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E-invoicing to reshape national tax landscape

Comment

Run-up to Belanjawan 2025 MALAYSIA MADANI

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MALAYSIA has joined a growing number of countries adopting e-invoicing to address the shadow economy, enhance tax compliance and boost operational efficiency.

The nationwide rollout of the Continuous Transaction Control (CTC) model in Malaysia has enabled near real-time digital transmission and processing of transactions between businesses, consumers and the government.

While the current e-invoicing model has shown to be comprehensive, there are opportunities to improve and smoothen business transitions as we move towards the next phases of implementation in the coming year.

Since the rollout of Phase 1 implementation on Aug 1, 2024, which mandated e-invoicing for large taxpayers (LTPs) with annual revenue of more than RM100mil, feedback from the ground has highlighted the unique challenges faced by taxpayers during the transition.

A market study by KPMG prior to the rollout revealed that nearly six in 10 LTPs reported being less than 50% prepared for implementation, with the top three challenges identified as additional costs for IT systems, the need for more manpower and system glitches.

To ease their transition, the Inland Revenue Board (IRB) has provided a six-month interim relaxation period in which taxpayers are offered certain concessions, which was well received as it provided taxpayers with much needed breathing room to ensure the transition to e-invoicing can be completed with minimal impact to operations.

However, it is important to note that the period is not a deferral – all taxpayers are still required to comply with the applicable e-invoicing mandate.

In response to appeals from micro, small and medium enterprises (MSMEs), IRB has exempted businesses with annual revenue of less than RM150,000 from implementing e-invoicing.

These businesses may continue issuing existing documentation to record transactions.

Meanwhile, MSMEs with revenue exceeding RM150,000 are permitted to issue consolidated e-invoice to capture all transactions from the previous month, excluding specific activities outlined in IRB's frequently asked questions updated on July 19, 2024.

Future developments and digital solutions

With readily accessible data on both buyers and sellers, tax governance by IRB can be facilitated through more focused tax audits on pertinent tax areas, thereby expediting the tax audit process.

Looking ahead, tax returns could potentially be auto-populated by the e-invoicing systems.

However, taxpayers must continue to maintain underlying documents to support transactions reflected in their tax return, in which requirements on detailed review and evaluation of financials based on accounting standards and the tax legislation remain.

Even with e-invoicing, taxpayers are expected to keep their own records and ensure documentation is readily available in the event of an audit for up to seven years as required by the law.

It would also be prudent for taxpayers to establish a strong Tax Corporate Governance Framework.

Good tax governance promotes the identification, assessment as well as mitigation of tax risks within an organisation.

Alongside e-invoicing, by integrating tax corporate governance into their operations, businesses can foster increased confidence with tax authorities, reduce the likelihood of tax audits and achieve greater certainty in their tax affairs.

To further ease the transition to e-invoicing, IRB plans to launch the MyInvois Mobile application in the last quarter of 2024.

Additionally, IRB is also developing the MyInvois e-POS (point-of-sale) application to assist MSMEs and SMEs in adopting the new system.

Looking ahead, it is no surprise that this will eventually lead to the gradual digitisation of all comprehensive tax-relevant documents (not limited to e-invoices), such as payment receipts, delivery notes and even contracts.

As digitalisation trends continue to evolve globally, it may be only a matter of time before different countries converge and harmonise the best practice or framework of e-invoicing to support global trade and e-commerce.

Budget 2025 considerations

While existing measures address some concerns, the challenges faced by businesses during the e-invoicing transition remain significant.

Implementing e-invoicing is understandably not an easy feat, and the challenge is compounded by the costs of initial investment.

Tax deductions for the costs incurred, including consultancy and training fees for years of assessment 2024 and 2025, would be welcomed to ease the financial burden on businesses.

Additionally, to ensure seamless data exchange between all governments, it is hoped that the e-invoicing system can be fully integrated with existing government portals, including the Royal Malaysian Customs Department.

This would streamline the process, reducing the need for businesses to repeatedly submit the same information to different government bodies, thereby eliminating redundancy and also enhancing compliance monitoring.

Another critical issue is the possibility of non-compliance due to technical glitches or system errors at IRB's end.

As the e-invoicing platform is new to both users and the government, businesses would appreciate a policy of non-penalisation under the Income Tax Act 1967 should such technical issues lead to non-compliance.

This would provide a sense of assurance during the transition and allow businesses to focus on adapting to the new system without fear of penalties for errors beyond their control.

Furthermore, taxpayers have expressed concerns over the frequent revisions to e-invoicing guidelines issued by IRB.

The constant updates have resulted in increased compliance costs, additional manpower requirements and operational disruptions.

A greater degree of certainty and stability in policy and guidelines would help alleviate these challenges, providing businesses with the clarity they need to comply efficiently.

Another area of concern is the security of confidential data.

Certain sensitive information must be disclosed as part of the e-invoicing process, and with the growing risk of cyber hacks and information leaks, businesses are rightly concerned.

It is imperative that the government ensures the highest standards of data security for the e-invoicing system, assuring businesses that their data will be protected.

Malaysia's e-invoicing journey is still in its early stages, but the advantages of this transformation are already obvious.

From increased compliance and transparency to streamlined tax audits and improved operational efficiency, e-invoicing holds the potential to reshape the national tax landscape so that Malaysia can progress as a nation fit for the future.

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