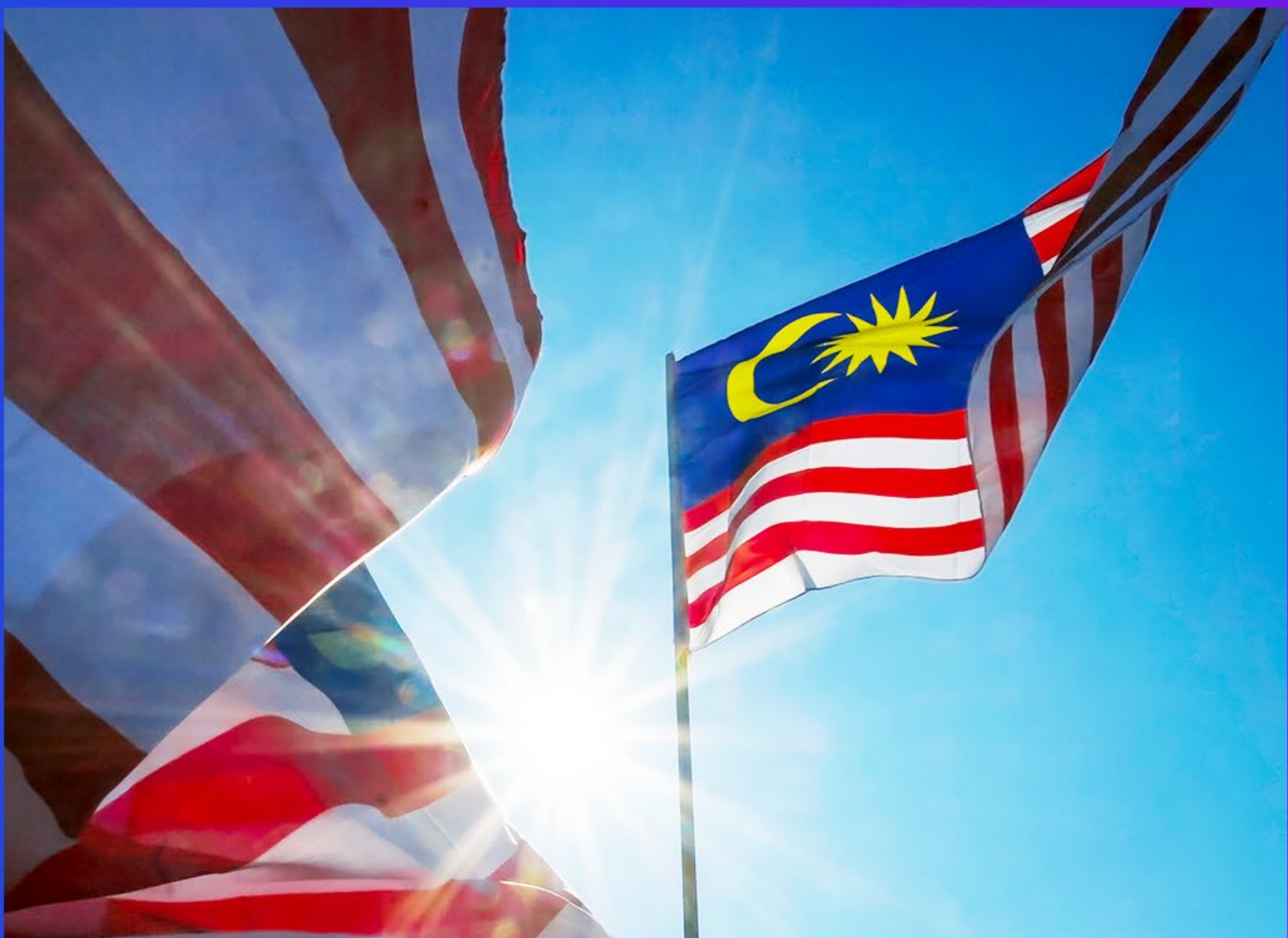
Is Malaysia Ready for Real-Time Compliance Through e-Invoicing?

7 October 2022

KPMG in Malaysia



Overview and Commentary

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Key Message

"For businesses to be ready for the implementation of e-Invoicing, proper internal controls are crucial in order for tax risks to be kept to a minimum by performing a thorough tax risk review on the company's processes and supply chain system."

Is Malaysia Ready for Real-Time Compliance Through e-Invoicing?

Taxes are the main source of revenue for a country to fund public programs and investments. Hence, it is crucial for everyone to play their roles in the tax ecosystem. The issue of tax evasion and under-reporting of income continues to be a concern as it compromises the self-assessment system as well as national confidence in our taxation system.

In effort to strengthen the efficiency of the GOM's tax system and help grow the digital economy, the tax identification number (TIN) was first introduced in the Budget 2022 to broaden the income tax base.

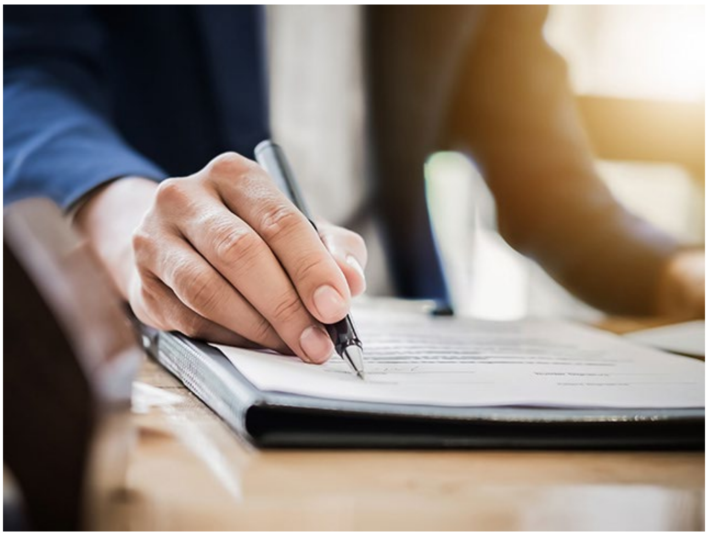
Continuing the emphasis on tax compliance measures, the Honorable Finance of Minister, YB Senator Tengku Datuk Seri Utama Zafrul Bin Tengku Abdul Aziz has announced in the Budget 2023 with the theme "Strengthening Recovery, Facilitating Reforms Towards Sustainable Socio-Economic Resilience of Keluarga Malaysia", the implementation of e-Invoicing in phases starting in 2023. The e-Invoicing initiative will begin with a developer system and pilot project covering selected taxpayers and is expected to both support and be backed by TIN.

What is e-Invoicing and how can it be implemented?

E-Invoicing which is an electronic form of legal document that records an entity's commercial transactions has been implemented in countries such as Canada, Chile, Hungary, Spain, China (People's Republic of) and Finland.

Based on the history of adoption in the abovementioned countries, it would do well for the tax authorities to have a tax legal framework or policy to define e-Invoice as invoices can come in all formats, sizes and dimensions and specify which categories of taxpayers would need to implement e-Invoicing. For instance, a phased approach was introduced in Chile over a four-year period in four different stages by size/level of sales and location. Malaysia could consider targeting large public listed taxpayers which generate a large percent of the country's tax revenue as a start.

Check and balance



The self-assessment system that Malaysia has adopted since 2001 requires a check and balance system in which the tax authorities conduct tax audit and investigation exercises on taxpayers to identify errors in tax reporting and take punitive actions against wrongdoers.

The total transparency and clear-cut trail for the underlying transactions in e-Invoicing will provide the GOM better access to data. The tax authorities in Spain and Italy have employed e-Invoicing data collected in its compliance risk management for risk analysis. For example, the percentage of verifiable invoices received is compared with similar taxpayers and where a stark contrast exists, potential indicator for non-compliance would trigger alert for the selection of taxpayers for tax audits, tax investigations, tax evasion and fraud.

The e-Invoicing system would allow for the live monitoring of transactions in companies and render it difficult to under-invoice. In Italy, the e-Invoicing system has managed to detect fraud and increased tax payments by 3.6% in 2019 with a drop in tax gap of 25% between 2017 to 2019. This shows that by implementing e-Invoicing, Malaysia has the potential to reduce tax revenue leakages or even plug the holes.

On top of minimizing human errors significantly, the time and effort required by businesses to reconcile and populate data for their year-end financial reporting is also reduced. E-Invoicing increases transparency and can give recipients a higher level of confidence because the invoice is issued in a standardized way. E-Invoicing streamlines and automates invoices and compliance documentation.

Are we ready for the change?

For businesses to be ready for the implementation of e-Invoicing, proper internal controls are crucial in order for tax risks to be kept to a minimum by performing a thorough tax risk review on the company's processes and supply chain system.

It remains to be seen how the tax authorities will roll out the e-Invoicing initiative on a countrywide scale.

Will taxpayers be ready for the change? It would also be worthwhile to ponder on some of the challenges that may be anticipated: -

- The costs of implementation of e-Invoicing may be significant especially for SMEs that have lesser transactions. Would tax authorities consider allowing for tax deduction on such implementation costs?
- What is the tax authorities' approach in raising awareness and providing appropriate training and guidance?

- Is 2023 the right time to launch e-Invoicing considering the lack of readiness in the adoption of e-Invoicing?
- What would be the timeline that the tax authorities expect for taxpayers to transition from manual Invoicing to e-Invoicing?
- From e-Invoicing that serves as a starting point, would Malaysia be eyeing the eventual full implementation of an entire e-business ecosystem consisting of e-procurement, e-Invoicing and e-payment?

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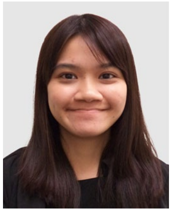

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