

Take5

for business

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Are you ready for
e-Invoicing?

Preparing for e-Invoicing

Globally, Tax Administrations are looking at e-Invoicing to pursue an ecosystem where data compliance by design becomes seamless and automatic. As a key data processing lever, e-Invoicing presents opportunities for taxpayers to review their data transactions and adopt new technology solutions which hasten their e-compliance and at the same time, enhance their digital transformation.

Planning for the implementation of e-Invoicing demands a comprehensive review of tax compliance, the selection of robust and compatible systems along with the establishment of internal controls to ensure data governance and integrity. Furthermore, utilizing data analytics can power deeper insights of firmwide operations.

With the imminent implementation of e-Invoicing, the priority focus for businesses is to take heed of the targeted Inland Revenue Board of Malaysia (IRBM) system roll-out dates and fastidiously plan their data management and governance to avert compliance and organizational risks.



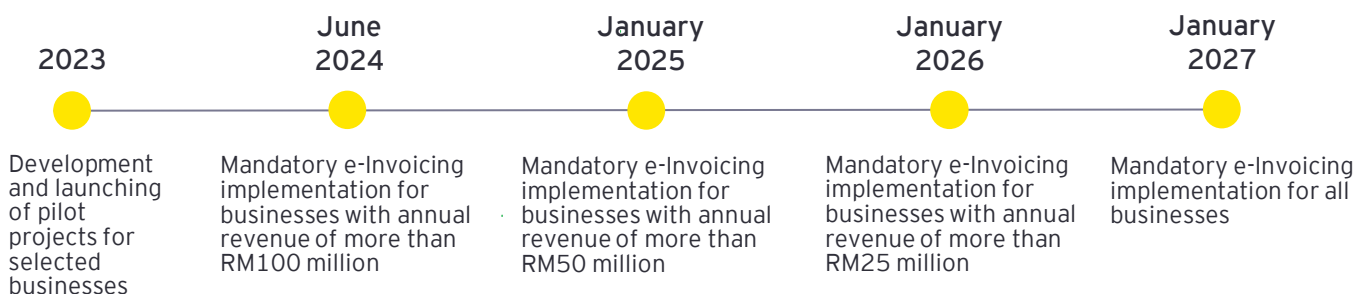
The current realities of digital inclusion have spurred Tax Administrations worldwide to hasten e-Invoicing as a key lever for end-to-end tax compliance and processing.

With the onset of e-Invoicing, businesses can take the opportunity to re-review IT systems and processes, to align them with e-Invoicing compliance requirements.

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Targeted timelines: e-Invoicing

With the aim to mandate the implementation of e-Invoicing for all businesses by January 2027, the IRBM plans to roll out e-Invoicing over a few phases based on the annual turnover of entities. IRBM's targeted timeline for the implementation of e-Invoicing is as follows:



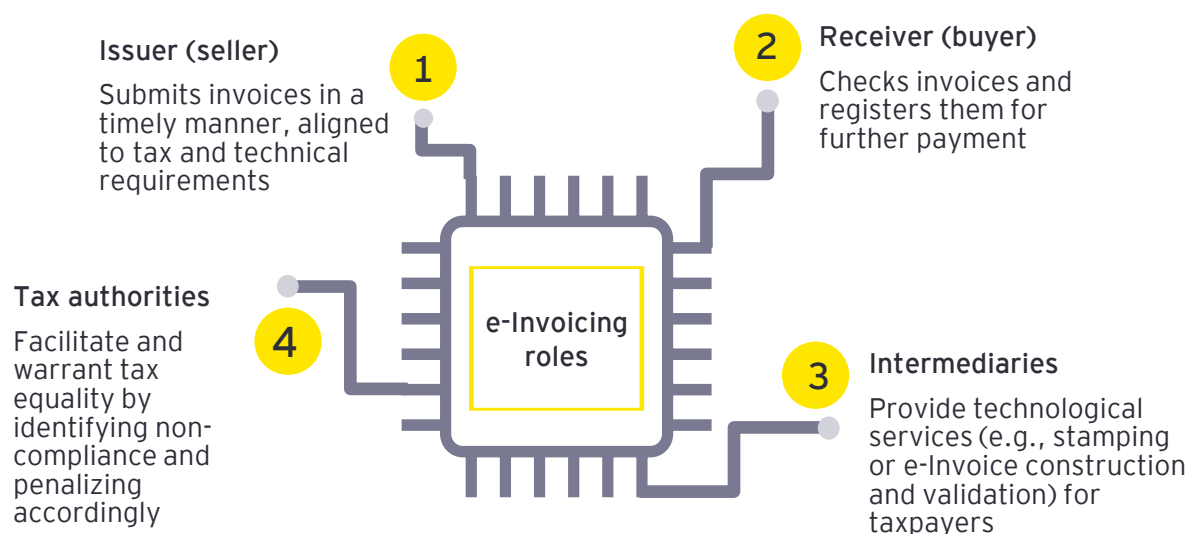
Effective January 2024 - Businesses, other than those under the mandatory categories, may implement e-Invoicing on a voluntary basis.

e-Invoicing: Reporting processes and roles

Generally, there are three types of e-Invoicing regimes:

Post-audit	Batched	Clearance
<ul style="list-style-type: none"> ▶ Invoices do not need to be sent during the transaction. ▶ During audit, e-Invoice must be validated as authentic, typically through a Qualified Electronic Signature. ▶ Has been adopted by various EU and non-EU countries. 	<ul style="list-style-type: none"> ▶ Submitted near-real time or periodically (daily or monthly). ▶ Government validation not needed prior to transaction occurring. ▶ Cross-checked after transaction. ▶ Implemented by Spain, Hungary, Poland and Portugal. 	<ul style="list-style-type: none"> ▶ Submitted in real-time. ▶ Government validation is needed before the transaction can occur. ▶ More disruptive regime - seen as the model for future digitalization. ▶ Adopted by Latin America, Italy and Turkey.

The four different roles in e-Invoicing are as follows:



State of e-Invoicing

Globally, most e-Invoicing regimes have specific requirements such as:

- ▶ Generating invoices in an electronic, standard format
- ▶ Digitally signing the e-Invoice to prove its authenticity
- ▶ Transmitting e-Invoices to the Tax Authority platform using a predetermined channel
- ▶ Validating e-Invoices via the Tax Authority's platform
- ▶ Storing the e-Invoices in an electronic platform for a specified period of time

The benefits of implementing e-Invoices for businesses include:

- ▶ Improved efficiencies in invoice processing
- ▶ Reduced administrative burden and transactional costs through automation
- ▶ Faster and more reliable declarations with less human errors
- ▶ Ease of preparation for financial statements as well as audit procedures by third parties
- ▶ Increased compliance with tax obligations
- ▶ Better data insights and focused reviews
- ▶ Increased control and transparency
- ▶ Better risk management

e-Invoicing

Today and in the future

Current state

- ▶ 40+ countries with existing digital reporting mandates
- ▶ Once adopted, Tax Administrators across countries will continue to evolve and enhance tax administrative capabilities and requirements
- ▶ e-Invoicing and SAF-T (Standard Audit File-Tax Financial) are the prevalent types of submissions

2025 projections

- ▶ 64+ countries with digitalization transformation activities in the next five years
- ▶ 34 countries will have new requirements
- ▶ 25 countries are expected to add new analytics capabilities and increase their enforcement activities

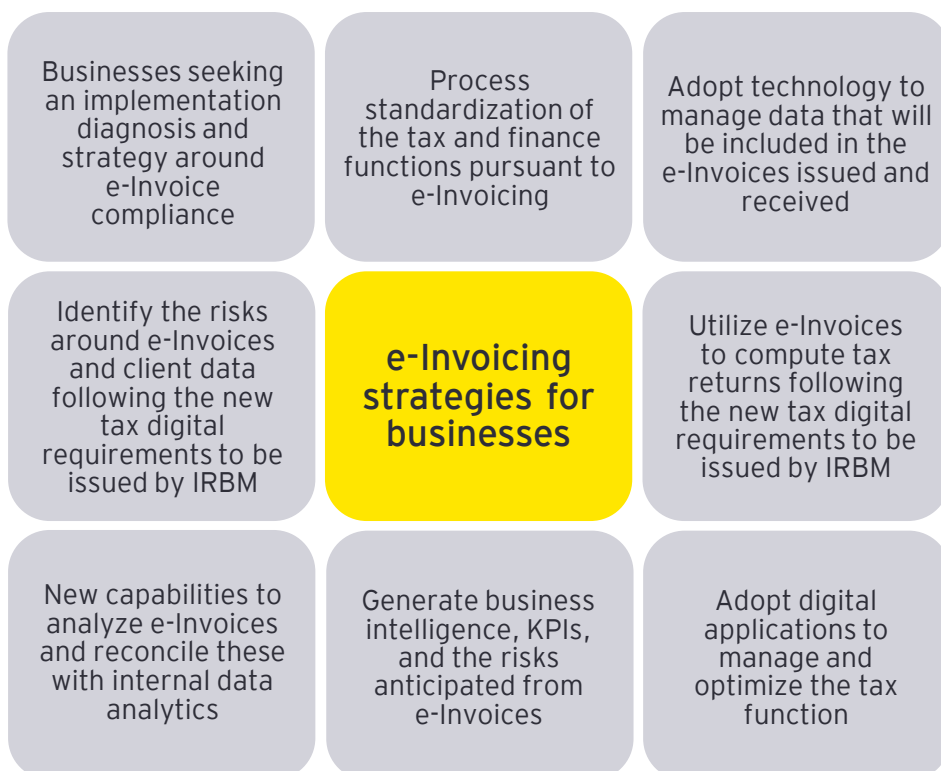
Source: EY research

e-Invoicing: Impact on strategies and operations

Beyond tax management, other organizational areas impacted by e-Invoicing include:

Tax	<ul style="list-style-type: none"> ▶ Higher responsibilities for the tax compliance team with respect to the data submission process and to ensure data integrity ▶ If mismanaged, it will result in the risk of penalties, delayed cash flows and financial reporting errors
Finance	<ul style="list-style-type: none"> ▶ Involvement of the finance team is crucial to ensure the seamless adoption and integration of e-Invoicing into business operations ▶ Flows derived from e-Invoicing needs to align with accounting reporting
IT	<ul style="list-style-type: none"> ▶ Assess impact on IT development projects due to new data requirements ▶ Impact on IT's project roadmap, resources and budget ▶ Spurs more data mining and mapping capabilities
Operational	<ul style="list-style-type: none"> ▶ e-Invoicing involves most operational areas such as: <ul style="list-style-type: none"> ▶ Payments ▶ Payroll ▶ Foreign Trade

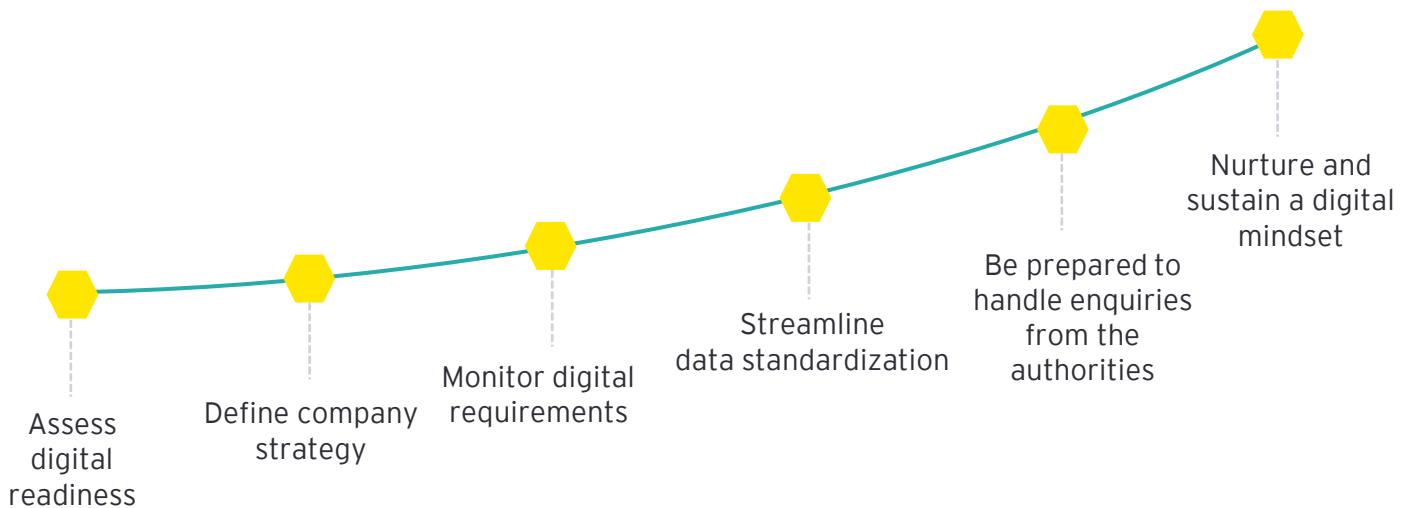
Examples of e-Invoicing strategies



e-Invoicing: Preparing for digital reporting

Managing risk and tax audits

- ▶ What are the big risks businesses will need to consider when implementing e-Invoicing?
- ▶ Which parts of business operations need to work together to ensure the seamless administration of e-Invoicing?
- ▶ What is the expanded/new set of internal controls that need to be in place to reduce organizational compliance risks?
- ▶ How can technology be leveraged to be able to manage and comply with the new requirements, and anticipate tax risks deriving from e-Invoices?



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Preparing for e-Invoicing requires systematic and meticulous planning, including the setting of IT strategies and actions to synchronize with IRBM’s e-Invoicing system.

Post-2024, we anticipate that businesses will further leverage on data analytics to increase efficiencies in both their internal and external reporting activities.

Farah Rosley
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Key considerations when implementing e-Invoicing

e-Invoicing is not just a technology matter but a tax obligation that should be managed well at an early stage. Inadequate planning and guidance in the implementation of e-Invoicing can adversely impact the way taxes are managed and calculated. Hence, it is integral for businesses to understand the complexities and challenges when preparing for e-Invoicing.

Risks and uncertainties

Businesses face challenges in complying with new regulations, especially in aligning technical requirements with business and tax needs. The common challenges faced by businesses include:

1

Data management

With e-Invoicing, the submission of digital data files to tax authorities comprising detailed and near-real time operational data, from transactional to accounting data, requires meticulous data management. Any non-compliance or erroneous submissions may result in financial and operational impact, as well as the imposition of penalties.

- ▶ Late or non-compliant submissions lead to penalties per invoice and may also expose internal control deficiencies.
- ▶ Inability to match the supporting data submissions can result in the non-deductibility of expenses.

2

Information Technology infrastructure

Review of IT infrastructure, from overhauling core integrated tax systems to implementing chatbots, interactive voice response (IVRs) and automated return processing.

- ▶ Maintaining system updates (e.g., data connectors between Enterprise Resource Planning (ERP)) and digital reporting tools to meet varying requirements can be challenging.
- ▶ Failure to comply with e-Invoicing requirements can impact transactions and business operations, such as goods movement and business licenses.

3

Tax compliance position

In applying the specifications of e-Invoicing, the way the taxes are calculated may not be in-line with the tax law. Hence, businesses may need to engage with the tax authorities to resolve issues.

Implementation considerations

Businesses need a well-defined implementation roadmap based on best practices and experiences.

- ▶ Determine which emerging technology to use and how to apply it.
- ▶ Identify required data management and analytics capabilities.

Data management

Data: Handling the volume of information from e-Invoicing and receipts poses challenges in control, management, and data utilization.

- ▶ As e-Invoicing extracts data from multiple sources, it is important to ensure the quality and completeness of the data extracted
- ▶ Effective leverage on the data collated
- ▶ Proper classification of tax data, including tax descriptions and tax accounts.

Five key actions to consider

Key considerations when preparing the implementation of e-Invoicing:

1

Undertake a collaborative approach involving key stakeholders in IT, tax, and finance, with clearly defined roles and responsibilities. This is key to delivering optimal e-Invoicing solutions.

2

Select the right technology solutions for data submissions based on ERP systems architecture and focus on central visibility for global transactions.

3

Ensure data quality and data governance which are critical to resolving inconsistencies and preventing penalties.

4

Establish strong data governance/data integrity and monitor the digital tax administration mandates through trusted sources.

5

Leverage analytics to assess and manage increased risks associated with data submissions and address complex tax challenges.

Illustration: Case studies and lessons learnt

Company A: Manufacturer entering an end-to-end transformation journey incorporating e-Invoicing

Role of the Tax Authority	<ul style="list-style-type: none"> ▶ The Tax Authority has clearly defined and published specific rules and standards for e-Invoicing.
Company's context	<ul style="list-style-type: none"> ▶ Customized ERP system to ensure specific rules and standards are adopted and well-integrated with commercial processes. ▶ Only selected personnel (i.e., finance and tax) are being trained to comply with the mandatory e-Invoicing requirements depending on the organization's size. ▶ Full access to commercial data of related companies which allow e-Invoicing experts to perform correct data mapping and product identification.
Challenges faced	<ul style="list-style-type: none"> ▶ A diverse range of types of sales (e-invoices issued) and expenses (e-Invoices received) resulting in multiple e-Invoice obligations and requirements. ▶ Incomplete / missing data in mandatory data fields. ▶ Deficiency in the quality of data generated in the ERP. ▶ Large volumes of data and process silos within the company. ▶ Systems that involve changes in the ERP are not integrated within the organization. ▶ Manual errors due to the lack of governance, standardization and automation.
Lessons learnt	<ul style="list-style-type: none"> ▶ A prompt assessment to diagnose readiness, and define the current and future states, involving changes in data, processes, teams and technologies. ▶ Managing change following the adoption of new procedures and technologies is a continuous journey. ▶ Identifying the associated potential risks is crucial to assess impact to the business. ▶ Deciding on the right set of technology solutions to ensure the effective implementation of e-Invoicing. ▶ Training should not be limited to selected teams to ensure integrated coordination of e-Invoicing. ▶ Close monitoring of tax administration processes to ensure data accuracy and consistency. ▶ Facilitate change management and stakeholders' education.

Illustration: Case studies and lessons learnt

Company B: Implementation of an e-Invoicing reception portal to comply and keep track of vendor operations

Role of the Tax Authority	<ul style="list-style-type: none"> ▶ The Tax Authority has been transparent and consistently performs e-audits on taxpayers based on their e-Invoices data
Company's context	<ul style="list-style-type: none"> ▶ Customized ERP system which generates an e-Invoicing template that is in accordance with tax administration requirements which can be used by intermediaries (e.g., service providers) ▶ Adapted an e-Invoicing reception portal to receive all vendor invoices in one single platform ▶ Incomplete understanding of the tax authority's e-audits proceedings resulting in inconsistencies ▶ Full support from external advisors to ensure data transformation is conducted according to the standards defined as well as to perform correct data mapping and products identification ▶ New tools acquired and new talents with technology competencies are being recruited to ease and automate routine tasks
Challenges faced	<ul style="list-style-type: none"> ▶ Incomplete data in e-Invoices issued by vendors ▶ Inadequate e-Invoicing knowledge of employees ▶ Inappropriate tools acquired resulted in data inaccuracies and additional workload for employees. ▶ Compliance risks and potential penalties associated to errors involving the vendors' e-Invoices
Lessons learnt	<ul style="list-style-type: none"> ▶ Teams should have comprehensive training on the various aspects of e-Invoicing to ensure the efficient delivery of tax administration requirements ▶ Adoption of optimal technology solutions (i.e., a customized ERP system) would facilitate seamless implementation ▶ Implement controls and data analytics capabilities to ensure compliance and anticipate potential risks ▶ Ensure proper tools are implemented and the team's understanding of the new e-Invoicing systems and processes

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