

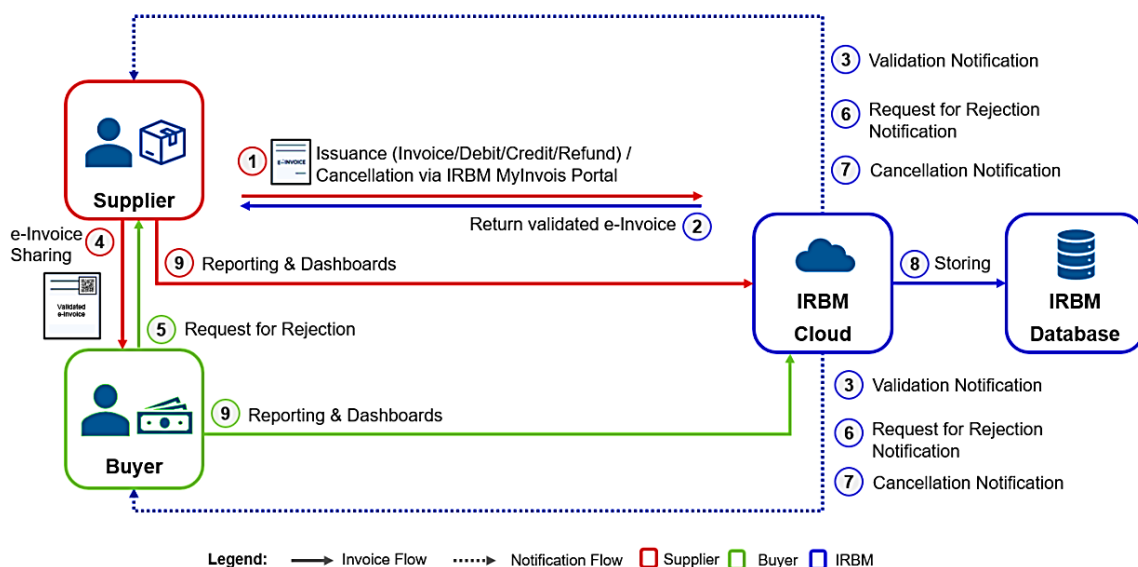
## Sink or Swim: The e-Invoicing Conundrum

By Mohd Khairul Ramli

The Malaysian government's push for e-invoicing intended to streamline tax collection and improve efficiency, presents a multitude of challenges that threaten to undermine its effectiveness. A closer look reveals a policy riddled with shortcomings that could disproportionately burden businesses, particularly small and medium enterprises (SMEs).

E-invoicing in Malaysia faces many challenges related to business readiness. The limited timeframe for integration creates a logistical obstacle and businesses must choose between manual invoice generation (slow and error-prone) or integrating their existing Enterprise Resource Planning (ERP) systems with the designated platform.<sup>1</sup> This integration, whether through an API or a provider, requires internal IT teams to make system changes, conduct testing, and prepare for potential strain. This tight timeline, coupled with the complexity of integration options, raises concerns about the feasibility of businesses being fully prepared for the e-invoicing mandate.

Figure 1: e-Invoice model through the usage of MyInvois Portal



Source: E-Invoice Guideline, Inland Revenue Board of Malaysia (IRBM)

The most significant challenge is the sheer complication of meeting e-invoicing requirements. Business owners, particularly those in smaller operations, are facing some troublesome hurdles. The policy itself adds a layer of complexity with a greater number of data points, 55 to be exact, including both mandatory and optional details. This creates a labyrinthine process for issuing compliant invoices and can easily lead

<sup>1</sup> <https://www.pwc.com/my/en/perspective/tax/230815-e-invoicing-malaysia-integration-model.html>

to mistakes for smaller businesses who may not be familiar with the intricacies of the e-invoicing system, potentially leading to delays and penalties.

The policy's one-size-fits-all approach further disadvantages local business especially the small ones. Small vendors might wrestle with the burden of managing different tax rates for various services compared to a larger corporation with dedicated accounting teams. Adding to the woes is the inflexibility of the system. The 72-hour lock-in period for transaction records hinders necessary adjustments and creates a rigid environment unsuited for the dynamic nature of business operations.<sup>2</sup>

The legal and compliance aspects of e-invoicing raise further concerns as businesses must navigate a complex set of guidelines, currently in their sixth iteration, which may still contain ambiguities or impracticalities. Failure to comply can result in hefty penalties of RM20,000 per error,<sup>3</sup> posing a significant financial risk, particularly for smaller businesses with limited resources.

Another key concern surrounding the implementation of e-invoicing in Malaysia lies in the lack of a standardized invoice management system. Currently, discussions revolve around using an Application Programming Interface (API) for data exchange. However, the absence of standardization forces businesses to invest significant resources in custom integrations, making their ERP systems compatible with the IRBM's platform. This translates to a time-consuming and expensive process, prone to errors, and raises questions about the fairness of imposing such a burden on businesses, especially considering the potential for a simpler, more unified approach

Moreover, the digital divide throws a wrench into the system's inclusivity. Rural vendors, often lacking reliable internet and technological resources, face significant barriers to adoption. This disparity creates a situation where compliance becomes geographically dependent and could potentially hinder the policy's effectiveness and widening the gap between urban and rural businesses. These challenges raise concerns about the fairness and feasibility of the current implementation plan.

The impact of e-invoicing on revenue generation isn't as clear-cut. E-invoicing's primary function isn't to increase tax collection, but rather to improve transparency and potentially reduce tax evasion through improved data collection. This can indirectly lead to higher revenue collection in the long run, but the impact may be less immediate compared to a direct tax measure like the GST. Thus, the focus should be on strengthening the GST's implementation to capture the illicit economy, a more proven path to fiscal growth.

In conclusion, INSAP believes the complex data requirements, tight implementation timelines, and lack of a standardized system create a heavy burden. To ensure a

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<sup>2</sup> [https://www.hasil.gov.my/media/ooagralk/lhdnm\\_general-faqs\\_26feb2024.pdf](https://www.hasil.gov.my/media/ooagralk/lhdnm_general-faqs_26feb2024.pdf)

<sup>3</sup> <https://www.crowe.com/my/insights/ensuring-compliance-with-malaysia-e-invoice-system>

smoother rollout, the government should consider simplifying data requirements, offering extended deadlines and technical support for integration, and exploring a unified invoice management system. A reevaluation of the policy is urgently needed, with a focus on infrastructure development, simplified processes, and addressing the digital divide, is crucial before nationwide implementation.