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Client Alert

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Malaysia: Navigating the new e-invoicing regime

In brief

In an effort to enhance the efficiency of Malaysia's tax administration management and to enhance transparency, the Malaysian Government has announced the phased implementation of e-Invoicing, set to begin on 1 August 2024.

In this alert, we provide an overview of the essential information to note from the new e-Invoicing regime and key observations as businesses prepare for its implementation.

In more detail

1. What is e-Invoicing?

An e-Invoice serves as a digital record of a transaction between a supplier and a buyer, removing the need for paper or electronic documents such as invoices, credit notes and debit notes. This system allows businesses to create and store machine-readable, digital versions of invoices, streamlining billing and payment processes and facilitating tax return filings. E-Invoices are to be generated in a specific format based on requirements provided by the Inland Revenue Board Malaysia ("**IRBM**").

The IRBM had issued its guidelines on e-Invoicing since April 2024, with the latest updates made as at 28 June 2024 ("**IRBM Guidelines**").

2. When will e-Invoicing be implemented?

E-Invoicing will be implemented in phases based on the turnover or revenue thresholds of the business:

Phase	Targeted Taxpayers	Implementation Date
1	Taxpayers with an annual turnover or revenue of more than RM 100 million	1 August 2024
2	Taxpayers with an annual turnover or revenue of more than RM 25 million and up to RM 100 million	1 January 2025
3	All other taxpayers	1 July 2025

3. What are the e-Invoicing models in Malaysia?

Two distinct e-Invoice transmission mechanisms have been established by the IRBM:

(i) **MyInvois Portal:** A web portal hosted by the IRBM. It is accessible to all taxpayers and generally suitable for Micro, Small, and Medium-sized Enterprises (MSMEs) as they process a smaller volume of data.

(ii) **Application Programming Interface** (API): API is designed for larger businesses to conveniently transmit high-volume of transactions. Adoption of API, however, requires upfront investment in technology and adjustments to existing systems.

4. How does e-Invoicing work?

The process of e-Invoicing can be summarised into five (5) steps:

(i) **Issuance of e-Invoice**: When a sale or transaction is made, an e-Invoice would be created by the supplier and shared with the IRBM via the MyInvois Portal or API for validation.

(ii) **Validation**: The IRBM's validation is performed in near real-time. Upon validation, the supplier will receive a Unique Identifier Number from IRBM via the MyInvois Portal or API.

(iii) **Notification**: Consequently, the IRBM will inform both the supplier and buyer of the validated e-Invoice.

(iv) **Sharing of e-Invoice**: The supplier is to share the validated e-Invoice or its visual representation (embedded with a QR code) with the buyer.

(v) **Rejection or cancellation**: Within 72 hours of issuance, the buyer can request rejection of the e-Invoice, and the supplier may perform cancellation of the e-Invoice. The request for rejection or cancellation must be accompanied with justifications.

5. What are the types of e-Invoices?

There are four (4) types of e-Invoices that can be issued:

No.	Types of e-Invoices	Description
1.	Invoice	A commercial document that lists and records all details of a transaction between a supplier and a buyer.
2.	Credit Note	A document issued by suppliers to correct errors, apply discounts, or account for returns in a previously issued e-Invoice with the purpose of reducing the value of the original e-Invoice.
3.	Debit Note	A document issued to indicate additional charges on a previously issued e-Invoice.
4.	Refund Note	A document issued by a supplier to confirm the refund of the buyer's payment.

6. Who is required to comply with e-Invoicing in Malaysia?

All individuals and legal entities are required to comply with the e-Invoice requirement, including the following:

(i) Association;

(ii) Body of persons;

(iii) Branch;

(iv) Business trust;

(v) Co-operative societies;

(vi) Corporations;

(vii) Limited liability partnership;

(viii) Partnership;

(ix) Property trust fund;

(x) Property trust;

(xi) Real estate investment trust;

(xii) Representative office and regional office;

(xiii) Trust body; and

(xiv) Unit trust.

7. Who are exempted from the issuance of e-Invoice?

The following persons are currently exempted from issuing e-Invoice (including the issuance of self-billed e-Invoice):

(i) Former / Current Ruler and Ruling Chief;

(ii) Consort of a Former / Current Ruler of a State having the title of Raja Perempuan, Sultanah, Tengku Ampuan, Raja Permaisuri, Tengku Permaisuri or Permaisuri;

(iii) Government, State Government, State Authority, Government Authority, Local Authority, Statutory Authority, Statutory Body and facilities provided by the above government bodies (e.g., hospital, clinic, multipurpose hall);

(iv) Consular offices and diplomatic officers, consular officers and consular employees; and

(v) Individual who is not conducting business.

For tax purposes, receipts issued by the aforementioned persons would serve as proof of expense. Suppliers providing goods or services to the individuals specified above must still issue e-Invoices according to the implementation timeline.

These exemptions will be reviewed and updated by the IRBM periodically.

8. What are the exempted income / expenses?

An e-Invoice (including self-billed e-Invoice) is not required for the following:

(i) Employment Income;

(ii) Pension;

(iii) Alimony;

(iv) Distribution of dividend in specific circumstances;

(v) Zakat;

(vi) Contract value for the buying or selling of securities or derivatives traded on a stock exchange or derivatives exchange in Malaysia or elsewhere; and

(vii) Disposal of shares of a company incorporated in or outside Malaysia and not listed on the stock exchange, except where the disposer is a company, limited liability partnership, trust body or co-operative society.

These exemptions will be reviewed and updated by the IRBM periodically.

9. Is e-Invoice only applicable to transactions in Malaysia?

No. E-Invoicing is applicable to both domestic and cross-border transactions. Given that foreign suppliers are not mandated to implement Malaysia's e-Invoice, a Malaysian buyer is obligated to issue self-billed e-Invoices for transactions involving goods sold or services rendered by foreign suppliers.

The buyer will assume the role of the foreign supplier in issuing the e-Invoice and submitting it to the IRBM for validation. Once validated, the buyer would be able to use the e-Invoice as proof of expense for tax purposes.

10. How are e-Invoices validated and stored?

Validation of e-Invoices by the IRBM involves a series of checks to ensure that the e-Invoice submitted to IRBM conforms with the e-Invoice format and data structure as specified by IRBM. All validated e-Invoices will be stored in IRBM's database.

11. Is there a penalty for failure to comply with the e-Invoicing regime?

The failure to issue an e-Invoice constitutes an offence under Section 120(1)(d) of the Malaysian Income Tax Act 1967. This offence would, on conviction, attract fines ranging from RM 200 to RM 20,000 or imprisonment for up to six months, or both.

12. Recent Developments relating to e-Invoicing

<u>MSMEs</u>

The Malaysian Finance Minister II recently announced that MSMEs are allowed to issue consolidated e-Invoices, combining all sales transactions conducted in each month. MSMEs only have to submit the e-Invoices to the IRBM within the first seven days of the following month. Additionally, it was also announced that MSMEs with annual earnings of less than RM 150,000 will be exempted from issuing e-Invoices, although this has not been included in any particular legislation or the Guidelines.

The IRBM indicates that MSMEs are defined based on two (2) specific criteria, namely the number of employees and annual sales turnover. The specific criteria are as follows:

Types	Manufacturing	Services & Other Sectors
Micro	Sales turnover of less than RM 300,000; or less than 5 full-time employees.	Same as manufacturing sector.
Small	Sales turnover from RM 300,000 to less than RM 15 million; or full-time employees from 5 to less than 75.	Sales turnover from RM 300,000 to less than RM 3 million; or full-time employees from 5 to less than 30.
Medium	Sales turnover from RM 15 million to not exceeding RM 50 million; or full-time employees from 75 to not exceeding 200.	Sales turnover from RM 3 million to not exceeding RM 20 million; or full-time employees from 30 to not exceeding 75.

Tax Incentives

Businesses developing their own systems or using a solutions provider will enjoy tax incentives, such as a reduction of capital allowance claim period from four years to three years for the purchase of devices and computer software beginning in year of assessment (YA) 2024, as part of the Budget 2024 announcements.

Additionally, a tax relief of up to RM 50,000 for each YA will be given for consultation fees for implementation of e-Invoicing, borne by MSMEs from YA 2024 to YA 2027.

Key Observations

The phased implementation of e-Invoicing represents a significant move towards modernizing Malaysia's tax administration and aligning with global digitization trends. This transition offers both challenges and opportunities for businesses.

As businesses prepare for these changes, it is essential to consider issues such as the compliance obligations, potential technological upgrades and implementation, staff training and data security. Additionally, businesses should review and potentially update their contractual terms to reflect the new e-Invoicing requirements.

Moving forward, once the e-Invoicing system is implemented across the board, we also expect a shift in tax audit trends in Malaysia.

In the meantime, businesses should understand the obligations and requirements of the new e-Invoicing regime and ensure that all relevant internal stakeholders are fully aligned and coordinated in relation to the implementation of the e-Invoicing system.

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