CPA Australia Ltd
ABN 64 008 392 452
Incorporated in Australia

Malaysia
200202000017
(994112-V)
Suite 10.01, Level 10
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

T +603 2267 3388
F +603 2287 3030
E my@cpaaustralia.com.au

cpaaustralia.com.au

6 July 2022

YBhg. Dato' Shahrol Anuwar bin Sarman,
Director, National Budget Office
Ministry of Finance Malaysia,
No.5 Persiaran Perdana Presinct 2,
Federal Government Administrative Centre
62592 WP PUTRAJAYA

BY EMAIL

CPA Australia's submission to the Malaysian Government's 2023 Budget

CPA Australia is one of the largest professional accounting bodies in the world, with more than 170,000 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.

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

We appreciate the government's efforts to improve the transparency of the annual budget preparation process through its Pre-Budget Statement and open consultation. In this submission, we highlight several policy considerations to aid the development of the 2023 Budget.

These suggestions are drawn from our Malaysian members and our experience in other economies. The suggestions cover the following topics:

- digital and e-commerce adoption by small to medium-sized enterprises (SMEs)
- SME access to professional business advice
- tax administration
- businesses in distress
- talent gap
- corporate reporting of environmental, social and governance (ESG) issues and climate risk
- prompt payment of SME invoices by the public sector
- public sector data management
- policy design
- domestic supply chain resilience.

If you have any questions about this submission, please contact me at priya.terumalay@cpaaustralia.com.au or Azfar Asa'ad, Technical Advisor at azfar.asaad@cpaaustralia.com.au.

Yours sincerely,

Priya Terumalay FCPA (Aust.)
Country Head – Malaysia

Dr. Gary Pflugrath FCPA (Aust.)
Executive General Manager,
Policy & Advocacy

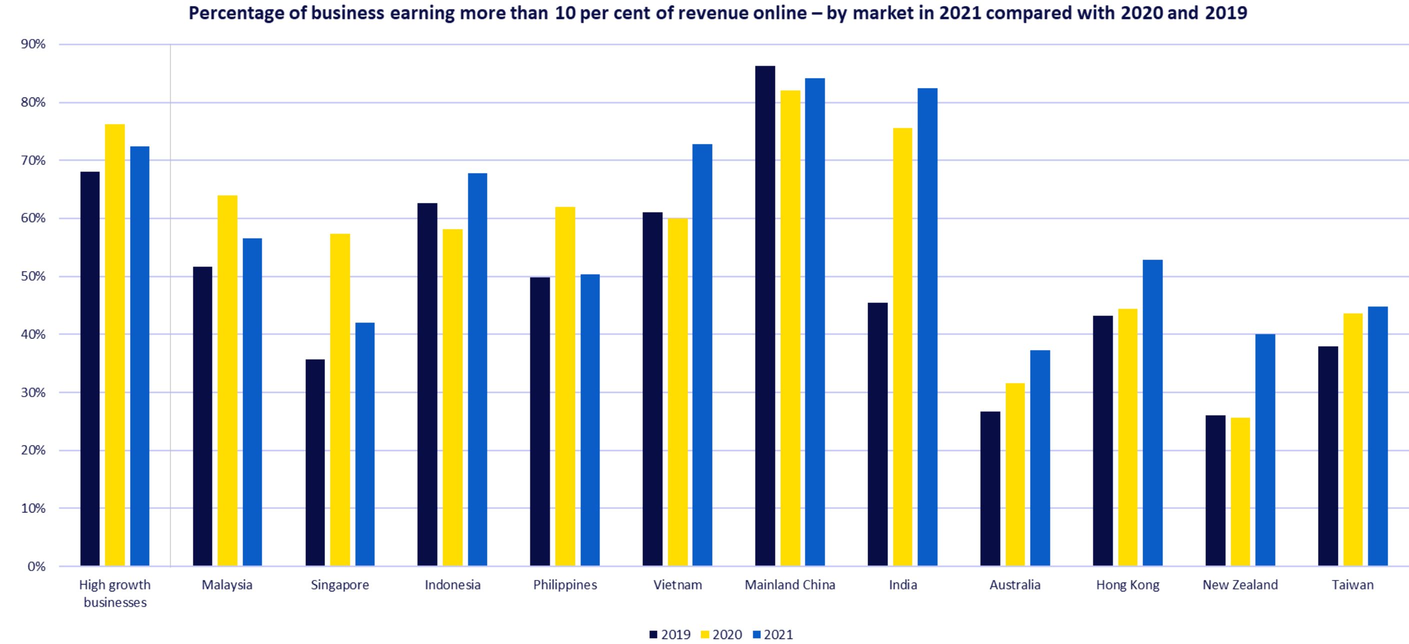
CPA Australia's policy suggestions for Budget 2023

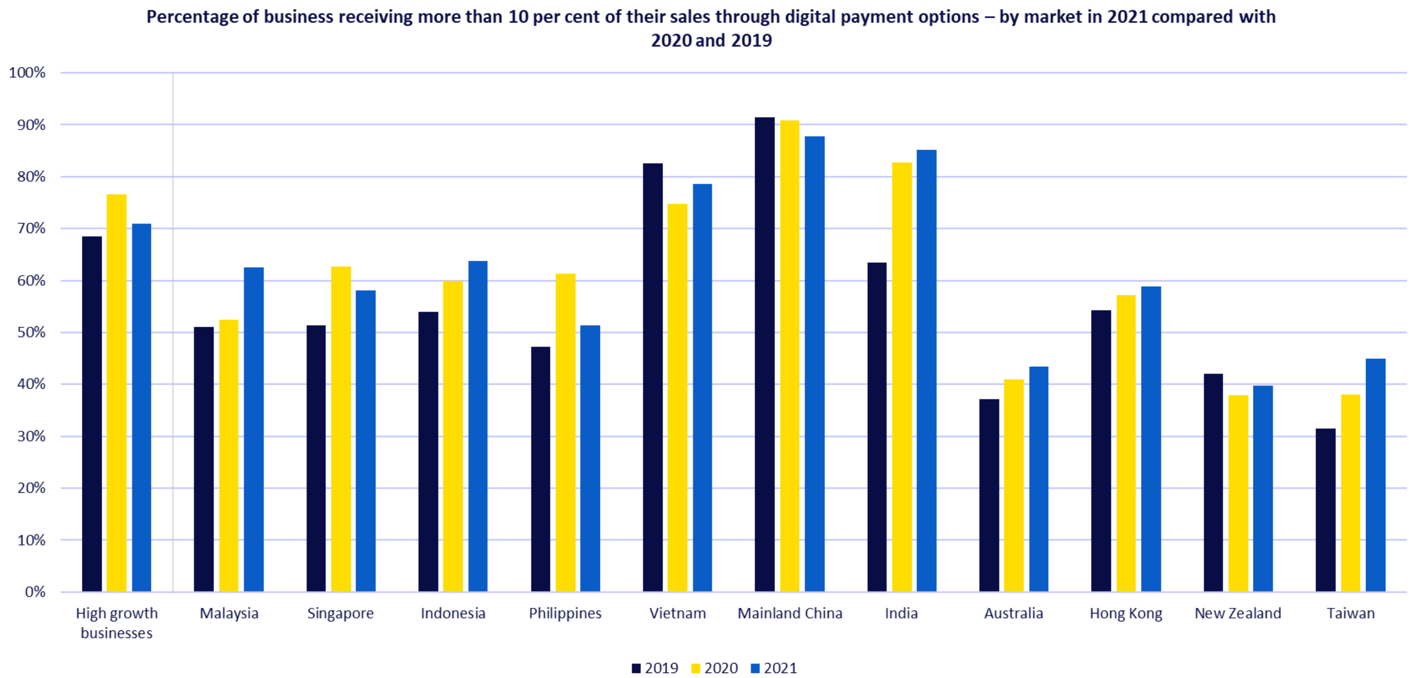
Based on some of the themes and priorities from the Pre-Budget Statement, we offer the following policy suggestions for consideration as part of Budget 2023. These have been developed in consultation with our members in Malaysia and draw upon policies from other jurisdictions.

Boosting productivity, including through digitalisation

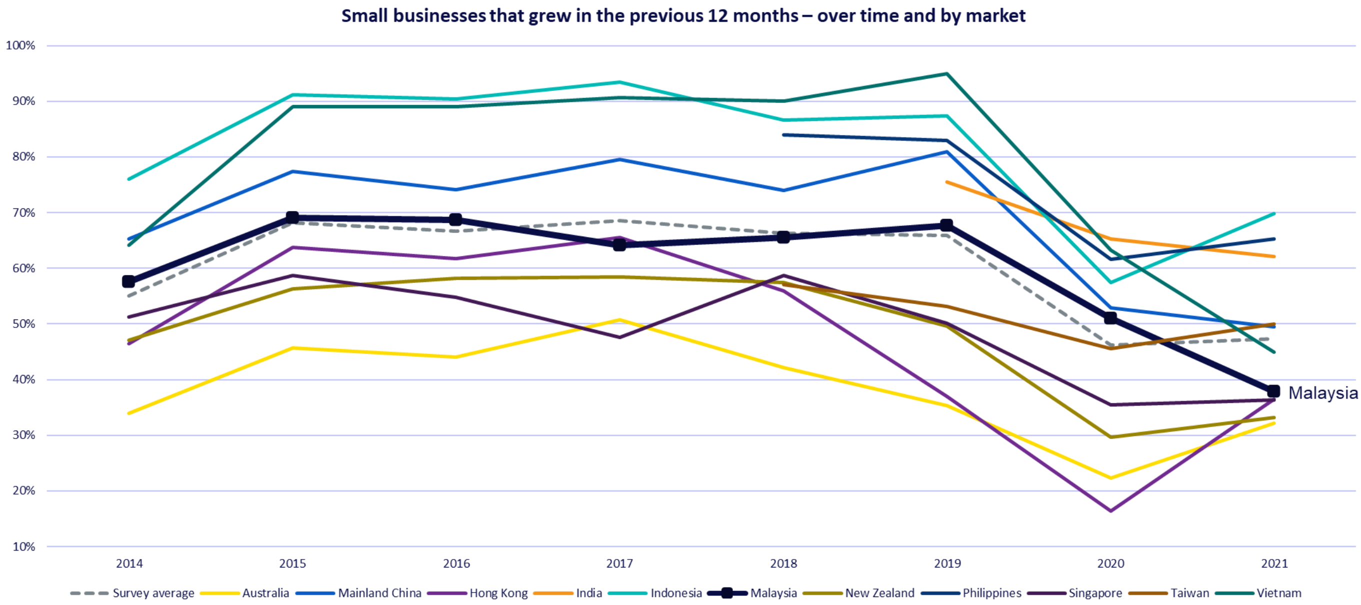
Improving digital and e-commerce adoption by SMEs

According to our annual survey of small businesses across the Asia Pacific, Malaysian small businesses are middling when it comes to digital adoption in comparison to other regional economies. Our survey shows that while the sector is doing reasonably well in digital adoption, there is scope for improvement.





This "middle of the road result", in terms of digital adoption, is contributing to Malaysia's small business sector underperforming compared to small businesses in other developing Asian economies.



Given these results, we suggest that funding be increased for programs that assist small business to improve their capability and capacity to digitally transform.

Examples of programs that encourage SME digital adoption from other markets include:

- Singapore's SME Go Digital (one of several SME digitalisation programs in Singapore). It includes helping businesses digitalise in partnership with digital platform solution providers.
- Hong Kong's Digital Business Programme. It supports enterprises to adopt IT solutions.
- Australia's recently announced Small Business Technology Investment Boost. This will allow small businesses to deduct an additional 20 per cent of the cost incurred on business expenses and depreciating assets that support digital adoption.
- Australian state of Victoria's Small Business Digital Adaptation Program. This program provides an A$1200 (approximately RM3750) rebate to encourage small business to access a range of approved digital business tools.

Enhancing SME competitiveness

Incentivise small businesses to seek professional business advice

Access to professional advice is important to a thriving, dynamic and innovative small business sector.

We suggest that the government funds programs that encourage SMEs to seek professional business advice. This should increase the probability of a sustainable recovery and build resilience for businesses facing new challenges. To achieve this, we suggest the government provides a financial incentive to eligible businesses to seek advice from an approved professional business adviser/accountant.

Having better access to professional advice should also 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 Agensi Kaunseling and Pengurusan Kredit (AKPK).

By way of example, the Australian state of Tasmania is providing incentives to small business to access business advice. Another Australian state, Victoria recently announced a similar incentive.

Financial counselling for businesses in distress

Financial institutions and organisations, such as AKPK under Bank Negara Malaysia (BNM), are well placed to identify businesses and individuals in financial difficulty, and support them with debt management, restructuring and financial counselling.

We suggest the government allocates additional funding to AKPK to increase its capacity to engage, vet and connect businesses and individuals in financial distress with relevant financial institutions, business advisers and/or government support.

Encouraging businesses in distress to remain engaged with government and their advisers is important. CPA Australia's Asia Pacific Small Business Survey shows that the reluctance to seek advice grows when a small business gets into financial difficulty. Our members attribute this to concerns over the cost of advice and a fear of appearing to be a failure.

The consequence of businesses not seeking advice in such circumstances is that the range of options available to respond reduces significantly. This may lead to otherwise viable businesses needlessly struggling. In a worst-case scenario, decisions on the future of a business may be made by creditors, not the business owner.

Addressing the talent gap

To address the talent gap, we suggest that the government works 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.

Promoting green growth and sustainable development

Encouraging greater and improved corporate reporting of ESG and climate risk

We see it as vital to promoting green growth and sustainable development that the regulatory environment encourages widespread corporate reporting of environmental and social outcomes, and climate change risk. Such reporting should comply with internationally accepted standards.

CPA Australia suggests that the government could improve broader corporate reporting by:

- reporting on its own performance against targets for ESG and climate change
- ensuring all government-linked companies (GLCs) publicly report their ESG performance and climate risk, and ensuring that such reporting complies with international standards.
- requiring larger businesses providing services or goods to the government and GLCs to publicly report their ESG performance and climate risk, and requiring that such reporting complies with international standards.

Improving public service delivery and ease of doing business

Enhancing tax administration

As businesses and consumers increasingly prefer to engage digitally, government services – including tax collection – can start to take a "digital-first" approach in their design and delivery. The benefits of digital administration are well articulated in the OECD's work on Tax Administration 3.0: The Digital Transformation of Tax Administration.

The investment in the taxpayer experience by the Government and the Inland Revenue Board of Malaysia (IRB) is reflected in the digital services available to support tax return lodgement and payment. Taxpayers can, however, still face challenges when calculating their taxes and keeping records. Additional innovations from the IRB, like record-keeping apps, business toolkits and calculation tools, can further assist small businesses to correctly manage their taxes.

Third-party data is heavily used by tax administrations such as the Australian Taxation Office (ATO) to both pre-fill tax return information, as well as to obtain information to check compliance. Through data-matching protocols, the ATO gathers significant volumes of data for matching, analytics and risk identification, and also uses it as evidence when raising assessments. Increasingly, this information is also made available to the taxpayer and tax agents to assist them with their tax return.

The benefits of third-party digital data include identification of non-reporters, ability to check income and asset information held by banks and insurance companies against tax returns, detection of unreported income and risk profiling. Relevant information about transactions is often stored by digital platforms, banks and money transfer agencies, centralised exchanges, and government departments. For example, seller information can be obtained from online platforms, including the value and timing of sales, which can then be matched against the taxpayer and shown to them as potential income when they go to lodge their tax return. An example of where the broader use of third-party data can be useful is the incoming sales tax on low-value business-to-consumer imported goods that commences on 1 January 2023. Like the digital service tax, the affected taxpayers are often non-residents and identifying and notifying them of their Malaysian obligations can be challenging. Enhancing the ability of authorities to obtain and utilise third-party information between buyers and sellers to identify non-compliant sellers overseas is a first step to ensuring compliance.

Developing a third-party data acquisition strategy and investing in data-matching and analytics capabilities will enable the IRB to collect taxes more efficiently and potentially lower compliance costs for Malaysian taxpayers. We recommend that the Government continues to invest in the digital capabilities of the IRB and the Royal Malaysian Customs Department (RMCD) to better enable the collection of taxes domestically and internationally through the use of data and analytics.

Digital transformation also provides the opportunity to strength fraud prevention and detection with revenue authorities and government agencies often being prime targets for cybercrime, digital attacks and identity fraud. The introduction of the Tax Identification Number (TIN) is welcomed, and consideration could be given to further development of a digital identity framework (for example, the myGovID system in Australia) and the integration of multi-factor authentication and event logging into IRB and RMCD systems.

Progressing global tax reforms

While progress on the OECD's Base Erosion and Profit Shifting (BEPS) work including Pillars One and Two has slowed, the Government should undertake ongoing engagement on these global tax reforms with stakeholders such as multinational enterprises (MNEs), advisers and representative groups. This will provide the opportunity to develop practical rules and a common understanding of the details and implementation program.

More generally, we note the increasing global trade being undertaken by non-resident SMEs and the challenges in ensuring that they comply with their Malaysian tax obligations. We recommend that the Government support enhancements to tax treaties, information sharing agreements and the establishment of automated processes that would help the IRB and RMCD to identify unregistered taxpayers and address international tax avoidance.

Domestic reforms

Inflationary pressures and rising costs of living are affecting citizens and businesses around the world. With predictions of difficult economic times ahead, we suggest that the Government contemplates providing a one-off, cost of living rebate through the tax system, targeted at the M40 and B40 groups. We also note the significant cost of the current subsidies. There may be an opportunity to better consolidate and target these transfer schemes, or alternatively deliver further direct relief to those most in need through the tax and social welfare systems.

Given the expected introduction of the global 15 per cent minimum effective tax rate under BEPS Pillar Two, the Government may need to consider the effect of current corporate tax incentives on the effective tax rate of Malaysian entities, and consequential impacts on taxing rights and choice of investment location. We recommend that the Government consults with stakeholders to identify issues and contemplate any recommended policy changes.

To encourage capital investment and growth, we also recommend that the Government consults on broadening access to deductions beyond the currently limited list of qualifying capital expenditures. A more flexible and inclusive capital allowance or depreciation regime can incentivise innovative investments by supporting a broader range of income-generating assets. It also creates greater consistency between the accounting and tax treatment of capital expenditures, thereby reducing the complexity of complying and better aligning economic and tax outcomes. Consideration should also be given to increasing the MYR2,000 threshold for the 100 per cent capital allowance to MYR10,000. This will improve cash flow and reduce compliance costs for many businesses.

In relation to transfer pricing, CPA Australia recently undertook a survey of transfer pricing practitioners and tax managers across the Asia-Pacific region to seek their views on the simplification of transfer pricing requirements for SMEs. Preliminary results indicate that exemptions for smaller SMEs and safe harbour arm's length ranges were the most supported initiatives, followed by simplified transfer pricing audit frameworks and documentation requirements. Such initiatives will reduce compliance costs and provide certainty to SMEs.

Prompt payment of invoices

We suggest making prompt payment of SME invoices a priority for the public and private sectors. As the government identified in PENJANA, paying SMEs faster is an important way to unlock cash flow, supporting ongoing business sustainability and growth.

The government could mandate that all **government agencies and GLCs pay their SME suppliers within say 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 the Australian state of Queensland, the state government requires its agencies to meet its "On-time Payment Policy"[ii], ensuring small business suppliers are paid within a maximum of 20 calendar days. The Queensland Government also imposes penalty interest on itself if it's late in paying small business suppliers.

The government could also use its procurement policies to encourage 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.

In the UK, under their Public Contract Regulations, larger businesses contracting services to the government are required to demonstrate that they pay 95 per cent of all invoices within 30 days. If they are unable to do so, such larger businesses are excluded from government contracts.

If payment times to SMEs don't improve, the government should consider requiring annual payment performance reporting by large entities, similar to the Australian Government's Prompt Payment Times Reporting Scheme.

Improving data management

Better data collection, management and analysis can improve the quality of online services delivered by government.

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 better 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, as well as compliance activity
- 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.

However, this will have to include very strong data privacy checks and data security protocols. If a centralised database is to be built, the government should ensure that sufficient resources are allocated to support the implementation of strong data security mechanisms.

Improving policy design and engagement

We suggest the following improvements to policy making and public sector financial management:
- introduce a regulatory impact analysis for all policy proposals
- require that policy proposals be subject to formal public consultation before law is introduced into parliament
- split post-budget reporting into a mid-term report (similar to the Mid-Year Economic and Fiscal Outlook report in Australia) and a final budget outcome report.

Catalysing new growth areas and moving up the value chain

Capitalising on the global move for supply chain resilience

The Economic Advisory Council should consider reviewing domestic supply networks, and in consultation with relevant ministries, industries and universities, develop a roadmap to enhance those networks. That roadmap should consider how best to leverage and coordinate technology, institutions, infrastructure and intellectual capital to better connect suppliers with customers. The Prime Minister's Office should own the implementation of such a roadmap.

[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