:
1) Vietnam has multi tax rates applicable for different categories of goods and services.
2) Timor-Leste, Brunei and Myanmar do not have GST/VAT yet.

TheStargraphics

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Wei Wei: When Vietnam introduced e-invoicing, companies faced a shortage of skilled staff to handle e-invoicing processes.

Sim: E-invoicing complements the GST by facilitating data accuracy and transparency and enhancing the efficiency of administrations.

Soh: The GST is a timely lifeline for the country's debt dilemma and a means to shore up adequate fiscal buffers.

Koh: Both e-invoicing and the GST require changes to companies' accounting systems, which is a major cost.

Chow: E-invoicing will increase the overall awareness of taxpayers in areas relating to technology and automation.

ment) given on environmental, social and governance-related expenditure, including consultation fee for the implementation of e-invoice incurred by MSMEs.

"Frankly speaking, the amount is most probably not enough," quips Thanneermalai.

E-invoicing does not look like a walk in the park. There are 55 data fields to be filled, 35 of which are mandatory.

The IRB has since clarified that for MSMEs, only six fields are required.

But Thanneermalai says MSMEs managing large transaction volumes will face challenges and will likely need to hire more personnel for data entry.

Over time, though, costs for carrying out e-invoicing will come down as companies become familiar with the process.

"We have to look at it positively. Initially, there will be a cost to get started, but as businesses pick up speed and achieve economies of scale, the costs will come down."

Other countries' experience

Looking at neighbouring countries, Indonesia, Vietnam and Singapore carried out the GST or value-added tax followed by e-invoicing.

Malaysia has a late mover advantage – it can learn from the experience of its neighbours.

KPMG Malaysia e-invoicing tax partner lead Ng Wei Wei says when Vietnam introduced e-invoicing, companies faced a shortage of skilled staff to handle e-invoicing processes in both the front-end and back-end operations. This highlights the importance for businesses to provide proper training and education to their staff in e-invoicing matters.

"Vietnam, in tackling this challenge, also emphasised the necessity of regular conferences between tax authorities, e-invoice solution providers and industry representatives to address and resolve difficulties encountered in implementing e-invoicing," she says.

Wei Wei notes this initiative is carried out by the IRB where many webinars, conferences and meetings with taxpayers and industry players regarding e-invoicing have been held. The IRB has also provided a hotline number and central email address for taxpayers to seek clarification on e-invoicing.

"Another country is China, which faced challenges with its e-Fapiao system during system upgrades. Hence, this is something that Malaysia should be cautious of and have alternative options ready, both during and after the implementation of e-invoicing," she says.

Snapshot of e-invoicing rules in Malaysia and selected countries in Asia

Country	Date	Features
Malaysia	**Aug 2024**	> Mandatory adoption in stages *Phase 1:* From Aug 1, 2024 for companies with annual turnover of more than RM100mil *Phase 2:* From Jan 1, 2025 for companies with annual turnover of more than RM25mil *Phase 3:* From July 1, 2025 for all companies
Indonesia	July 2015	> Uses an electronic system, called e-Faktur Pajak, mandatory in two stages *Phase 1:* For taxpayers in Java and Bali from July 2015 *Phase 2:* For taxpayers in other regions from July 2016
India	Oct 2020	> Uses the goods and services tax (GST) e-invoice/ invoice reference number system, mandatory in stages from October 2020 > As of August 2023, mandatory for GST taxpayers with annual turnover of more than 50 million rupees (RM2.8mil)
Philippines	July 2022	> Mandatory for the 100 largest taxpayers from July 2022 > Requirement expanded to all taxpayers from January 2024
Vietnam	July 2022	> Mandatory for all businesses from July 2022
Singapore	May 2025	> Adoption on a voluntary basis in stages *Phase 1:* Voluntary early adoption by GST-registered businesses from May 1, 2025 *Phase 2:* Newly incorporated companies that register for GST voluntarily from Nov 1, 2025 *Phase 3:* All new voluntary GST-registrants from April 1, 2026
China	2020	> Uses a system called the Golden Tax System or Fapiao System > The China Tax Bureau (CTB) has required new taxpayers in the country to adopt business-to-business electronic invoicing system since 2020. Participation in the system is voluntary for other taxpayers. > Widespread adoption is anticipated nationwide by 2025
Thailand	2012	> Adoption on a voluntary basis since 2012 > Remains non-mandatory to-date

Sources: VATupdate.com, Edicom and the Finance Ministry

The Star graphics

Paving the way for the GST

KLCA Tax Solutions Sdn Bhd managing director Christine Koh says, "If we put aside economic and political considerations and look at it purely from a tax practitioner's viewpoint, I prefer the GST.

"It would also be better to just bite the bullet once and implement the two together, rather than go through the process twice. However, this is from an academic perspective, not considering the current situation of the nation."

Koh adds that enforcing both concurrently will not only be more cost-effective, but also shorten the time needed for businesses to adapt.

"Both e-invoicing and the GST require changes to companies' accounting systems, which is a major cost. Implementing them simultaneously could result in lower charges from software companies. Additionally, businesses would also need to train their staff and adapt to the new systems," she says.

Nevertheless, Koh opines that it is in the country's best economic interest to stick with the current tax system and see through the rollout of e-invoicing, as it will make the transition to the GST smoother.

"The last time the GST was introduced, it was done without a comprehensive system in place. So, it was a very heavy process that the public went through to adapt to all the compliance and submission requirements.

"In this sense, it is a good start for the country to implement e-invoicing now and bring in the GST later on," she says.

Deloitte Malaysia country tax leader Sim Kwang Gek says e-invoicing can have a positive impact on the GST if the latter is introduced in the future. This is because e-invoicing will bring about a reduction in fraudulent claims and an increase in compliance among taxpayers.

"E-invoicing complements the GST by facilitating data accuracy and transparency, as well as enhancing the efficiency of tax administrations," she says.

Ernst & Young Tax Consultants Sdn Bhd Asean tax leader Amarjeet Singh says e-invoicing will allow tax authorities to identify individuals with lower income to better target rebates or cash backs and offset the regressive nature of the GST.

"Many countries that implement the GST also adopt e-invoicing. The data generated from e-invoicing is utilised for direct tax purposes in numerous countries. In some instances, tax administrators can even automate tax computations and pre-fill tax returns for taxpayers based on the data in e-invoicing," he says.

In the South-East Asian region, countries like Indonesia, Vietnam and the Philippines carry out mandatory e-invoicing along with the GST.

"Regardless of whether the government wants to bring back the GST, e-invoicing is a positive step forward.

"The ultimate aim of e-invoicing is compliance by design. Leakages due to errors or non-compliance will be reduced and this in itself will result in a higher tax collection," Amarjeet adds.

How much more taxes will be collected?

If implemented in Malaysia, e-invoicing will lead to a rise in tax revenues, and help the government achieve its 2024 tax collection target of RM185bil (surpassing 2023's record of RM175bil).

Ernst & Young's Farah says it is difficult to gauge how much taxes can be collected through e-invoicing alone as there are other taxes as well.

"The shadow economy encompasses not only illegal activities, but also transactions outside the tax net. If e-invoicing can capture even a fraction of the shadow economy, which is at about RM330bil now, this in itself will increase tax collection.

"As such, the revenue collected through e-invoicing will, in time, surpass the highest GST collection of RM44bil recorded in 2017," she says.

According to current guidelines, businesses must issue individual e-invoices for business-to-business transactions. However, for SMEs and certain businesses where most buyers are individuals or business-to-consumer transactions, only one consolidated e-invoice needs to be issued through the MyInvois Portal. This consolidated invoice should include the total receipts issued to individuals for the month and must be submitted within seven days after the month ends.

Experts also concur that e-invoicing will not lead to more bureaucracy and red tape if implemented properly.

Wei Wei says once the framework and policies for a company's operation is in place, e-invoicing can reduce delays, traceability issues and errors associated with manual documentation, thereby reducing bureaucratic obstacles.

"In general, e-invoicing should not disrupt existing accounting policies or retention of underlying supporting documents, as it primarily involves data transmission."

Deloitte Malaysia business process solution leader Eugene Chow says if a structured approach is adopted whereby a company's business processes are assessed and gaps are identified, e-invoicing can be the catalyst to accelerate the digitalisation of their financial system.

"E-invoicing will require businesses to re-think their processes and business model. It will also increase the overall awareness of taxpayers in areas relating to technology and automation. This will result in a leaner and more efficient operation in the long run," he says.

For MSMEs, e-invoicing remains a daunting event. Small and Medium Enterprises Association (Samenta) national president Datuk William Ng says it is going to be challenging for small traders as the learning curve will be steep and the process can potentially be disruptive to daily operations.

"The requirements will stretch the ability of MSMEs, especially small traders, to comply with the regime. Samenta has been in consultation with the IRB, and is grateful that the tax authorities have been both forthcoming and helpful – but the challenge of implementing the e-invoicing among small traders remains," says William.