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30 September 2024

YBhg. Datuk Johan Mahmood Merican
Secretary General of Treasury
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Federal Government Administrative Centre,
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BY EMAIL

CPA Australia's submission to the Malaysian Government's 2025 Budget

CPA Australia represents the diverse interests of more than 173,000 members in over 100 countries and regions around the world, including more than 10,500 members in Malaysia. We make the below policy suggestions for consideration for inclusion in Budget 2025 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.

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 2025. These ideas have been developed in consultation with our members in Malaysia and draw upon our own survey data, and experiences with policies from other jurisdictions:

- boosting productivity through increasing digital and e-commerce adoption by small to medium-sized enterprises (SMEs)
- enhancing SME competitiveness by encouraging more young Malaysians to start or acquire a business.
- improving access to external financing for SMEs
- more support for e-invoicing adoption
- more support for environmental, social and governance (ESG)
- reducing the impact of subsidy reforms on the B40s[1]
- capital gains tax
- introducing a carbon tax
- encouraging more high quality initial public offerings (IPO)
- improving the policy development process

We provide details of each of these suggestions in the attached.

If you have any queries, please contact Mr Azfar Asa'ad at CPA Australia on azfar.asaad@cpaaustralia.com.au .

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[1] Representing the bottom 40% of income earners, this typically consists of low-income families who may be facing financial challenges and may require financial aid and social support from the government.

Summary

SME SUPPORT

- Increase levels of digital and e-commerce adoption by SMEs
- Incentivise young adults to start or purchase small businesses
- Improve access to external finance
- Additional support for e-invoicing adoption
- Providing SMEs with support to integrate ESG into their business models

SUBSIDY REFORMS

- Implement a gradual approach to phasing out subsidies that the B40 group are heavily reliant on
- Develop mechanisms to effectively compensate the B40 group through welfare systems
- Providing SMEs with support to integrate ESG into their business models

TAXATION

- Expand the current scope of the Capital Gains Tax (CGT)
- Provide affected industries with time to adopt the new carbon tax regime
- Implement carbon tax at a modest rate with planned gradual increases over time

IPO GROWTH

- Promote IPOs in high-growth sectors
- Expand existing tax incentives available to listed companies
- Leverage Malaysia’s strength in Islamic finance by offering more Shariah-compliant financial instruments
- Strengthen minority shareholder protections to increase investor confidence
- Offer incentives to venture capital and private equity to nurture private companies prior to going public

POLICY DESIGN

- Provide information on policy goals, processes, and utilisation of stakeholder feedback
- Engage stakeholders early in the policy development process to identify potential issues
- Streamline consultation procedures, reduce bureaucratic procedures, and simplify feedback mechanisms
- Implement a clear mechanism for acknowledging and responding to stakeholder feedback
- Carry out impact assessments to evaluate proposed policies

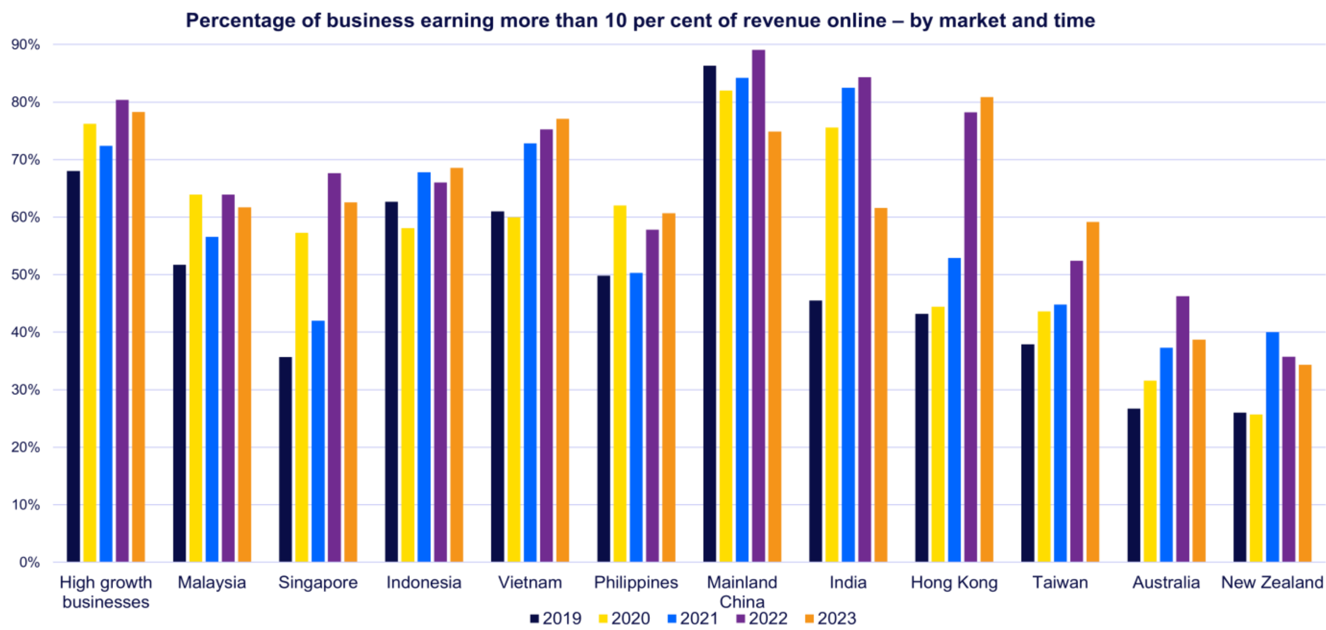
CPA Australia's policy suggestions for Budget 2025

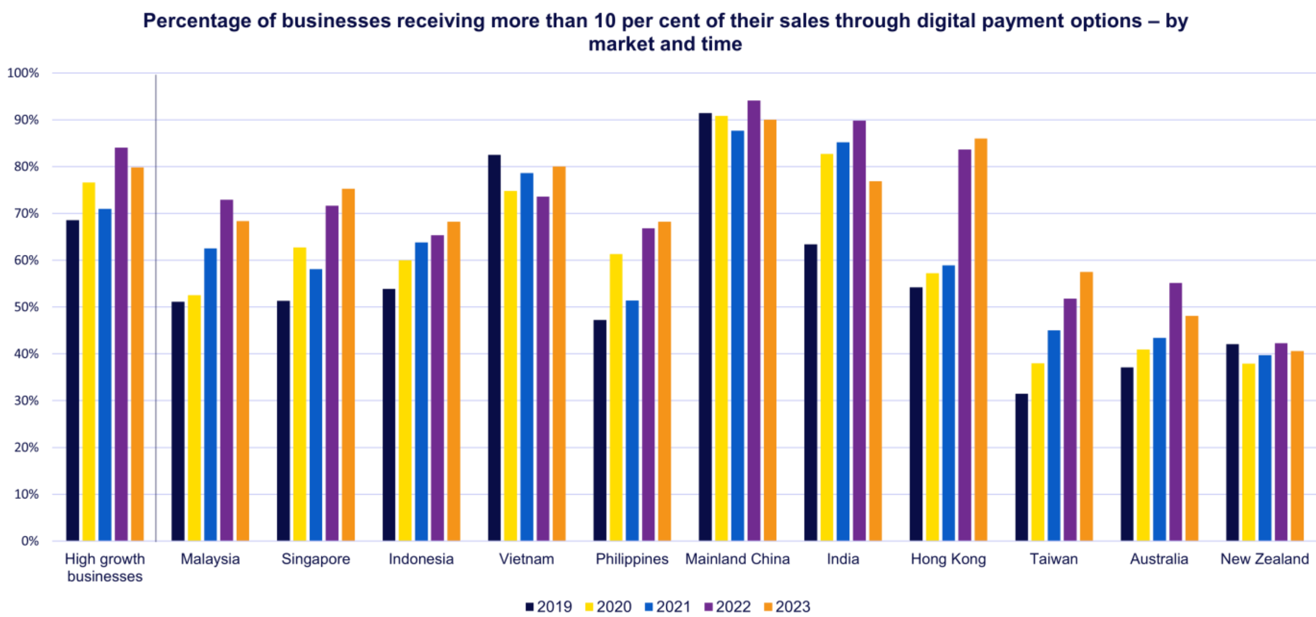
The Government may wish to consider the following policy suggestions when developing its 2025 Budget:

Boosting productivity through digitalisation

Increasing levels of digital and e-commerce adoption by SMEs

According to CPA Australia's annual survey of small businesses across the Asia Pacific, Malaysia's small business sector is doing well on digital adoption, however there is room for improvement. Based on data from our survey, while Malaysian SMEs are among the highest amongst the surveyed markets for digital adoption. However, policies aimed at further enhancing digital adoption could drive even greater growth in this sector. The following graphs highlight Malaysia's standing in terms of digital and e-commerce adoption among SMEs.





Malaysian SMEs have made significant strides in digital adoption, however many have yet to fully embrace digitalisation. Enhancing the digital capabilities of Malaysian small businesses should not only increase the number that are growing, but will also unlock other benefits, including better market positioning, the ability to customise products and services, improved talent acquisition, and more efficient operations.

To foster digitalisation among SMEs, the government's strategy should go beyond offering financial incentives. We suggest the government announce in the Budget an increase in funding for programs specifically designed to enhance the digital capabilities and capacity of small businesses. This could involve expanding existing initiatives, launching new grant programs, and providing targeted support for sectors where digital adoption is low. Additionally, partnerships with private sector technology providers could be encouraged to offer SMEs affordable access to digital solutions.

Policies to incentivise digital uptake amongst small businesses should not be a one-size-fits-all approach. Some small businesses are well advanced in their digital transformation, while others are just starting, and most are somewhere in between. The support small businesses need is therefore different. We suggest that to cater for such divergent needs, the government considers a range of support measures from assistance on the basics through to information and support on emerging technology. Such policies could be progressively announced over time.

For example, Singapore's government have offered a range of SME tech support measures, from businesses at the start of their digital 'journey', through to advanced digital solutions over recent years. Such programs include:

- **Start Digital**
  - Provides foundational digital solutions for new or existing SMEs
  - Digital solutions include accounting, human resource, transactions and cybersecurity
- **SMEs Go Cloud**
  - supports SMEs through appointed service providers to transform traditional software architecture and development practices to applications deployed and delivered as cloud native applications
- **Tech Depot**
  - a centralised platform of affordable digital and technological solutions for SMEs that have been developed and pre-qualified by relevant government bodies.
- **Digital Resilience Bonus (DRB)**
  - Focused on assisting sectors most affected by COVID-19 to digitalise their services
  - The DRB offered up to S$10,000 in payouts to eligible businesses that adopted qualified digital solutions. The solutions included: accounting, HR/payroll, inventory management, e-commerce, and data mining and analytics.
- **Productivity Solutions Grant**
  - is a 50 per cent subsidy introduced to help SMEs increase their productivity by implementing IT solutions and consultancy from pre-approved vendors
- **Advanced Digital Solutions (ADS)**
  - ADS is an initiative aimed at supporting enterprises to pilot the following types of solutions as early adopters: Advanced or integrated solutions, sustainability solutions such as carbon management and resource optimisation and e-commerce platforms that enable SMEs to scale their businesses locally and globally
- **Digital Enterprise Blueprint**
  - Empower enterprises by adopting AI-enabled solutions
  - Enable enterprises to scale faster through integrated digital solutions
  - Equip enterprises to be safer through improved cyber resilience
  - Upskill workers to make full use of digital capabilities

Enhancing SME competitiveness

1. Incentivise young adults to start or purchase small businesses

The findings from our annual small business survey reveal a compelling trend - younger business owners are significantly more likely to adopt practices that drive higher growth. The data indicates that younger entrepreneurs are more inclined to:

- run businesses that experience growth
- effectively leverage technology, such as e-commerce platforms and social media
- innovate, and
- engage in export activities.

Notably, this trend is not only evident in newly established businesses - when younger individuals take over established businesses, our survey data shows the same trends. Therefore, established businesses operated by younger owners are more likely to be experiencing growth.

Malaysia is uniquely positioned to benefit from this trend due to the youthful demographic of its small business owners. Our survey reveals that only 17 per cent of Malaysia's small business owners are aged 50 or over, which is lower than the survey average of 28 per cent. This age profile presents a strategic advantage for Malaysia, as it could accelerate economic growth, boost job creation and spur innovation.

To capitalise on this opportunity, we suggest that the government actively support entrepreneurship among young adults through targeted programs. These programs should be designed to provide young entrepreneurs with the resources, skills, and incentives needed to start or acquire a small business. This could include access to seed funding, mentorship programs and business management training programs.

Part of this support to Malaysia’s young entrepreneurs could include incentives to access professional business advice. Our survey data shows that businesses seeking advice are much more likely to grow. Accessing the knowledge of skilled business professionals can quickly improve business performance and upskill young business owners with what is essentially on-the-job training. Such expert guidance will help young business owners navigate complex business environments, make informed decisions and avoid common pitfalls.

Improving access to professional advice can also enhance the uptake of government initiatives aimed at digital transformation and capacity building. Programs offered by the Malaysia Digital Economic Corporation (MDEC), for example, can be better utilised by young entrepreneurs who receive the right guidance. Additionally, services such as debt counselling provided by Agensi Kaunseling dan Pengurusan Kredit (AKPK) can play a vital role in helping young business owners manage financial challenges effectively.

2. Improving access to external finance

The results from our survey revealed that 87 per cent of Malaysia’s small businesses "will or may" seek external funding in 2024, the highest result of the surveyed markets. This trend reflects recent strong economic growth, which suggests that demand for external financing should remain strong in 2025.

Access to external funding is critical for businesses, particularly SMEs, looking to scale operations, innovate, and compete globally. However, our survey results show that 30 per cent of local businesses experienced difficulty when accessing external funding in 2023, with younger business owners more likely to experience such difficulty. Challenges such as stringent lending criteria, a lack of investor confidence, and limited financial literacy can impact a business's access to finance at affordable rates, which in turn can hinder their growth and sustainability. To address these issues, we suggest the government considers announcing in this Budget policies that enhance access to a variety of external funding sources, including bank loans, venture capital, private equity, and crowdfunding.

For example, consideration could be given to expanding eligibility to existing credit guarantee schemes. Encouraging alternative financing options like equity crowdfunding and providing tax incentives for venture capital and private equity investments can attract a broader range of funding sources.

To support the investment into such credit and equity products, the government may wish to consider implementing investor protection measures, such as investment guarantee schemes, to mitigate risks and foster greater investment in SMEs. To further strengthen the financial preparedness of businesses, the government could introduce training programs and advisory services aimed at helping SMEs understand and access various funding options.

3. More support for e-invoicing adoption

Another challenge anticipated in 2025 is the mandatory adoption of e-invoicing. The government has set January 1 as the deadline for taxpayers with an annual turnover of RM25 million to RM100 million, and July 1 for all other taxpayers. Smaller SMEs may struggle with the associated costs of obtaining professional services to implement the e-invoice systems.

We understand that currently businesses with annual revenues below RM 150,000 are now exempt from implementing e-invoicing. While we acknowledge IRB (Inland Revenue Board) efforts in assisting such businesses, we would like the government to consider announcing an end date to this exemption, with plenty of notice.

We note that IRB has plans to provide free digital solutions such as mobile apps and e-POS between 2024 to 2025 to help SMEs in their transition to e-invoicing. We would also suggest the government implement programs to educated and advise SMEs on e-invoice implementation, especially during the first year of implementation.

4. More support for Environmental, Social and Governance (ESG) adoption

Another challenge anticipated in the coming years is the growing emphasis on ESG adoption. With increasing expectations from stakeholders, larger corporations are already beginning to make ESG discloses in accordance with sustainability standards. However, SMEs may face difficulties due to limited resources and expertise in understanding and implementing ESG practices and frameworks.

We note that the government has expressed interest in fostering ESG adoption among businesses, but more direct support is required to ensure SMEs can integrate these practices effectively. We suggest for this Budget, the government introduce subsidised or free consultancy services tailored to SMEs, focusing on helping them develop ESG strategies. Additionally, launching educational programs and workshops aimed at raising awareness and providing practical guidance on ESG implementation would significantly ease the burden on smaller businesses. Further, tax incentives can be provided to organisations that carry out ESG workshops, seminars and courses to enhance ESG knowledge.

These initiatives could be modelled after the dedicated Singapore Technology Programme. A structured, systematic approach would empower SMEs to remain competitive in a market that is increasingly driven by sustainability and ESG requirements.

Reducing the impact of subsidy reforms on the B40

Inflationary pressures and rising living costs are having a significant impact on both individuals and businesses globally. We are encouraged that Budget 2025 will prioritise efforts to alleviate these financial strains.

Bank Negara Malaysia has projected that headline inflation will reach 2.8 per cent in 2025. Anticipated price pressures are likely to persist, driven by strong consumption. Factors such as flexible withdrawals from the Employment Provident Fund, a robust labour market, and improved external demand are contributing to this trend. These underscore the need for this Budget to include cost-of-living relief measures, especially for the B40.

Recent steps to rationalise subsidies, such as the diesel subsidy adjustments, represent a positive move towards reducing the fiscal deficit. Although these measures have yielded some savings, a substantial portion of diesel remains subsidised. We suggest further streamlining of these subsidies to achieve greater fiscal efficiency.

We also recognise that the government is considering further subsidy rationalisation for petrol and sugar, following the recent diesel subsidy cuts. It is crucial for the government to ensure that such measures do not disproportionately impact the B40 income group. To mitigate potential adverse effects, we suggest that the government explore ways to compensate those most impacted through the social welfare system.

A gradual approach to phasing out petrol subsidies could help prevent sharp increases in inflation, which could make cost-of-living pressures worse for many.

Capital Gains Tax

If the government wishes to raise additional revenue, it should consider expanding the tax base, as this can reduce the need to raise tax rates. One such avenue is expanding the scope of Capital Gains Tax (CGT), which currently only applies to a limited range of assets[2]. This presents an opportunity for the government to increase its revenue by broadening the current tax base. By extending CGT to include a wider range of capital assets, the government can tap into a broader segment of high-value transactions. This not only increases tax revenue but also ensures a more equitable tax system by targeting wealth accumulation through capital assets.

[2] Shares of unlisted companies incorporated in Malaysia. Shares of a foreign controlled company deriving value from real property in Malaysia under section 15C of the ITA 1967. Movable or immovable property situated outside Malaysia including any rights or interest thereof, such as shares of companies incorporated outside Malaysia, intellectual property, buildings and land, paintings, and so on

Carbon Tax

Additionally, the government is planning to introduce a carbon tax, which could be a pivotal step towards Malaysia's goal of achieving carbon neutrality by 2050. Carbon taxes have already been adopted by various developed nations and is a source of additional revenue. The implementation of a domestic carbon tax would not only support Malaysia's environmental objectives but also retain revenue within the country, as opposed to the European Union's Carbon Border Adjustment Mechanism (CBAM), which will tax Malaysian steel exports and five other listed items starting in 2026.

To facilitate this transition, we suggest the government conduct a comprehensive public consultation to gather insights and feedback from stakeholders regarding the design and implementation of a carbon tax regime. It is also essential to provide affected industries with adequate notice and time to adapt to the new tax regime. Initially, the carbon tax should be set at a modest rate, with a gradual increase over time to minimise economic disruption and allow businesses to adjust effectively.

Encouraging more high-quality IPOs in Malaysia

This year has witnessed an increasing number of new listings in Malaysia as the economy picks up and investors return to the stock market. There were 28 initial public offerings (IPOs) on Bursa Malaysia in the first seven months of the year that raised RM3.4 billion all up, making the country the best performing IPO market in Southeast Asia. Favourable regulatory changes are among the factors that have driven the rise in IPOs.

We suggest that Budget 2025 should consider funding more initiatives to facilitate further interest in IPOs.

To encourage more high-quality IPOs, we suggest the following recommendations for Budget 2025:

- **Promote IPOs in high-growth sectors**: Form a dedicated unit within the Ministry of Finance with the goal of promoting IPOs both domestically and internationally.
- **IPO-related tax relief**: Expand/restructure existing tax deductions for costs incurred during the IPO process, including legal and regulatory fees. This could make the IPO route more attractive, especially for mid-sized companies.
- **Monetary incentives for listed companies**: Reward companies that remain public for a certain number of years by offering tax relief or incentives, ensuring that companies don't view an IPO as just a short-term capital-raising event but as part of long-term growth.
- **Leverage Malaysia's leadership in Islamic finance**: As Malaysia is one of the global leaders in Islamic finance, there is an opportunity to attract more Shariah-compliant companies to go public. This could involve offering more Shariah-compliant financial instruments or creating an index specifically for Shariah-compliant IPOs, which would attract those interested in ethical finance.
- **Strengthen minority shareholder protections:** This can include legal reforms to ensure better protection of minority shareholders' rights in IPO companies. When investors are confident that their rights are protected, it encourages more participation in the stock market.
- **Boost venture capital and private equity activity**: By offering incentives for venture capital (VC) and private equity (PE) firms, the government can create a stronger pipeline of high-quality companies that are nurtured by private funds before they go public. VC and PE investors often play a significant role in improving corporate governance and financial health, preparing companies for IPOs. Examples of incentives could be:

- An extension could be made to the existing Dana Penjana Nasional Fund to focus on **sector-specific co-investment funds** targeting key areas like technology, renewable energy, Islamic finance, and healthcare.
- Offer **tax deductions on investment losses** for VC and PE firms, especially those investing in early-stage startups, where risks are higher. If an investment fails, the firm can offset the loss against its taxable income.
- **Offer corporate tax holidays** (e.g., 3 to 5 years) for early-stage companies that receive VC or PE funding. This would reduce operational costs during the critical growth phase and enable reinvestment into the business.
- Form partnerships with VC and PE firms to **create education and mentorship programs** that teach entrepreneurs about governance, financial management, and preparing for IPOs. This could be an extension of existing programs under agencies like Malaysia Digital Economy Corporation (MDEC) or Cradle Fund.

Improving policy design and engagement

Regular public consultation by governments is vital for developing effective policies that reflect the needs and perspectives of the community. It involves actively seeking input from the public, industry experts, and community groups to ensure policies are well-informed and practical. By engaging diverse voices, governments can build consensus, identify potential issues early, and enhance transparency, ultimately leading to more effective and widely supported policy outcomes.

A well-designed policy not only addresses the issues at hand but also considers the perspectives and needs of various stakeholders. To achieve this, governments must prioritise inclusivity and transparency throughout the consultation process.

We suggest that in this Budget, the government considers committing to developing best practice standards for public consultation, default to public consultation and significantly increase the number of public consultations.
As part of this best practice standard, we suggest the government considers the following:

- Provide clear, accessible information about the policy goals, process, and how stakeholder feedback will be used. Regular updates and open communication help build trust and ensure that stakeholders feel their input is valued.
- Engage stakeholders early in the policy development process and maintain ongoing dialogue throughout implementation. This allows for early identification of potential issues and ensures that policies remain relevant and responsive to changing needs.
- Streamline consultation procedures to make them more user-friendly and accessible. Reducing bureaucratic hurdles and making feedback mechanisms straightforward can encourage greater participation and more meaningful input.
- Implement a clear mechanism for acknowledging and responding to stakeholder feedback. Providing summaries of input received and explaining how it influenced policy decisions helps validate the consultation process and improves stakeholder confidence.
- Incorporate robust impact assessments to evaluate potential consequences of proposed policies on different groups. This helps anticipate and address possible unintended effects and ensures that policies are equitable and effective.

By adopting these improvements, the government can create a more inclusive, transparent, and effective policy-making process that better serves the needs of all stakeholders.