A New Era:
Malaysia's Move to E-Invoicing

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On July 21, 2023, Malaysia's tax authority, the Inland Revenue Board (IRB), introduced new guidelines for electronic invoicing (e-invoicing). This means that instead of paper invoices, businesses will now use digital ones. It will happen in stages, with some businesses starting on June 1, 2024, and all businesses using e-invoices by January 1, 2027. These guidelines are meant to help businesses understand how to use e-invoicing and explain the technical parts using examples. E-invoicing will make it faster to check and save transaction details, whether it's between businesses, customers, or the government.

An in-depth Exploration of E-invoicing

Overview of E-invoicing

E-invoicing constitutes a digital exchange of information between a business's internal systems (such as billing and enterprise resource planning systems) and an external third-party system, often under governmental or tax authority control, ensuring data accuracy and efficiency. The IRB is poised to implement a government-controlled third-party system, developing and overseeing its infrastructure for instantaneous data validation. Commonly referred to as "continuous transaction controls" (CTC) or "hard clearance" models, similar systems have been successfully deployed in several countries across Asia, the Middle East, and Latin America. While the fundamentals of CTC models remain consistent, the specific technical requisites may vary by country.

In this context, the IRB has released the e-invoicing guidelines as an initial step towards acquainting taxpayers with Malaysia's unique requirements. Additional resources, including a software development kit (SDK), industry-specific guidance, and training materials, are expected to be released in the coming months.

Defining Key Terms

The guidelines define an "e-invoice" as a digital representation of a transaction between a supplier and a buyer, effectively replacing traditional paper or electronic documents like invoices, credit notes, and debit notes. It encompasses vital transactional information for daily business operations, including supplier and buyer details, item descriptions, quantities, prices excluding tax, tax amounts, and total amounts including tax.

While the term "micro, small, and medium-sized enterprise" (MSME) is utilized in the guidelines, it lacks a specific definition therein or in the Income Tax Act 1967 (ITA). However, the ITA defines "small and medium-sized enterprise" broadly as a resident enterprise incorporated in Malaysia, with paid-up capital not surpassing MYR 2.5 million, not part of a group exceeding this capitalization threshold, and with gross income from business sources not exceeding MYR 50 million. From YA2024 onwards, it further excludes a company to become "small and medium-sized enterprise" if the paid-up capital of companies exceeding 20% directly or indirectly owned by companies incorporated in outside Malaysia or non-residents / non-citizens of Malaysia.

Crucial Implementation Points

In-scope Transaction

All B2B, B2G, and B2C transactions fall within the purview of e-invoicing requirements. In instances where end consumers do not require e-invoices for certain B2C transactions, suppliers can issue standard receipts or invoices, aligning with their established practices for tax purposes. These receipts or invoices must subsequently be consolidated into an e-invoice to substantiate transactions with end consumers.

The IRB mandates e-invoices for all types of invoices, including self-billed or issued invoices, credit notes, debit notes, and refund notes. E-invoices serve as proof of income for transactions involving the recognition of income, and as proof of expenses for transactions entailing purchases, expenses, returns, discounts, or corrections to income receipts.

Timeline for implementation

To ensure a seamless transition, e-invoicing will be implemented in phases. For taxpayers with audited financial statements, the mandatory adoption date is determined by their reported turnover or revenue in the 2022 audited financial statements. Taxpayers without audited financial statements will base their adoption date on their annual revenue in the 2022 tax return. Key implementation dates are as follows:

- **June 1, 2024: Mandatory for taxpayers with annual turnover/revenue exceeding MYR 100 million.**
- **January 1, 2025: Mandatory for taxpayers with annual turnover/revenue exceeding MYR 50 million but not exceeding MYR 100 million.**
- **January 1, 2026: Mandatory for taxpayers with annual turnover/revenue exceeding MYR 25 million but not exceeding MYR 50 million.**
- **January 1, 2027: Mandatory for all taxpayers, including new businesses commencing in 2023 or later, and certain non-business transactions.**

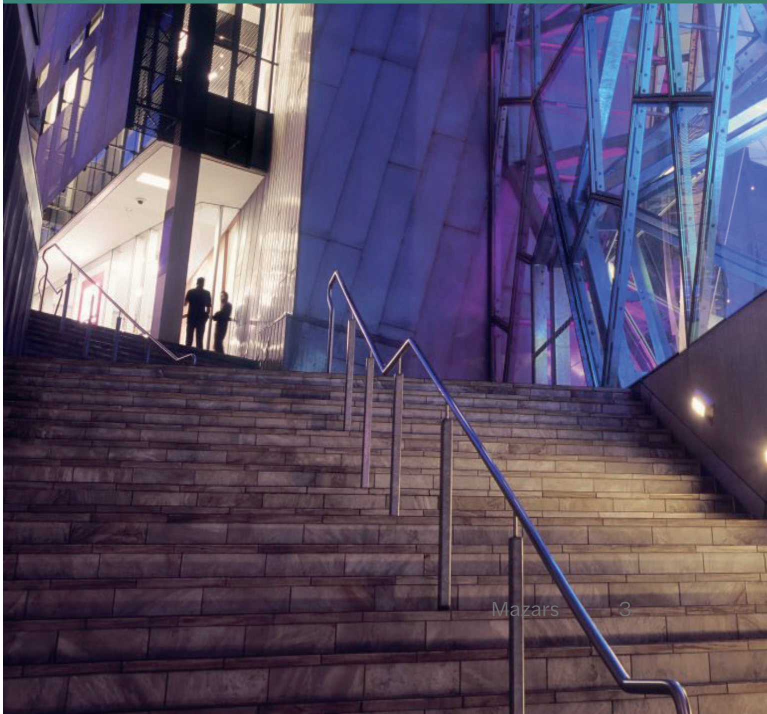
Taxpayers mandated to adopt e-invoicing will receive notifications from the IRB in stages. Nevertheless, taxpayers have the option to voluntarily join in earlier, irrespective of the stipulated implementation schedule.

In the event of a change in the taxpayer's accounting period within the 2022 fiscal year, the taxpayer's turnover or revenue will be proportionally adjusted to a 12-month period to establish the obligatory implementation date.

Procedures for e-invoice submission, validation, and issuance: The IRB will facilitate data transmission via the MyInvois portal within its MyTax portal or through an Application Programming Interface (API) to assist taxpayers in transitioning to e-invoicing.

The MyInvois portal is primarily intended for use by MSMEs and businesses with smaller data volumes to submit their information. The MyTax portal requires taxpayers to manually log in and input data, either individually for each invoice or in batches (depending on the nature of the transaction) for the MyInvois portal.

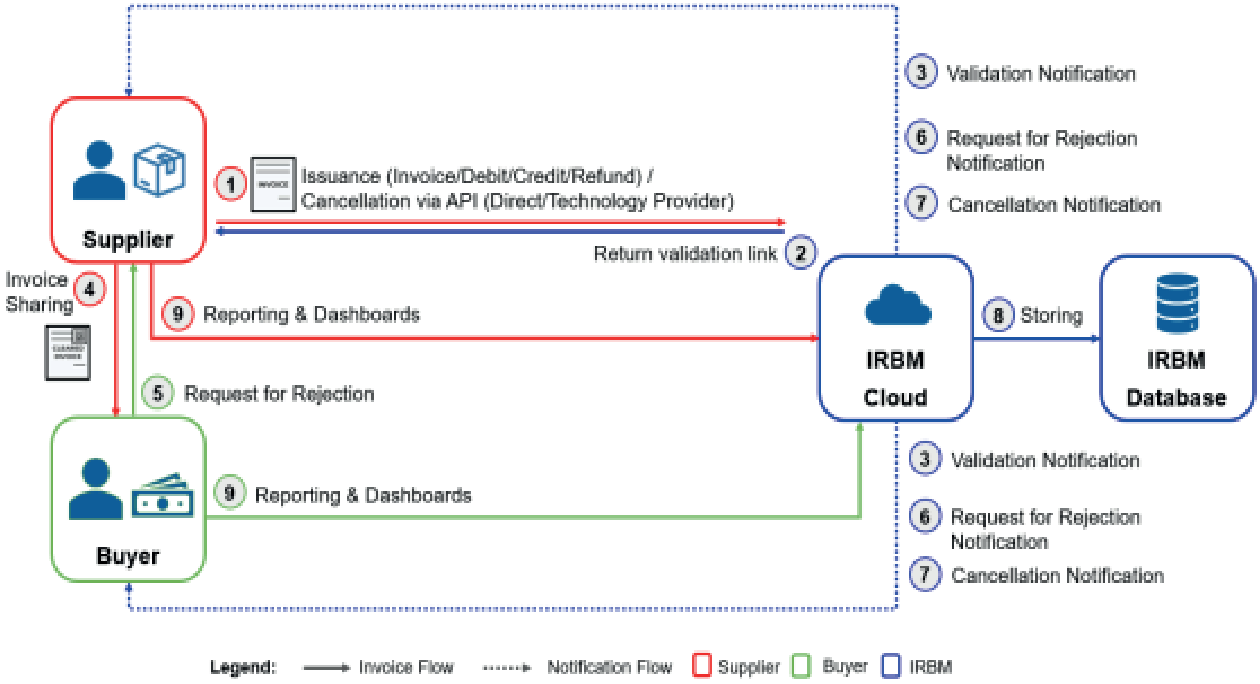
For larger businesses, the API option may be more practical, given the likelihood of a high transaction volume. Businesses opting for this method will need to configure their systems accordingly or engage a third-party software provider (referred to as a "middleware" provider) to aid in generating e-invoices in the required Extensible Markup Language (XML) or JavaScript Object Notation (JSON) format.



Timeline for Implementation
A step-by-step guide

The subsequent steps are detailed in the guidelines pertaining to e-invoice submission, validation, and issuance through either the MyInvois portal or an API:

E-invoicing work flow model



Timeline for Implementation
A step-by-step guide

Step	Description
1	Submission: A business will create an e-invoice in the prescribed format and submit it to the IRB via the MyInvois portal or an API for validation. This applies to various scenarios (e.g., proof of income, proof of expenses), including the issuance of credit notes, debit notes, refund notes, etc.
2	E-invoice validation: Upon successful validation, the IRB will dispatch a validation link with a unique identification number ("ID number") for traceability. This process involves scrutinizing factors like file format, inclusion of mandatory data fields, tax identification number (TIN), and accuracy of numerical values (e.g., tax amount on an invoice).
3	Notification: For the API option, a notification API will be utilized to relay communications to both suppliers and buyers, ensuring they are apprised of the e-invoice validation status, facilitating effective communication and timely actions. In the case of the MyInvois portal option, notifications will be sent through the portal, followed by an email notification.
4	Sharing of e-invoice: Post-validation, the supplier must share the cleared e-invoice with the buyer, incorporating the validation link as a QR code on the e-invoice
5, 6, and 7 (as applicable)	Rejection and cancellation: Following IRB validation, the supplier and buyer have a 72-hour window to cancel or reject the e-invoice. Absent any action, the e-invoice is automatically accepted. Subsequent adjustments are not permitted; a new e-invoice (e.g., credit note, debit note, or refund note e-invoice) must be issued for adjustments.
8	E-invoice storage: All e-invoices submitted to the IRB will be stored in the IRB's database. Nonetheless, businesses are still required to maintain sufficient records and documentation related to the transaction.
9	Reporting and dashboard services: Both the supplier and the buyer have the option to request and retrieve the e-invoice data stored in in the IRB's database. This data can be furnished in various formats (e.g., XML/JSON, metadata, CSV, PDF), allowing the supplier and buyer to review and analyze it within their own systems.

Timeline for Implementation

Businesses should be aware of the 53 mandatory data fields for e-invoice issuance, categorised into nine groups: address, business particulars, contact number, invoice specifics, parties involved, party details, payment information, products or services, and a unique ID number. Supplementary data fields (delineated in appendix 2 of the guidelines) may be necessary for e-invoices issued in transactions involving:

1. Goods shipped to a recipient or address different from the buyer's details (requiring four additional data fields).
2. Imports and exports of goods (requiring four additional data fields).

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