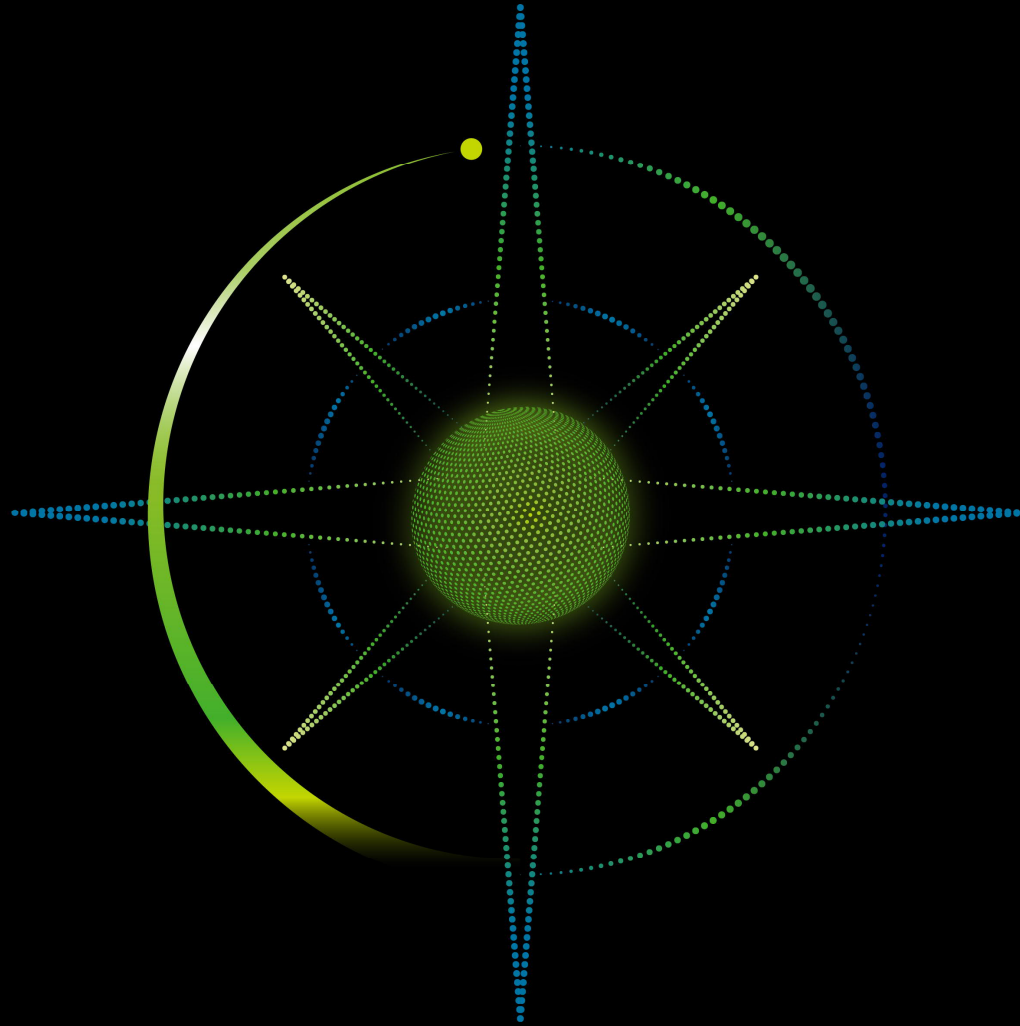


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Sustaining growth for a better tomorrow

Julian Ong Gim Lim | 21 November 2023



e-Invoice

Concept of e-Invoice

e-Invoice

Refers to the process of issuing and receiving invoices in an electronic format, where transactional data is sent from one system to another.

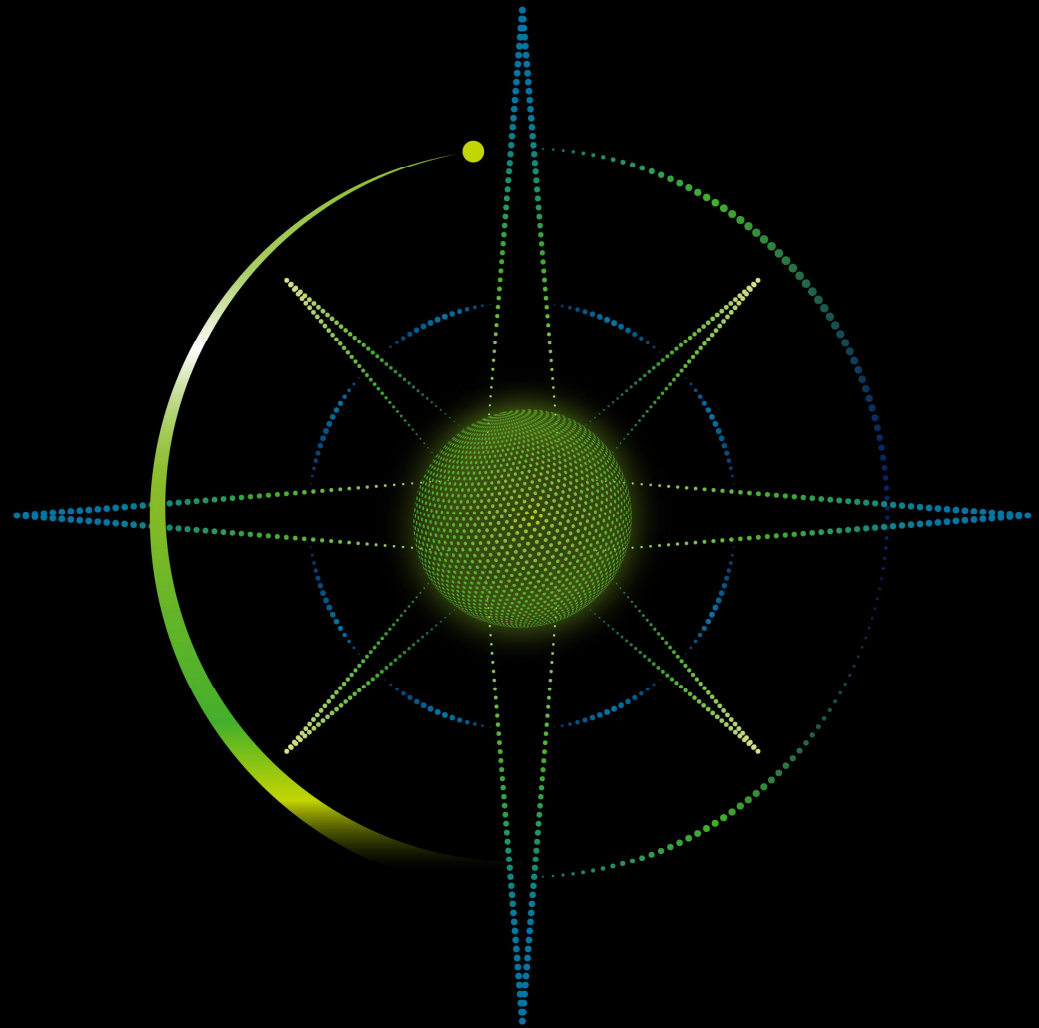
Global tax digitalisation initiative

Part of a global trend in digitalising tax where many countries have implemented or plan to implement e-Invoice.

Different models adopted across the globe

e-Invoice can be implemented via the clearance method or the post-audit method.

Malaysia model



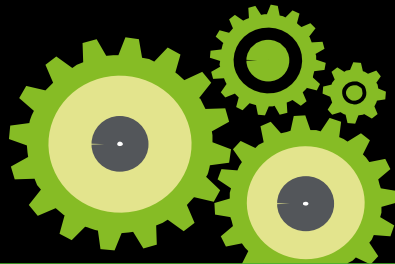
e-Invoice

Definition and Overview of the Hard Clearance Model

- Invoice or any document **approved by DGIR**, issued by any person in relation to 'goods sold' or 'services performed'
- The invoice or document has gone through an electronic transmission process and has been validated by DGIR.
- Amendments to Section 2 of the ITA 1967, Section 2 PITA 1967 and Section 2 of the LBATA 1990.



Definition of e-Invoice



Hard Clearance Model

- A **Hard Clearance Model** is where a central entity (often a government agency) acts as the hub by which all transactions flow between Access Points
- This model is often used in government sponsored initiatives where the central government wants to track tax commitments
- Latin America, Asian and some European countries implemented the Hard Clearance Model. E.g. Philippines and Indonesia

Malaysia Model

Malaysia's e-Invoice Background



Unlike other countries that have implemented e-Invoice clearance models where indirect tax has been the driver, in Malaysia, **direct and indirect tax are in focus**



The first guidelines were released in July and an updated version with an additional specific guideline was published in September. The MoF has reaffirmed the enforcement of e-Invoice during the recent Budget 2024 announcement, and the e-Invoice requirements will be **embedded in the Income Tax Act**



The IRB intends to use e-Invoice as a mean to address tax leakages and the shadow economy. It also has plans to use the data to pre-populate tax returns. **The RMCD are also given access to e-Invoice information.** (Subsection 138 of the ITA 1967)



Failure to issue an e-Invoice would be considered **an offence** under the Income Tax Act and for each offence, a fine of between RM 200 to RM 20,000 or imprisonment for a period not exceeding 6 months or both can be imposed. (Subsection 120 (1) ITA 1967)

Malaysia Model

Benefits to taxpayers



Reduction in manual efforts and human errors.

Unified invoicing process through creation and submission of transaction document & data electronically.



Facilitated tax return filing.

Seamless system integration for efficient and accurate tax reporting.



Enables streamlining of operations.

Enhanced efficiency and significant time and cost savings.



Digitalised financial reporting.

Aligns financial reporting and processes to be digitalised with industry standards.

What falls under e-Invoice?

E-Invoice applies to all taxpayers undertaking commercial activities in Malaysia.

The IRB has indicated that transactions falling under e-Invoice mandate is driven by the following scenario and invoice types:

Proof of Income

- Document is issued whenever a sale or other transaction is made to recognise income of taxpayers.

Proof of Expense

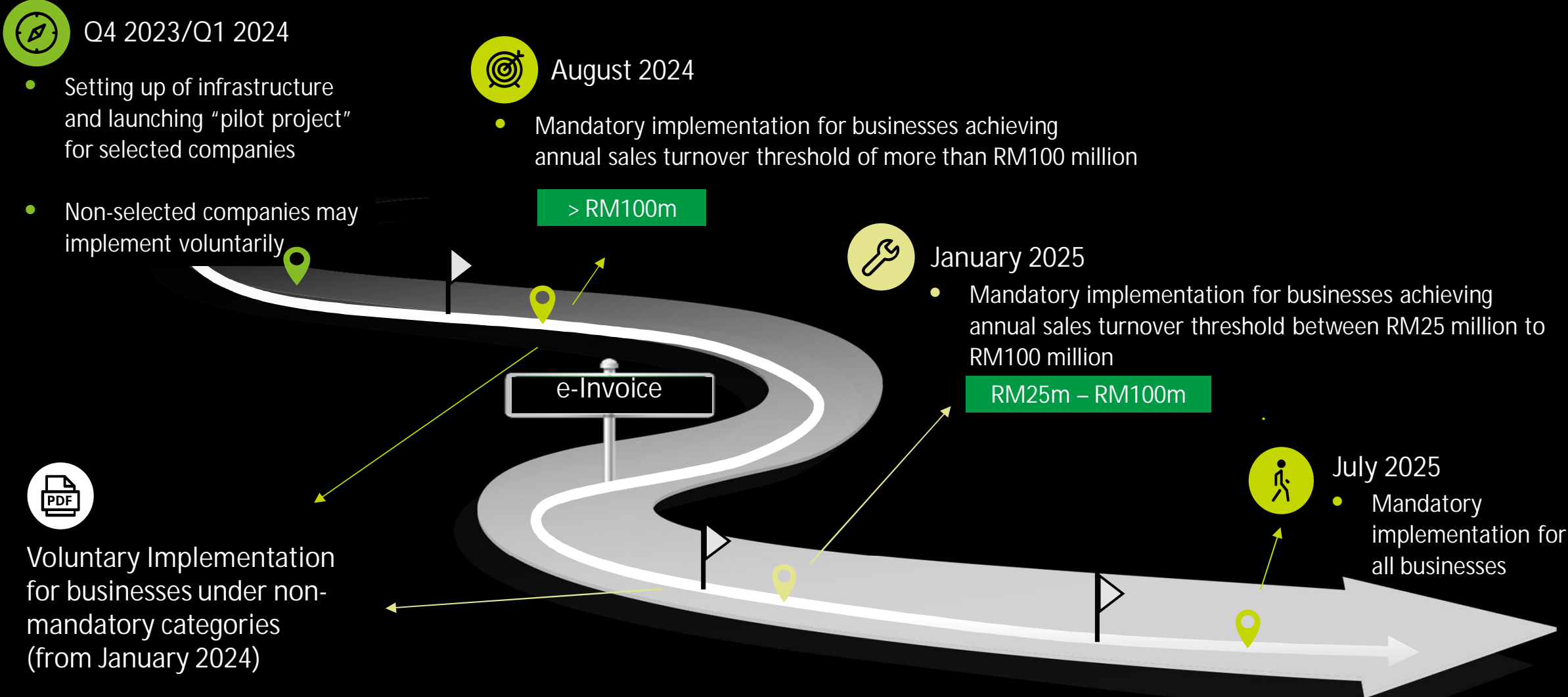
- Purchases made or other spending by taxpayers.
- Includes returns, discounts, and income receipt correction.
- Certain circumstances that requires taxpayers to self issue an e-Invoice to document an expense, such as foreign transactions.

Exceptions

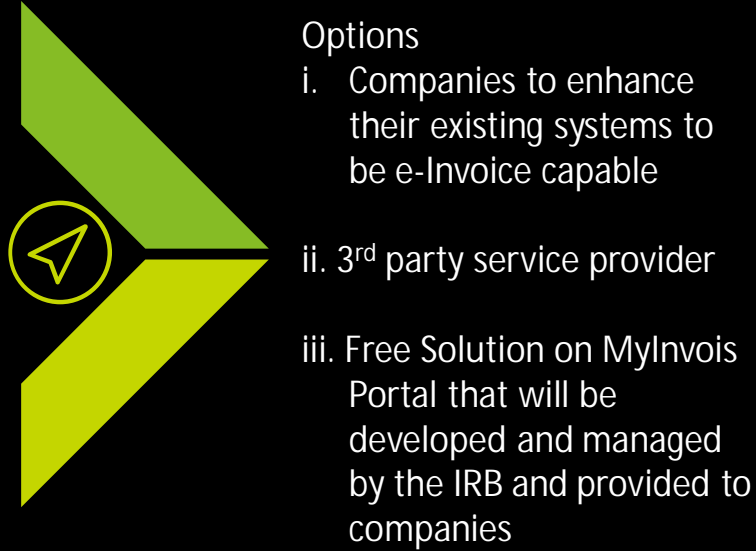
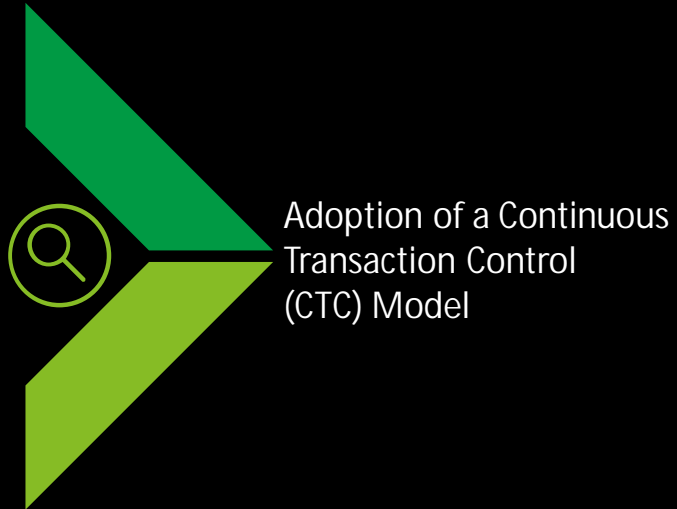
- Employment income
- Pension
- Alimony
- Distribution of dividend in specific circumstances
- Zakat
- Scholarship

Tax administration - empowering tax administration/initiatives

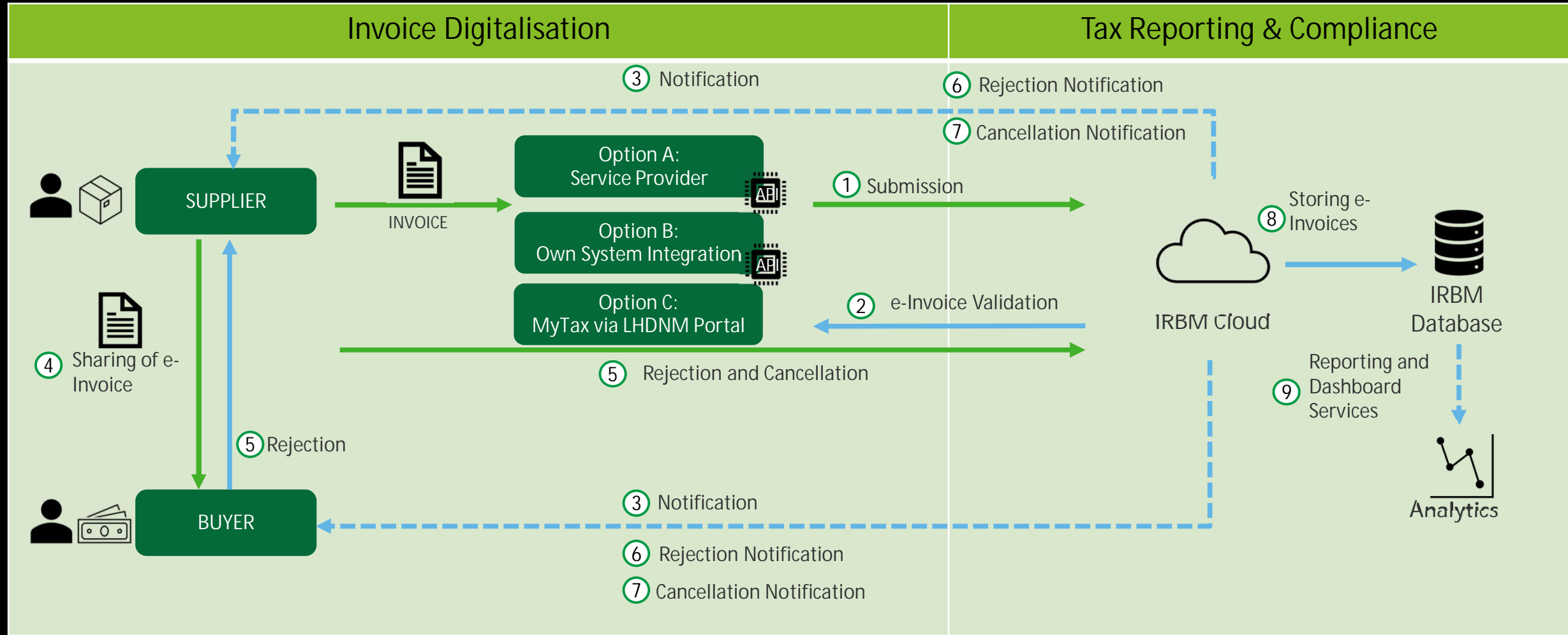
e-Invoice implementation in stages



What else do we know?

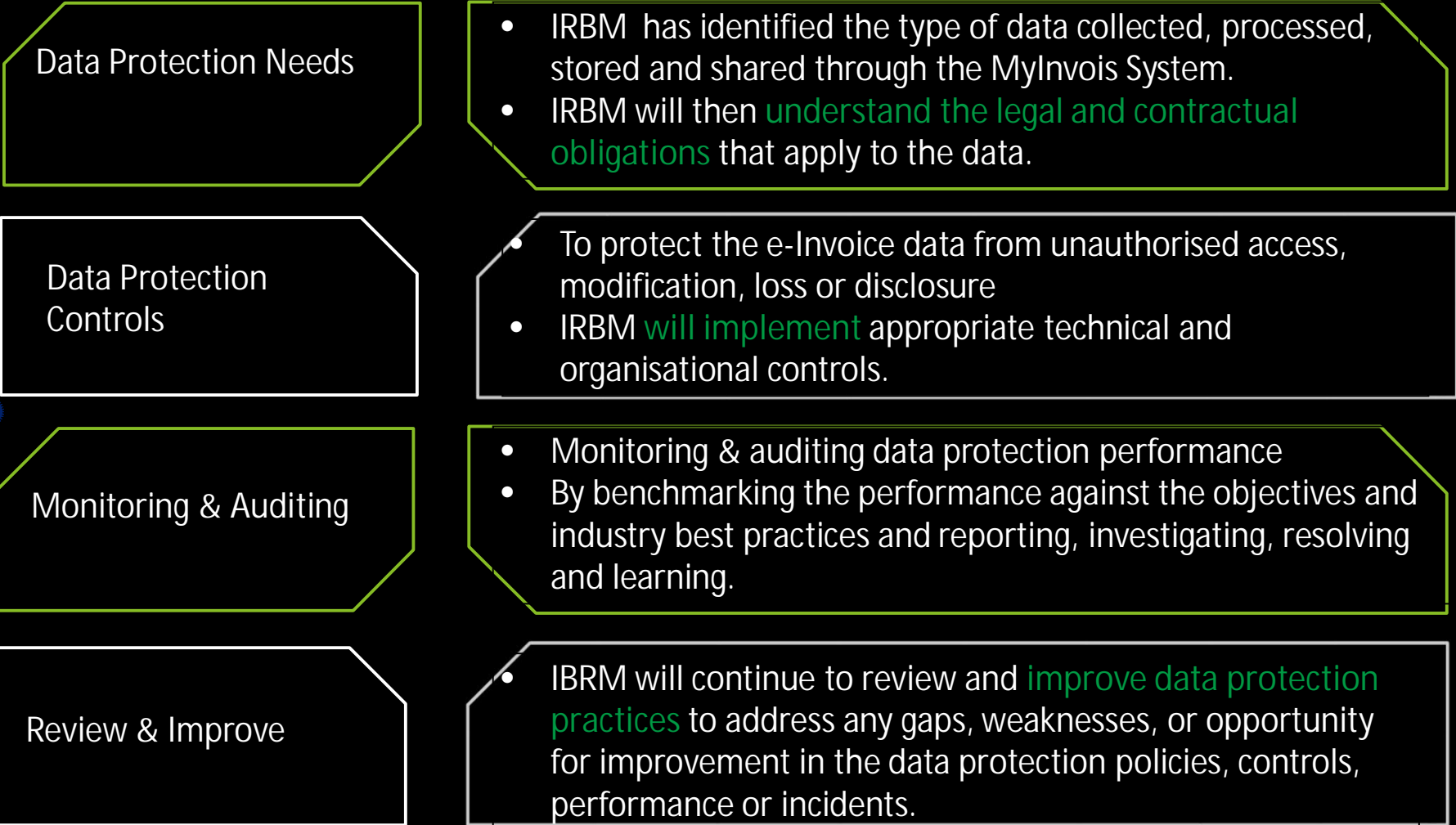


LHDNM e-Invoice– Centralised CTC Model



Data Security and Privacy

Key steps taken by the IRBM to monitor e-Invoice data security and privacy:



Statement/bills on a periodic basis



Industries / sectors that issue statements / bills to record multiple transactions between Suppliers and Buyers over a set period instead of issuing individual invoices for each transaction:

- i. Digital / Electronic Payment;
- ii. Financial services including banking & financial institutions
- iii. Insurance
- iv. Stockbroking
- v. Healthcare
- vi. Telecommunication



Issuance of consolidated e-Invoice

Businesses are allowed to aggregate statements / bills (where no e-Invoice is required by Buyers) to issue consolidated e-Invoice in accordance with current issuance period within 7 calendar days after the end of the billing period.

Regulated industries are not required to disclose statement / bill reference number in the consolidated e-Invoice



Certain activities are **not** allowed to consolidate invoices:

1. Automotive
2. Aviation
3. Luxury goods and jewelry
4. Construction
5. Wholesalers and retailers of construction materials
6. Licensed betting and gaming
7. Payments to agents, dealers, or distributors

51 Required fields for e-Invoice

Parties
1. Supplier's Name
2. Buyer's name

Supplier Details
3. Supplier's Tax Identification Number (TIN)
4. Supplier's Registration / Identification Number / Passport Number
5. Supplier's SST Registration Number
6. Supplier's Tourism Tax Registration Number
7. Supplier's e-mail
8. Supplier's Malaysia Standard Industrial Classification (MSIC) Code
9. Supplier's Business Activity Description

Buyer Details
10. Buyer's TIN
11. Buyer's Registration / Identification Number / Passport Number
12. Buyer's SST Registration Number
13. Buyer's email

Address
14. Suppliers Address
15. Buyer's Address


Contact Number
16. Supplier's Contact Number
17. Buyer's Contact Number

Invoice Details
18. e-Invoice Version
19. e-Invoice Type
20. e-Invoice Code / Number
21. Original e-Invoice Reference Number
22. e-Invoice Date and Time
23. Date and Time of Validation
24. Supplier's Digital Signature
25. Invoice Currency Code
26. Currency Exchange RATE
27. Frequency of Billing
28. Billing Period

Unique ID Number
29. IRBM Unique Identifier Number

Products / Services
30. Classification
31. Description of Product of Service
32. Unit Price
33. Tax Type
34. Tax Rate
35. Tax Amount
36. Details of Tax Exemption
37. Amount exempted from Tax
38. Subtotal
39. Total Excluding Tax
40. Total Including Tax
41. Quantity
42. Measurement
43. Discount Rate
44. Discount Amount

Payment Info
45. Payment Mode
46. Supplier's Bank Account Number
47. Payment Terms
48. Payment Amount
49. Payment Date
50. Payment Reference Number
51. Bill Reference Number

Legend:
 Optional Field

12 Additional fields applicable for certain transactions under Annexure


Applicable to transactions where goods are shipped to a different recipient and/or address (i.e. different from the buyer's details)

1. Shipping Recipient's Name
2. Shipping Recipient's Address
3. Shipping Recipient's TIN
4. Shipping Recipient's Registration / Identification Number / Passport Number

Applicable to import and export of goods

5. Reference Number of Customs Form No. 1,9, etc.
6. Incoterms
7. Product Tariff Code
8. Free Trade Agreement (FTA) Information
9. Authorisation Number for Certified Exporter
10. Reference Number of CUSTOMS Form NO. 2
11. Country of Origin
12. Details of other charges

Legend:

 Optional Field

Employment perquisites and benefits; and certain expenses incurred by employee on behalf of the employer



General Rule: Employees required to request for e-Invoices to be issued under Employer's name (where possible)



Concessions for e-Invoice issuance to employee

- Businesses/Employers will be allowed to use e-Invoice issued in the name of employee for proof of expense
- Foreign suppliers' bills/receipts will be accepted as proof of expense, i.e.. no self-billed e-Invoice required for proof of expense:
 - In the event where employees paid for expenses incurred overseas
 - For payments to foreign suppliers if perquisites and benefits are stated in the employer's policy

Examples of employment perquisites & benefits

- Employees' pecuniary liabilities (e.g. utility bills, parking fees and car maintenance charges)
- Club membership
- Gym membership
- Professional subscriptions
- Allowances (e.g. travelling, petrol, toll rate, parking rate, meals, etc.)

Examples of expenses incurred by employee on behalf of the employer

- Accommodation
- Toll
- Parking
- Telecommunication expenses
- Expenses incurred in a foreign country

Self-billed e-Invoice

Type of transactions that require self-billed e-Invoices



01

Payment to agents, dealers, distributors, etc.

02

Goods sold or services rendered by foreign suppliers and foreign income

03

Profit distribution (i.e., dividend distribution)

04

e-Commerce transactions

05

Pay-out to all betting and gaming winners (excluding winners in relation to betting and gaming in casino and from gaming machines)

06

Acquisition of goods or services from individual taxpayers

Summary of tax incentives/grants in relation to implementation of e-Invoice as announced in Budget 2024



Digitalisation grant

Digitalisation grant of up to RM5,000 for MSME (total allocation of RM 100 million) for the upgrade of:

- Sales system
- Inventory system
- Digital accounting system



Tax deduction

Tax deduction of up to RM50,000 for each YA be given on ESG-related expenditure, including consultation fee for the implementation of e-Invoice incurred by MSMEs

Effective from YA 2024 to YA 2027

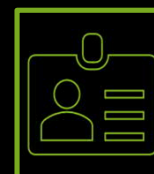
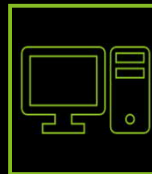


Capital allowance

Reduction in the capital allowance claim period from 4 years to 3 years, where the capital allowance rate will be revised to 40% initial allowance and 20% annual allowance for:

- Purchase of ICT equipment & computer software packages
- Consultation, licensing and incidental fees related to customised computer software development

Effective from YA2024



Practical implications - e-Invoice

Key challenges

What will be the implication for companies where the reporting currency is in a foreign currency? No clear guidance in the Finance Bill to date.

Currency exchange rate

Tax deductibility position

IRB will require businesses to hold valid e-Invoices for tax deductions, posing a challenge during the initial years, as not every vendor will go-live in 2024.

For some requirements, it is mandatory to adapt underlying 'template' process

Process changes

Tax determination/tax code

Tax determination or tax code must be correct in the source system, i.e., Sales and Service Tax rates and HS code

Oftentimes multiple systems will need to connect to the tax authorities, creating a challenge in how to link multiple systems to the authorities or your business partner

Multiple systems



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