E-Invoicing: Are we really ready?

Despite the long-term benefits of a paperless system, especially for larger businesses, questions remain whether SMEs can cope with the transition as they struggle with both financial and technological constrains

Rachel Lau
racellau@theborneopost.com

IT HAS been just over a month since the mandatory e-invoicing system was introduced on Aug 1 for Malaysian taxpayers with an annual turnover exceeding RM100 million.

While the launch had a rough start with taxpayers initially struggling to access the Inland Revenue Board (LHDN)'s MyInvois system due to overwhelming response, the situation now seems to have stabilised with LHDN reporting that they received over 1.4 million e-invoicing submissions within the first four days of implementation.

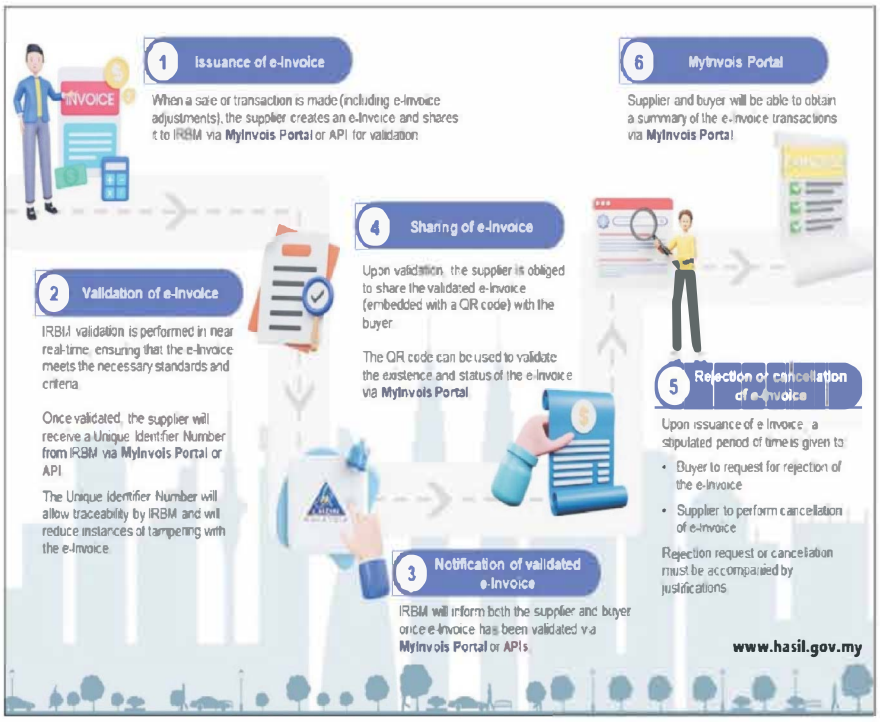
But even though the initial turbulence has eased, the question on everyone's mind still remains – can Malaysia successfully transition into a full pre-clearance e-invoicing system and its accompanying penalty regime?

But making the switch from a manual system to a digital one is easier said than done. As we move through the six-month soft launch phase, the real test lies ahead.

Short-term pain, long-term gain for Malaysia

According to LHDN, the main purpose of the mandated e-invoicing system is to support the growth of the digital economy by enhancing the efficiency of Malaysia's tax administration management.

In an interview with **thesundaypost**, KPMG Malaysia's e-invoicing Tax Partner Lead, Ng Wei Wei said that the transition would have inevitable challenges in the beginning as the technological shift needed to adopt this fully automated invoicing system from the current manual process will likely require substantial resources.



Graphics: Inland Revenue Board

Majority of SMEs still unprepared, call for review of threshold

From Page 1

"And for businesses that deal with end-consumers, the transition may be even more complicated as these businesses will have to issue both individual and consolidated e-invoicing based on their buyer's request," she said.

Sarawak Business Federation secretary-general Dato Jonathan Chai Voon Tok notes that these challenges will also be felt by cash-based retail businesses and service-based industries with customised offerings and complex pricing structures.

But despite the growing pains, both Ng and Chai are optimistic as they believe e-invoicing will ultimately be a boon for Malaysia's economy, aligning the country with global best practices in digital taxation and operations.

Other than the obvious increased tax revenue and improved tax administration, Chai believes all taxpayers in the long-run will be able to find themselves enjoying streamlined operations with fewer errors, improved cash flow, better data management and analytics, and potentially even reduced manpower through the use of automation.

This, he pointed out, would be especially true for large corporations and players involved in manufacturing, e-commerce, logistics, and/or transportation sectors, as they deal with complex supply chains and high volumes of transactions.

As for consumers, Chai predicts they may even see price reductions as businesses pass on the savings from reduced manpower and operational costs.

"While there may be initial challenges in adopting e-invoicing, the long-term benefits outweigh the drawbacks. With proper planning and support, Malaysia can successfully transition to a paperless invoicing system," he said.

NG WEI WEI

DATO JONATHAN CHAI VOON TOK

DATO SIM KIANG CHIOK

KEVIN LIM

JORDAN ONG

WONG CHING YONG

Majority of SMEs still unprepared

With a myriad of benefits, it seems obvious why there has been warm support for the mandated e-invoicing system from the wider public.

However, concerns still remain as industry observers are quick to point out that while large corporations may have the resources to adapt quickly, small and medium enterprises (SMEs) are expected to bear the brunt of the transition as they will struggle with both financial and technological constrains.

A recent survey by KPMG Malaysia revealed that a whopping 78 per cent of SMEs are less than halfway ready for e-invoicing, and that's very troubling given that SMEs account for 96.9 per cent of all business establishments in Malaysia.

The Top 3 challenges identified include the risk of penalties for non-compliance or unintentional omissions due to unfamiliarity with the new requirements, the need for extra manpower, and operational disruptions or delays.

SME Association of Sarawak president Jordan Ong pointed out that feedback from their members echoed similar concerns, and that the initial setup and transition could be especially burdensome for resource-strapped SMEs or micro-enterprises.

"For these businesses, the upfront investment in new software, training and process changes can be a major barrier even if the long-term benefits are clear, as they typically have tighter margins and fewer resources to dedicate to such a significant operational shift," he lamented.

Urgent need for cybersecurity infra devt

With the shift to e-invoicing, another concern that was raised is the urgent need for companies of all sizes to begin building and reviewing their own cybersecurity infrastructure, as the risk of data breaches could pose significant threats.

Kevin Lim, vice-president of cybersecurity firm Infra365, stressed the importance of businesses shoring up their digital defences.

"On LHDN's side, we will trust that they will have their cybersecurity efforts and controls in place. However, we as responsible businesses will need to do our due diligence in ensuring our digital environment and data are safeguarded as well," he said.

Lim's concern extends beyond simple data breaches, warning of potential ransomware attacks where hackers can threaten to delete or expose sensitive information if not paid a ransom.

He adds that businesses using third-party invoicing services may also be at greater risk of data breaches, though even those submitting invoices to directly to LHDN's MyInvois portal are not immune as Malaysian government databases have been subject to data breaches in the past.

With such dire potential consequences, Lim urged businesses of all levels to take precaution and urgently review their current cybersecurity measures and infrastructures during this transitionary period into e-invoicing.

"After all, prevention is better than cure."

Appeal to revisit SME implementation guidelines

Acknowledging the unique challenges facing smaller businesses, LHDN recently announced that taxpayers with an annual turnover below RM150,000 would be exempted from e-invoicing.

While this may be a great relief for many micro SMEs, Sarawak Housing and Real Estate Developers Association advisor Dato Sim Kiang Chiok believes that this threshold might perhaps not be enough.

Sim believes the exemption threshold should be raised to reduce financial strain on smaller players, particularly those in the construction industry.

"While most entities within the industry should be able to adapt to issuing e-invoices, small contractors and suppliers may face challenges due to limited accounting administration capabilities.

"It's important to acknowledge that e-invoicing may lead to increased costs of doing business and to help these businesses mitigate financial strain, it is crucial for the authorities to consider increasing the turnover threshold for e-invoicing exemptions," he said.

When asked what might be a more equitable turnover threshold, some industry players shared that following the Sales and Services Tax (SST), a threshold of RM500,000 might be more equitable.

Taking a more cautious approach, Sarawak United Peoples' Party (SUPP) Dudong branch chairman Wong Ching Yong, also a chartered accountant and auditor, proposed setting the threshold even higher at RM1 million.

He explained that this would better support SMEs, many of which may find the shift to e-invoicing too costly.

"It is known that a new set of electronic invoice software currently costs about RM10,000, which may be inaccessible to some businesses.

"It's better to allow the e-invoicing ecosystem to develop first. Once it's running smoothly, with more affordable consultancy services and software, then the remaining SMEs can be phased in gradually," he argued.

Adding to this, Chai said industries like agriculture, which operate in rural areas with poor digital infrastructure, could benefit from further implementation delays.

"Without the digital infrastructure being fully operational and available, it would be unfair to impose such a burden on SMEs, especially those in rural and remote areas," he said.

Make e-invoicing voluntary to encourage transition

Wong further questioned the necessity of mandating e-invoicing outright instead of a voluntary programme with incentives to push adoption.

He pointed out that countries like Singapore, USA and Canada have long adopted e-invoices as the standard but rather than make it mandatory, they have instead used a carrot-and-stick method to encourage a sustainable transition that also addresses potential gaps in the market.

"Even China, which has been vigorously promoting a fully digitalised e-invoice programme since 2021, has only made it mandatory for new taxpayers in B2C (business-to-consumer) and B2B (business-to-business) areas and voluntary for the rest," he shared.

With diverse industries facing their own unique challenges, SME president Ong suggests that a better solution would be to explore more tailored and flexible e-invoicing framework rather than employing a one-size-fits-all solution.

"Perhaps some targeted exemptions, extended timelines, or additional support mechanisms could help ensure a more equitable transition while also ensuring it doesn't inadvertently disadvantage certain business types," he suggested.

On the other hand, Wong firmly believes that if e-invoicing's goal is really to diminish the shadow economy, it might be a more prudent approach to instead bring back the Goods and Services Tax (GST) starting off with two or even three per cent.

The time to transition is now

With the e-invoicing mandate's soft launch period already in its second month, it would be prudent for businesses of all sizes to make a leap to transition sooner rather than later.

Ong asserts that by getting on board early, businesses can position themselves as agile, tech-savvy partners that larger enterprises will want to work with.

To ensure a smooth transition, Ng emphasised that there is a need for businesses to deploy effective communication, education, and change management across departments.

"There is a common misconception that e-invoicing only affects the finance department. However, the mandate requires collaborative efforts from multiple departments such as IT, HR and Procurement – as all business transaction owners play an important role in the transition," she explained.

While the transition to e-invoicing is still a learning journey for both taxpayers and tax authorities alike, the long-term benefits are expected to make this a worthwhile endeavour in supporting the government's initiative to realise a digitalised economy.

However, if companies are unable to successfully adapt, there is a concern that it may push smaller businesses further into the shadow economy.