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Datuk Johan Mahmood Merican,
Director, National Budget Office
Ministry of Finance Malaysia,
No.5 Persiaran Perdana Presinct 2,
Federal Government Administrative Centre
62592 WP PUTRAJAYA

BY EMAIL

Dear YBhg Datuk Johan Merican,

CPA Australia's submission to the Malaysian Government's 2022 Budget

CPA Australia is one of the largest professional accounting bodies in the world, with more than 168,000 members in over 100 countries and regions, including more than 10,500 members in Malaysia. We make this submission on behalf of our members and in the broader public interest.

We appreciate the Government's efforts to improve the transparency of the annual budget preparation process through its Pre-Budget Statement and open consultations involving the Rakyat. In this submission, we highlight select policy considerations to aid in your review of the Budget.

The poor state of the economy caused by COVID-19 has resulted in many businesses and households cutting consumption and digging into their savings. We therefore suggest that this budget continue providing immediate support to heavily impacted businesses and people and include measures that support job creation and business recovery and reinvention. The budget is also an opportunity for the government to announce structural reforms to support longer-term growth.

As an organisation with a presence of 65 years in Malaysia, CPA Australia is invested in contributing to the nation's economic recovery and long-term success.

If you have any questions about this submission, please contact Geeta Balakrishnan, Policy Advisor (Malaysia), at geeta.balakrishnan@cpaaustralia.com.au or 012 590 4413.

Yours sincerely,

Priya Terumalay FCPA (Aust.)
Country Head – Malaysia

Dr. Gary Pflugrath FCPA (Aust.)
Executive General Manager,
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CPA Australia's Policy Suggestions

SHORT TERM:

Supporting economic recovery and protecting lives and livelihoods

Cash flow is central to sustaining businesses through COVID-19 and supporting their recovery. This is especially so for small to medium-sized enterprises (SMEs). We therefore suggest that the Government:

1. Increase direct government support for business and B40 households

CPA Australia suggests the government continues to support the economic recovery through cash handouts, subsidies, and investments for SMEs and the B40. With the recovery uncertain for many, we suggest the government increase the amount of such support and hasten the distribution of such funds.

2. Improve payment culture for the benefit of small businesses

Make prompt payment a priority for the public and private sector. As the Government identified in PENJANA, paying SMEs faster is an important way to unlock cash-flow, supporting ongoing business sustainability and growth.

Late payments impede recovery and may force some small business owners to dig into their personal savings, take on additional debt or cut costs, such as through layoffs.

Action on improving business payment times goes hand in hand with the Government's current initiatives to help businesses respond and recover from the impacts of COVID-19: interest free loans, rental exemptions, and wage subsidy.

Government and GLCs take the lead on prompt payment

The Government could further improve cash flow for SMEs by mandating that all **government agencies and government-linked corporations (GLCs) pay their SME suppliers within 15 business days of receipt of a valid invoice**.

A similar initiative was introduced in New Zealand at the start of 2020[i]. The New Zealand government set a target for government ministries to pay 95 per cent of domestic invoices in 10 business days.

In Queensland, Australia, the state government introduced an "On-time Payment Policy" in July 2020[ii] that ensures small business suppliers are paid within a maximum of 20 calendar days. The Queensland Government also imposes penalty interest on itself if it is late in paying small business suppliers. In New South Wales, Australia, the state government committed to paying small businesses that transact with the government within five business days under their "Faster Payment Policy"[iii].

Drive prompt payment culture in business-to-business transactions

Government ministers are well placed to encourage **more private enterprises to adopt prompt payment practices in line with the state sector.** This will help to improve cashflow for small businesses.

For example, in New Zealand, the ministers of Finance, Small Business, Commerce and Consumer Affairs wrote to a wide cross-section of large New Zealand enterprises (mostly in the top 50 companies on the New Zealand Exchange) to request that they join efforts to improve their payment times.

The government could also use its procurement policies to drive larger businesses to improve their payment times to small business. For example, the government could require larger companies to pay small business within a set timeframe as a condition for tendering for government contracts.

For example, in the wake of the COVID-19 led economic crisis, the UK government committed to paying 90 per cent of valid invoices from SMEs within five days and 100 per cent of all undisputed and valid invoices within 30 days. Under their Public Contract Regulations, larger businesses contracting services to the government are required to demonstrate they pay 95 per cent of all supply chain invoices within 30[iv] days. If they are unable to do so, such larger businesses are excluded from government contracts[v].

If payment times don't improve, the government could require annual payment performance reporting by large private entities similar to the Australian Government's Prompt Payment Times Reporting Scheme.

3. E-invoicing for all government and business transactions

The use of e-invoicing in business-to-government and business-to-business transactions has the potential to create efficiencies and productivity gains. In Australia, businesses using PEPPOL e-invoicing reported experiencing cost savings, fewer errors, more reliable and secure transmission of information, reduced payment times and better digital experience when trading with suppliers and business customers.

We suggest that the Government encourage the use of e-invoicing using the PEPPOL framework, which is an international standard used in over 38 countries globally.

As is being done in Australia, the government could take the lead in implementing PEPPOL e-invoicing. It could incentivise business to adopt e-invoicing if government pays contractors using e-invoicing quicker.

The e-invoicing initiative will go hand in hand with initiatives to improve the prompt payment culture in Malaysia. It may also improve productivity by allowing accounts staff to focus on higher value-adding tasks.

4. Extend and enhance the Wage Subsidy Programme

To support otherwise viable businesses that continue to be impacted by the pandemic, we suggest the government consider extending the subsidy programme for another six months with the following possible enhancements:

- To better support lower income earners: Increase the subsidy amount to the official living wage estimation, which according to the national Poverty Line Index is currently a monthly household income of RM2,208. The current wage subsidy is less than half this figure.
- To encourage employment: Make the subsidy available to employers who recently let employees go due to cash flow and operational restrictions, provided they re-hire those employees, with no cap on the number of employees.
- To prevent abuse: Subject the organisations to payroll audits, penalties and put in place a clawback mechanism.

Channelling more assistance through the wage subsidy programme would improve the support available to those in need and protect jobs. Access to more meaningful support may also encourage businesses in the informal sectors to come forward.

5. Workforce development

Enhance existing programmes

The government introduced several programmes to support fresh graduates or young workers in the last two years, including:

- Penjana Kerjaraya (work generator) that boosts recruitment especially by way of apprenticeships,
- HireMalaysia which incentivises employers to recruit unemployed persons under 40 years of age,
- Ministry of Higher Education's Career Advancing Programme which subsidised courses on employability, gig economy or entrepreneurship for fresh graduates,
- Human Resource Development (HRD) Corp's "Place and Train" programme, and
- MYFutureJobs portal which matches suitable candidates to vacancies offered by employers.

CPA Australia supports these initiatives. We suggest that the government continue with the above initiatives in Budget 2022. Also, mandate that relevant agencies report back on the impact of each programme. The government will be able to better strategise workforce development initiatives with evidence-based analysis.

Strategically addressing the talent gap

To address the talent gap, we suggest that the government work with employers and institutions of higher education to create "industry transformation maps" that list training courses corresponding to in-demand skills. This should help individuals make better informed training and career choices. The "future economy" focus of this exercise makes it different from the current critical occupations list. The exercise may be instrumental in building up the workforce for the "job of tomorrow" and encourage "future economy" players to invest in Malaysia.

Changing the landscape of higher learning

Rapidly changing industry requirements call for a shift in the format of tertiary education e.g., lifelong learning, "subscription university" model, micro-credentials, and so on. This is an area that the Ministry of Education, together with the Ministry of Science and Technology and Ministry of International Trade and Industry, and other relevant ministries should focus on in the medium term.

6. Financial counselling for businesses, households, and individuals

Financial institutions and organisations, such as the "Agensi Kaunseling and Pengurusan Kredit" (AKPK) under Bank Negara Malaysia (BNM) are well placed to identify businesses and individuals at risk of defaulting and support them with debt management, restructuring and financial counselling.

This process allows financial institutions or the AKPK to identify "otherwise viable businesses" or individuals/households in real financial distress, and act as the intermediary in accessing appropriate government support. They can also refer them to an MIA accountant to aid with business advice (for example, restructuring or wind up), and/or to case officers in the HRD Corp to support with job searches.

We suggest that the government allocate additional funding to the AKPK to increase its capacity and capability to engage, vet and connect businesses and individuals in financial distress with the relevant financial institution, business advisor and/or government support. Financial institutions could co-fund AKPK's activities.

Leveraging the relationship, information and vetting process of the financial institutions will allow the government to minimise the risk of issuing handouts to unintended parties, as identified in the public consultation paper on "improving the government cash aid programs".

In keeping with the government's focus on recovery and resilience, we suggest that the government begin to wind down its loan moratorium offers to businesses and individuals. The focus should shift to encouraging and supporting the Rakyat to reduce their debt, especially as the Malaysia's household debt to GDP ratio had increased to 93.3 per cent by the end of 2020 from 82.7 per cent in 2019.

7. Incentivise small businesses to seek professional business advice

We suggest that the government fund programmes that encourage SMEs to seek professional business advice and support to increase the probability of a sustainable recovery and to build resilience. One option for this is funding a business advice voucher that an eligible business can redeem with an approved professional business adviser/accountant.

With the social, technology and economic pressures of the past two years, many small businesses have been focused on survival rather than their longer-term strategy. Many small businesses therefore need support with assessing their viability and options and opportunities for growth.

Having better access to professional advice and a deeper understanding of their needs should result in more businesses accessing government initiatives such as digital transformation and capacity building through the Malaysia Digital Economic Corporation (MDEC), and debt counselling through AKPK. It also helps ensure that the other business grants that the government has provided, for example the Prihatin Special Grant Allocation and zero interest loans, are being applied for business recovery and growth.

With professional advisers helping businesses to better document their affairs and implement their growth plans, it should speed up the government/financial institutions' vetting process for grant/loan applications.

MEDIUM TO LONGER TERM:

Rebuilding national resilience and catalysing reforms

To promote economic recovery and encourage wealth building for households over the next three to five years, we suggest that government policies need to encourage consumption while also incentivising savings. Specifically, we believe policies need to encourage higher income entities to spend more in Malaysia and the lower income group to save more.

1. Encourage savings and investment

Possible measures to encourage lower income groups to save more while not curbing their ability to spend on necessities includes:

- introducing a government contribution matching policy for additional contributions by B40 households towards their EPF account or children's education savings,
- increasing the minimum wage and the cap on personal income tax concessions for retirement/ education fund savings,
- setting a savings threshold that all individuals' retirement accounts must reach by retirement. This will require only allowing withdrawals from EPF accounts at retirement,
- providing the B40 group with spending vouchers or cash aid to cover the purchase of their necessities,
- gradually lowering the income tax rates applicable to the lower income brackets, and
- extending tax concessions to additional voluntary employer contributions and recognise such a contribution as a favourable "ESG outcome" for the organisation.

The measures suggested above are positioned as medium-term measures that could be building blocks for the longer-term wealth and income goals in the Shared Prosperity Vision 2030.

Following the high level of early access of EPF in the last 24 months, many Malaysians will need additional support rebuilding their retirement savings. Furthermore, the employment shift brought forth by the pandemic could also see significant growth in self-employment and gig economy workers adding to the coverage challenges of the retirement savings system.

2. Strengthening the tax system

Our members believe that to effectively increase revenue through the tax system, reforms need to focus on 3 Cs: certainty, clarity, and consistency.

We suggest that government provide more information on its longer-term tax strategies in the upcoming budget speech. This will enable businesses to factor in future taxation changes into current business planning considerations and digital transformation projects.

To improve Malaysia's competitiveness, we believe that there are opportunities and compelling reasons to reduce the effective corporate and individual tax rates over the next five years. The fiscal strain such policies will have, plus increased business and social spending by the government, would be eased by broadening the indirect tax system. Our members observe that they believe the broader community will be receptive to such reforms in the next 18 to 24 months.

Also, simpler corporate and individual tax systems with lower rates, and supportive social protection for those on lower incomes, may help bring individuals and firms out of the informal sector.

We are pleased to see the government's immediate term initiatives and proposals set out in the 2022 Pre-Budget Statement:

- Tax incentive framework review
- Indirect tax "special voluntary disclosure programme (SVDP)"
- Introduction of a tax identification number
- Requirement for a tax compliance certificate for government suppliers.

We believe these line up with the longer-term tax framework needs of the country; namely, encouraging desirable taxpayer behaviour, improving tax governance and compliance as well as improving the ease of doing business.

To ensure that the intended outcome of improved collections and taxpayer compliance is achieved, we suggest the following enhancements:

- **Make the one-off SVDP for indirect tax a permanent measure.** Such reform will support the spirit of self-assessment and reduce the resources necessary to audit cases, while allowing taxpayers to correct genuine mistakes and boost Government revenue. Repeated one-off SVDPs, as opposed to a permanent reduced penalty regime, may foster the opposite culture. It could also encourage errant offenders to wait for announcements of the next SVDP instead of making voluntary disclosure.

- **Targeted one off direct tax SVDP and digital platform information reporting**
  To address the tax gap from under reporting of self-employment income, we suggest that the government introduce a one-off direct tax SVDP for gig economy workers and other individual participants on the platform economy. The government should also consider following Australia's lead and introduce information reporting requirements for digital platforms.

We are happy to share with the relevant government agencies the experiences our members have had with implementing the initiatives above (including the tax identification number) in other jurisdictions.

3. Public sector transformation

In a 2018 study, McKinsey found a correlation between economic performance and improvement in government effectiveness (as measured by the World Bank), regulatory quality and rule of law.

Government effectiveness is measured by perceptions of the quality of public service, the degree of its independence from political pressures, quality of policy formulation and implementation, and the credibility of government's commitment to such policies.

In this budget, we suggest that the government allocate resources to:

- rationalising its various data collection points and consolidating data available on individuals and businesses
- improving transparency of governments' delivery on budget plans through regulatory impact analysis, detailed reporting, and outcome assessments.

Build a centralised database, improve data management and resilience

According to our members, one possible area of focus for the government is to improve the quality of online services.

Fragmented data collection and management of individuals and businesses in Malaysia appear to have made it difficult for the government to provide quick, efficient and focused support throughout the pandemic.

With an integrated and centralised database, the government can:

- improve the quality, consistency and integrity of its data
- aggregate and analyse data to provide actionable insights for faster and betters reactions to policy challenges and crises
- have a higher level of confidence in the policy and regulatory decisions made
- apply technology such as artificial intelligence to improve the quality and timeliness of the delivery of public services
- streamline roles and responsibilities of ministries and agencies, and employees within them
- optimise the use of human and financial capital
- improve the ease of doing business by reducing the time taken for businesses to comply with regulatory requirements or to remove some of those requirements
- reduce regulatory and tax barriers such as customs delays and trade barriers - to encourage business creation and improved efficiency.

Stronger public-private partnerships and civil society organisation partnerships may also improve data collection and data quality. However, it would have to be tempered with very strong data privacy checks and data security protocols. Without such protections in place, it could undermine community trust in government.

Better data collection and management may improve government productivity and service delivery, freeing up resources for innovation and growth projects. It may also support government efforts to formalise the shadow economy.

Regulatory impact analysis and reporting on budget outcomes

As part of its fiscal responsibility framework, we note that the government intends to mandate pre-budget and post budget reporting.

We support this initiative to improve transparency and accountability in the nation's fiscal management. It may build a greater public understanding of the government's fiscal policies.

We suggest the following additional improvements to public sector financial management for your consideration:

- **Regulatory impact analysis**
  - Introduce regulatory impact analysis as part of a comprehensive long-term plan to boost the quality of regulation.
  - Improve public consultations and stakeholder engagement through issuance of consultation papers. Submissions on such consultation papers should be public, as should the government's response.

- **Budget reporting**
  Allocated budgets should be monitored against intended use. The government could draw lessons from clause 14 of Australia's Charter of Budget Honesty. Possible options that could be applied in Malaysia include:
  - Split the post budget report into a mid-term report (similar to the Mid-Year Economic and Fiscal Outlook report in Australia) and a final budget outcome report.
  - Legislate the reporting deadlines for the reports: a mid-year report to be issued within six months of the budget being tabled; and a full-year report to be issued within three months of the end of the financial year.
  - Post budget reports that cover all policy decisions made since the release of the annual budget
  - Prepare the post budget report based on external reporting standards and provide granular details on actual spending versus budget and outcomes
  - Undertake public consultations on the mid-year economic and fiscal performance, government spending and financial position, and reforecast for the next six months as needed.

4. The sustainability agenda: Environment, Social and Governance (ESG)

The 12th Malaysia Plan and the 2022 Pre-Budget Statement are built on the promise of "sustainable and inclusive recovery". The rapid spread of COVID-19 exacerbated inequities in many societies.

The government has outlined several initiatives towards achieving shared prosperity. These efforts need to be underpinned by appropriate reporting to build community trust.

Our members see it as vital that the regulatory environment encourages widespread, and potentially accelerates, developments in corporate reporting around environmental and social outcomes (sustainability reporting) and climate change risk and pricing, against the aims set out in the 12th Malaysia Plan.

CPA Australia suggests that the government drive enhanced reporting by:
- reporting on its own performance on targets and outcomes for ESG initiatives (within government). For example, government's targets and initiatives to reduce its carbon emissions
- ensuring all government-linked companies undertake meaningful ESG reporting
- only contracting with large suppliers who make real contributions towards bettering the environment and society in which they operate
- requiring larger businesses contracting services/goods to the government and GLCs to demonstrate that they are generating positive environmental and social outcomes.

As the economic environment resets in the next three to five years, investment in, and broader market signalling of the importance of, environmental and social outcomes in private sector governance will be critical. Integrating climate, environment, health, and economic policies must be the core principle in rebuilding national resilience.

5. Subsidy Reform

With the nation facing climate, environmental and public health challenges, we suggest that the government review and revise subsidy allocations such that they:

- encourage greater use of green energy sources,
- discourages deforestation and depletion of the natural ecosystem,
- encourages a healthier diet,
- discourages smuggling of commodities (e.g., Malaysian fishing businesses selling fuel intended for their boats to Thailand and Indonesia that don't offer subsidies.), and
- are better aligned to the targets set out in the 12th Malaysian Plan, Shared Prosperity Vision 2030, and other critical national development plans.

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[i] https://www.procurement.govt.nz/procurement/principles-charter-and-rules/government-procurement-rules/awarding-the-contract/prompt-payment/

[ii] https://www.business.qld.gov.au/starting-business/advice-support/support/small-business/on-time-payment-policy/on-time-policy

[iii] https://www.smallbusiness.nsw.gov.au/what-we-do/our-work/faster-payment-terms

[iv] https://www.gov.uk/government/news/government-tackles-late-payments-to-small-firms-to-protect-jobs

[v] https://www.gov.uk/guidance/prompt-payment-policy