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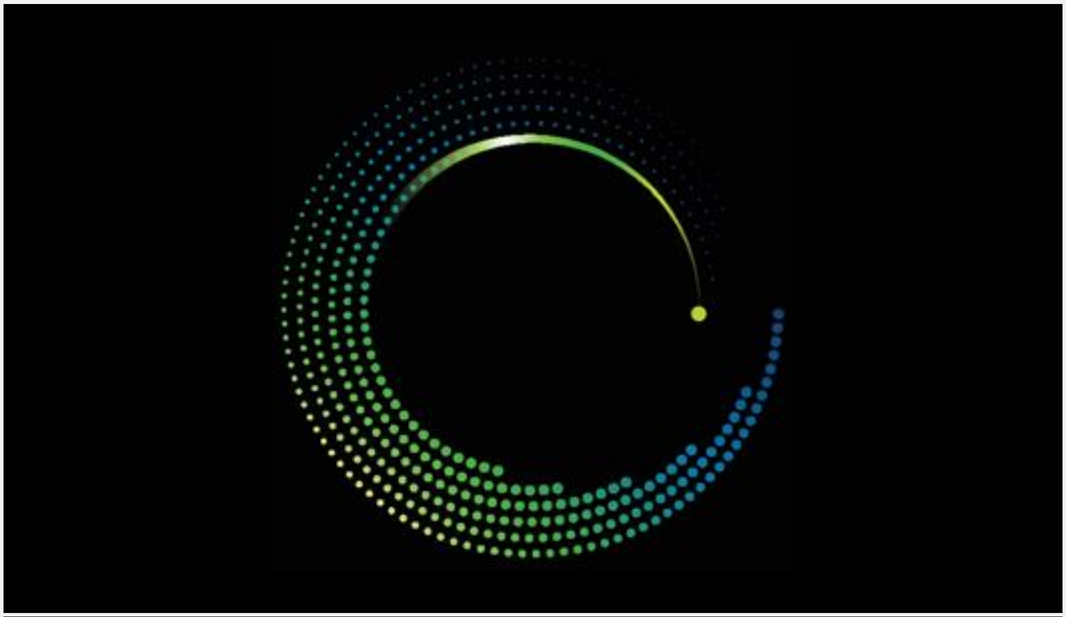


Tax Espresso—Special Alert

IRBM e-invoicing guide

Digitisation of tax: Introduction of e-invoicing

In line with the commencement of electronic invoicing (e-invoicing) from June 2024, the Inland Revenue Board of Malaysia (IRBM) on 21 July 2023 launched its webpage and released version 1.0 of its e-invoicing guidelines (e-invoicing guide).

In this alert, we highlight the salient points from the guidelines and highlight critical action points.

What is e-invoicing?

E-invoicing should not be confused with sending soft copy invoices (e.g., PDF) to your customer. E-invoicing refers to the digital exchange of information from a business's system (e.g., billing system, ERP, etc.) and a third-party system.

The third-party system validates the data sent to verify its accuracy, enabling greater efficiency and transparency. The third-party system can be an independent system or one controlled by the government/tax authority. The model that the IRBM is seeking to implement is the latter, where it would build and own its own infrastructure that would receive and validate the data. This model is commonly referred to as the Continuous Transaction Controls (CTC) or hard clearance model.

CTC models are not unique with a number of countries in Asia, the Middle East and Latin America having already implemented them. In Southeast Asia, Indonesia and Vietnam have implemented CTC models in 2013 and 2022 respectively and Philippines will be going live in 2024.

While CTC models are not new, the requirements and laws differ from country to country. The technical requirements for Malaysia will not necessarily align with others. The release of the e-invoicing guide is a critical first step towards understanding the Malaysian requirements.

Additional information will be released in the coming months including the Software Development Kit (SDK), guidance for particular industry matters or specific issues and training materials.

What types of businesses are in scope?

All individuals and legal entities are required to comply with e-invoicing requirements. The definition of legal entities is broad and include trusts, partnerships, associations and co-operatives.

What types of transactions are in scope?

Business to Business (B2B), Business to Government (B2G) and Business to Consumer (B2C) transactions.

For B2C transactions where electronic invoices (e-invoice) are **not*** required by the end customer for taxpayers, the supplier would be allowed to issue normal receipts/invoices.

After a period of time, the suppliers would be required to aggregate the receipts/invoices and issue a consolidated e-invoice to support the transactions made (further guidance will be issued by IRBM to address this).

The IRBM has outlined the following scenarios where an e-invoice is to be issued:

1. Proof of income: whenever a sale or other transaction is made to recognise income
2. Proof of expense: covers purchases, expenses, returns, discounts and corrections to income receipts. Imported service transactions from foreign suppliers who are not on IRBM's e-invoicing system would be required to issue a *self e-invoice* to document the expense

E-invoices would need to be issued for invoices (including self-billed or issued invoices), credit notes, debit notes and refund (for refund of customer payments).

What is the timeline for implementation?

Targeted taxpayer	Implementation date
Taxpayers with an annual turnover* or revenue of **more than RM100 million**	1 June 2024
Taxpayers with an annual turnover* or revenue of **more than RM50 million and up to RM100 million**	1 January 2025
Taxpayers with an annual turnover* or revenue of **more than RM25 million and up to RM50 million**	1 January 2026
All taxpayers and certain non-business transactions	1 January 2027

*Annual turnover will be based on audited financial statements for FY22 for businesses.

For businesses without audited financial statements, annual revenue would be based on the revenue reported in the tax return for the 2022 year of assessment.

In the event of a change in the accounting year for 2022, the taxpayer's turnover or revenue would be pro-rated to a twelve-month period for the purpose of determining the implementation date.

New businesses that commence from 2023 onwards would be provided with an e-Invoice implementation of 1 January 2027. However, any taxpayer can opt to voluntarily participate at an earlier date regardless of turnover.

Notifications will be sent by the IRBM to taxpayers that are mandated to participate.

What are the options for connecting with IRBM's infrastructure?

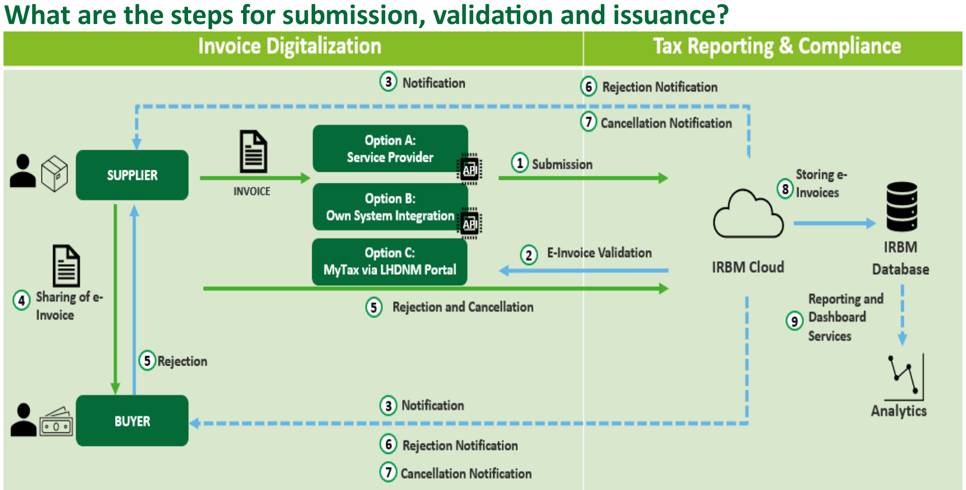
The IRBM will allow two methods of data transmission:

1. MyInvois Portal (hosted by IRBM)
2. Application Programming Interface (API)

The MyInvois Portal is targeted specifically for micro, small and medium enterprises and/or businesses that would not have large volumes of data to submit. It would require taxpayers to manually login to the MyTax Portal and submit the data manually either on an invoice basis or batch basis (depending on the nature of the transaction).

The API option is the more practical option for large businesses given likely volumes of transactions. Under the API option, businesses would need to configure their systems or engage a third-party software provider (referred to as middleware) to assist in generating e-Invoices in the required XML or JSON format.

What are the steps for submission, validation and issuance?



The following steps are outlined in the guide.

Step 1—Submission

For each of the transaction scenarios mentioned earlier (i.e. proof of income/expense) including issuance of credit notes, debit notes, refunds etc., the business either directly or with the assistance of a middleware provider, creates an e-invoice in the required format and submits it to the IRBM via API for validation.

Step 2—e-invoice validation
If no errors are identified, a validation link will be sent upon successful validation and will include a IRBM Unique Identification Number to enable traceability. If errors are detected, an error message will be shown.

The validation process will involve checks of various items including file format, inclusion of mandatory and essential data fields, TIN, numerical values are mathematically accurate (e.g. tax amount calculated on invoice), etc.

Step 3—Notification
A notification API will be used to send communications to both suppliers and buyers to ensure both are informed about the validation status of e-invoices, providing a facility for efficient communication, and enabling timely actions to be taken.

Step 4—Sharing of e-invoice
Upon validation, the supplier is required to share the cleared e-invoice with the buyer after embedding the validation link in the form of a QR code on the e-invoice.

Step 5, 6 and 7—Rejection and cancellation
Once the e-invoice has been validated by the IRBM, the supplier and buyer are allowed to cancel or reject the validated e-invoice within 72 hours from the time of validation. If no rejection or cancellation is made within 72 hours, the e-invoice would be automatically accepted. Any subsequent adjustments would require the issuance of a new e-invoice (e.g., credit note, debit note or refund e-invoice).

Step 8—Storing e-invoices
All e-invoices submitted will be stored in the IRBM's database. Businesses will still need to retain sufficient records and documentation in relation to the transaction.

Step 9—Reporting and dashboard services
Both supplier and the buyer will have the option to request and retrieve the e-invoice data stored in the IRBM database. The data can be provided in various forms (XML/JSON, Metadata, CSV, PDF). This would allow the supplier and buyer to review and analyse the data within their own systems.

What are the data requirements?
There are 53 data fields that are required for issuance of an e-invoice. These fields are grouped into 9 categories:

1. Address	6. Party details
2. Business details	7. Payment info
3. Contact number	8. Products/services
4. Invoice details	9. Unique ID number
5. Parties	

Additionally, the 53 standard fields, for the following business scenarios, would require additional data requirements (4 additional data fields each):

- Transactions where goods are shipped to a different recipient and/or address (i.e., different from the buyer's details)
- Transactions involving the import and export of goods

What are the next steps?

The transition to e-invoicing requires a focus on data governance and enhancement of business processes and systems. We outline some of the key focus areas.

Identifying and leveraging experience

E-invoicing and the implementation of CTC models are not new to our region. Multiple countries have implemented or are in the process of implementing e-invoicing regimes.

If your company is operating across multiple jurisdictions, there is an opportunity to leverage the knowledge from these implementations, especially if the systems used and the businesses processes are substantially similar.

Data governance

A critical requirement is for the business to be able to transmit efficiently and accurately the 53 data fields required by the IRBM on a *real-time* basis for each transaction scenario.

As a first step, businesses need to consider the following:

- Of the 53 data fields required, how many of these are collected by the businesses and stored electronically (e.g., TIN, HS codes, incoterms, and customs declarations)
- If the data has been collected, where is it currently being held? Is it in the one system or sitting across various systems? Who within the business has ownership or control of the systems that currently hold this data?
- Is the data complete and accurate? If the data is not accurate or not complete, what processes/steps are available to rectify this? Who within the business has ownership of the relevant businesses processes?
- If the data is held across multiple systems, whether the business should consider aggregating this to a single location (a single source of truth)?

Understanding impact to business processes

Existing business process will need to be reviewed and updated to meet these new requirements, including the following (non-exhaustive):

- Businesses do not currently issue invoices for all the transaction scenarios specified. However, an e-invoice would now be required for all in scope transactions
- The mandated use of credit notes, debit notes, refund invoices for specific transaction scenarios
- The 72-hour timeframe for cancellation of a validated/issued invoice, after which no cancellation can occur
- The exclusion of disbursements and reimbursements from the in-scope transactions
- The update of accounts payable processes to meet new requirements to check validated invoices via the QR code and to create self-issued invoices for payments to foreign service providers

Systems enhancement to meet API requirements
It is unlikely that standard billing systems and/or ERP systems would be able to support the IRBM's requirements as part of their standard solution. Businesses will need to either develop their own in-house solution or engage a third-party middleware provider to facilitate the connection to the IRBM. The IRBM has indicated that they would not be requiring any registration or certification for a middleware solution provider to provide a CTC e-invoice solution in Malaysia.

Developing a bespoke in-house solution based on the complexity of the business organisation and systems may require a significant investment in terms of resources and time. Presently, there is less than twelve months from the commencement of the e-Invoicing requirement. However, as the IRBM has yet to release the SDK which contains detailed IT technical requirements, the timeframe will be even shorter.

In terms of middleware providers, there are numerous global and regional e-invoicing solutions providers for such a service in other countries, and it is expected that they will provide a similar service in Malaysia. We anticipate there will also be several local software providers who will offer this service.

Identifying business and technical issues for escalation
The information provided is only general in nature and will not address specific business scenarios and circumstances. A critical step would be to identify issues that cannot be resolved internally or require further clarification.

How can Deloitte help?
Deloitte has supported and are supporting clients with their transition to e-invoicing across various jurisdictions, including the upcoming implementation of e-invoicing in the Philippines.

We have assembled a team that can leverage on their regional experience, working together with subject matter experts (e.g., indirect tax) to assist our clients through the relevant business processes.

Some areas we can support:

- Understanding the legal and technical requirements
- Conduct gap analysis
- Roadmap/blueprint for changes to business process/IT systems
- Vendor/solution selection
- Master data update and clean up
- Tax determination in IT system i.e., ERP
- Setting up tax reports
- Devising an implementation plan
- Project management;
- Testing, UAT and Go-Live
- Technical updates and training
- Developing a global and regional strategy and roadmap for e-invoicing implementation (for businesses operating across multiple jurisdictions)

Get in touch

Interested to find out more? Reach out and speak to our Deloitte Leaders.

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