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

By email

Dear Mr. Merican,

CPA Australia's submission on the Malaysian Government's 2021 Budget

CPA Australia represents the diverse interests of over 166,000 members working in 100 countries and regions around the world, including around 10,500 members in Malaysia. We make this submission on behalf of our members and in the broader public interest.

There is no doubt that the global COVID-19 pandemic has turned 2020 into a very challenging year for Malaysia. Whilst it seems as if the public health crisis may be coming under control, we cannot be certain. Further, while preliminary macro-level economic data suggests that Malaysia is performing relatively well in comparison to other economies, and that forecasts for 2021 show a potentially strong rebound, this is also uncertain. This is especially the case given the poor outlook for the global economy and Malaysia's major trading partners.

Given this environment, we suggest that this upcoming Budget be framed as an expansionary budget to support the economy and jobs.

The COVID-19 crisis also creates an opportunity to transform Malaysia's economy. We therefore suggest that this budget be shaped by the following principles:

- increasing support for science, technology and innovation as a key pillar of the economy
- strengthening local supply networks through increased collaboration and coordination between government, businesses, universities and other stakeholders
- public sector transformation
- supporting shared prosperity, climate change and gender diversity.

We propose a number of suggestions that, if implemented, should help to stimulate the economy and assist Malaysian business weather the current economic challenges. Our suggestions include improvements to the tax system and delivery of government services as well as opportunities for easing access to finance.

If you have any queries, please do not hesitate to contact Geeta Balakrishnan, Policy Advisor (Malaysia) at CPA Australia (geeta.balakrishnan@cpaaustralia.com.au or +60125904413).

Yours Sincerely,

Priya Terumalay FCPA (Aust.)
Country Head – Malaysia

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Encl.

APPENDIX

Introduction

The economic impact and uncertainty created by COVID-19 has led to a marked reduction in private and business investment and consumption. Expansionary fiscal policy and accommodative monetary policy are essential to limiting the number of people losing work and stimulating household consumption and business investment at this time.

Whilst an expansionary fiscal policy will impact the government's fiscal consolidation strategy, there is a pressing need to support business, people and jobs to limit the negative economic and social consequences of COVID-19, and to fast-track the recovery.

Support for business

Suggestions for consideration:

1. Enhance and extend the Wage Subsidy Programme

To assist financially distressed businesses improve their cash position and to limit the number of people becoming unemployed, we suggest that the Wage Subsidy Programme be extended into 2021 with the following enhancements:

- make it available to all businesses, including self-employed, contractors and sole traders, as well as registered charities and incorporated societies;
- remove the size criteria based on number of employees. Applicants should only be required to demonstrate a 50 per cent or more decline in revenue or income in the month preceding the application and not be restricted by the size of its workforce to be eligible for the subsidy;
- the condition for retention of employee be limited to the duration of the subsidy and not beyond the period of subsidy;
- make the subsidy available to employers who recently let employees go because of COVID-19, provided they re-hire those employees;
- employers to be required to pay the eligible employees at least 80 per cent of their normal pay (including the subsidy payment) rather than 100 per cent.

One option is for the current programme to run as intended and for the extended programme to be limited to industries that continue to be severely impacted. A variation of this option is to have the level of support for industries adjusted depending on the severity of the impact on those industries.

2. Extend the exemption for Human Resources Development Fund (HRDF) levy

To allow more cash to stay in the hand of businesses, we suggest that the exemption on the payment of HRDF levies to September 2020 for those in the manufacturing, services, and mining and quarrying sectors be extended for another year for all registered employers.

3. Waive government fees and charges for 2021

To allow more cash to stay in the hands of business, we suggest that all fees and charges imposed by Ministries, State Authorities and Statutory Bodies on business such as administrative fees for retrieval of government records or documents, business license renewal fees and company registration fees be waived in 2021, or at least frozen at current levels.

Improving access to finance for business

Direct financial support from government is only a stop-gap measure to help businesses deal with the initial and significant fallout from the COVID-19 outbreak. Yet funding is critical to businesses during the recovery phase. Access to finance has historically been difficult in Malaysia and this is corroborated by findings from the CPA Australia's 11th Asia Pacific Small Business Survey.

We recommend that the government explore initiatives to improve business access to finance, making the process swifter, lowering financing costs, improving the risk compensation mechanism, and supporting financial innovation.

Some approaches that other countries have adopted, that might be considered, include:

- Bank Negara Malaysia and tax authorities working together to facilitate commercial banks increasing lending to small and micro enterprises with a solid tax payment record. For example, in Mainland China, enterprises that cannot provide any collateral or guarantees for loans, can share their tax payment information with commercial banks and seek backing from the Inland Revenue to receive funding.

- Bank Negara Malaysia providing incentives to commercial banks to increase their loan exposure to small and micro businesses. For example, in Australia, the central bank announced that banks will have access to at least A$90 billion in funding from the central bank at a fixed interest rate of 0.25 per cent. To encourage lending to businesses, the facility offers additional low-cost funding to banks if they expand their business lending, with incentives applying to new loans to small- and medium-sized entities (SMEs).

- Prioritising the set-up of a regulatory framework for digital banking and increase the support to accelerate the operation of digital banking in Malaysia. This should enable such banks to offer faster credit assessment and increase competition for small business financing.

- Educating businesses on the mechanics of supply chain financing, including the advantages and disadvantages for small business.

Tax measures to support the economy

Suggestion to consider:

1. Enhancing the tax rebate for the B40 taxpayer group and extending it to the M40 taxpayer group

The OECD puts forth a case for continued/ targeted support to low income households to help avoid the worsening of inequalities due to the unequal impacts of the crisis[1]. This will in turn support economic recovery as these households are more likely to spend the additional income.

We therefore suggest that the non-refundable personal income tax rebate of MYR400 is:

- made available for those with annual chargeable income of RM48,000[2] and below (presently MYR35,000 and below), and
- the rebate amount is increased to reduce the tax payable to zero for all B40 taxpayers.

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[1] http://www.oecd.org/coronavirus/policy-responses/tax-and-fiscal-policy-in-response-to-the-coronavirus-crisis-strengthening-confidence-and-resilience-60f640a8/#section-d1e1461

[2] Based on the eligibility criteria under the Bantuan Prihatin Nasional programme, we note that households with income of MYR 4,000 per month and below are categorised as B40 and those with household income between MYR 4,001 and MYR 8,000 as the M40 group.

As the M40 are also adversely impacted by the COVID-19 led economic downturn, the Government should study the benefits of extending the tax rebate to the M40 income segment based on a percentage of their earnings up to a maximum rebate amount as has been done in Australia through the "Low and Middle Income Offset" provisions.

This is a policy that can be introduced retrospectively through the 2021 Budget to take effect in year of assessment (YA)2020. In the United States, a similar Earned Income Tax Credit programme has been found to also be an effective antipoverty program for working age people.

2. *Postponing taxing of advanced receipts until it is "earned"*

Through the Finance Act 2015, section 24 of the Income Tax Act requires that any sum received in the course of carrying on a business constitutes income which should be duly subject to tax in that year. This is regardless of whether that income has been earned i.e. services corresponding to the income rendered or property used/enjoyed yet and that the sum may be wholly/partially refundable. Some examples of advanced receipts of income include:

- Subscriptions paid in advance to take advantage of discounts given (e.g. gym memberships, club subscriptions)
- Pre-purchased services such as airline tickets, accommodation, beauty and health treatments;
- Learning courses paid up front.

One of the strategies available to businesses to generate cash flow during a period of inactivity or limited activities such as during the movement control order (MCO) is to generate sales of goods/services to be delivered at a later date, usually for a discounted price as long as payment is received now. These businesses are likely to have fewer expenses in the tax year it receives the advanced payment e.g. 2020, due to restrictions on movement and trade activity, compared to when it actually "earns" the income e.g. in 2021.

Under current rules, tax is paid upon receipt of these advanced sales, negatively impacting cash flow. Additionally, if the business does not do well in attracting new customers or generating new sales in the subsequent years, it is likely to build tax losses as business expenses will still need to be defrayed to meet the obligations contracted earlier. Thus, postponing the taxing point on advanced receipts in the present time will allow more cash to stay in the hands of the business. This is a policy that can be introduced retrospectively through the 2021 Budget to take effect in year of assessment (YA)2020 with a sunset clause to address concerns on longer term impact on revenue collection.

3. *Permitting temporary tax loss carry-back*

The OECD proposes loss-carry back measures for firms that are currently in loss position to augment cash flow. This measure has the advantage of targeting lossmaking firms that will typically not benefit from other tax measures such as rate deductions, deferrals or exemptions.

We note that in 2009 temporary tax loss carry back provisions were introduced, permitting the carry back of adjusted losses up to MYR100,000 to the immediately preceding year. However, we understand from members that it was not widely used due to the low cap.

We suggest consideration be given to the re-introduction of tax loss carry back measure for businesses in specific industries and/or SMEs for a period of two years with a higher cap on adjusted losses that can be carried back.

4. Group Relief

Group tax loss relief is meant to encourage entrepreneurial risk taking and innovation, which are catalysts for growth and development. However, our members tell us that the current relief facility requirements are too restrictive, leaving the policy objectives for its introduction unrealised.

We suggest that the provisions governing the application of "group relief" be reviewed and the conditions simplified.

5. Tax deduction on costs incurred for raising debts to finance business operations

Currently, costs incurred to access finance such as guarantee and advisory fees are not tax deductible unless they relate to the issuance of certain Islamic securities. In order to achieve tax neutral treatment of financing costs, such costs should be deductible for all forms of finance.

6. *Temporary tax deduction for costs associated with loan renegotiations and rescheduling*

Companies experiencing financial distress and liquidity problems may have to renegotiate debt financing terms with lenders, which may include debt conversion or rescheduling. Any expenses incurred in connection with these exercises; for example, professional fees, which are generally capital in nature — should temporarily be tax deductible to support such renegotiating and rescheduling, which may be essential for business survival.

7. Extending the special tax deduction for renovation and refurbishment costs

To support the construction industry, incentivise business to alter the configuration of their premises to improve the safety of the work environment and improve the effectiveness of existing assets, we suggest that:

- the government extends the special tax deduction allowance for renovation and refurbishment on business premises for expenditure incurred to 31 December 2021.
- expand the special tax deduction for furniture, fittings and equipment acquired to facilitate safe distancing measures, for expenditure incurred to 31 December 2021.

8. *Enhancing Special Allowances for Small Value Assets for SMEs*

At present, SMEs are granted a 100 per cent capital allowance on the acquisition of assets with an individual value not exceeding MYR2,000. To promote high value investments (particularly in technology-related areas) by SMEs and thus, economic growth, we recommend that the Government consider increasing that cap to MYR10,000. This would enable businesses to claim up front deductions for computers and laptops, shop fittings, appliances, audio-visual equipment, storage devices, point of sales devices and so on.

An instant write-off of the asset costs would unlock greater value for cash strapped SMEs that have a high potential for growth compared to the use of an accelerated capital allowance.

9. Improving tax compliance

There are discussions about how the Inland Revenue Board and the Royal Malaysian Customs Department will approach compliance in the coming year. To encourage a self-review of tax affairs and consequent voluntary disclosures, we recommend an amnesty on penalties for mistakes made in the 2020 income year provided that the errors are rectified by a set deadline. Encouraging positive taxpayer behaviour in this way is likely to reduce resources that the revenue authorities will need to deploy for audits thereby reducing costs and maintaining the integrity of the tax system.

The Government should increase funding to both agencies to expand their compliance activities against high risk behaviours. Taking firm and quick action against the most egregious behaviours of taxpayers is also essential to maintaining the integrity of the tax system, and building trust in the system, which in turn should improve voluntary compliance.

Encouraging human capital development

1. Supporting furloughed workers and job seekers through training

The OECD notes that education and training are particularly important in a crisis, but budget constraints tend to reduce expenditure in this area, while the demand for training increases with rising unemployment. Support for displaced workers in this time can help them find new job opportunities and support the restructuring of the economy.

We suggest that the Government partner with local government agencies, trade associations, business chambers and other private institutions to roll out skills development courses and workshops free of charge for businesses. Partnering with other stakeholders should enhance the reach and success of such programmes. Partnering with business will allow for the development of courses that meet business' skills requirements.

2. Public and private sector job creation

The Ministry for Human Resources should collaborate with local trade and industry associations and chambers of commerce to create time-limited jobs (up to 12 months) in the public and private sectors in the coming two years, for displaced workers and new graduates. In the public sector, this could include bringing forward planned hiring.

3. Temporary tax deduction or payment for hiring retrenched workers or new graduates

To further incentivise the hiring of Malaysians, a temporary tax deduction or payment could be offered to employers who hire retrenched workers and recent graduates. To support reskilling of the local hires, the tax deduction or payment could be conditional on the employer including appropriate and relevant training for those who are recruited.

4. Encouraging equal economic participation of men and women

Malaysia has the third lowest female labour force participation rate in the ASEAN region. The World Bank macroeconomic simulations suggest that closing the gap between men's and women's economic opportunities could boost Malaysia's income per capita by 23.7 per cent in the short run and 26.2 per cent in the long run. Women who are not part of the labour force often cite housework, including child and elderly care, as the main reason for not seeking work.

The accelerated use of technology and adoption of work-from-home arrangements offers an opportunity for women to participate in the workforce while still managing their domestic responsibilities. However, to successfully improve the participation rates of women,

- the remuneration must be fair and adequate
- society needs to encourage a more balanced relationship and 50/50 partnership in a household, and
- workplaces need to equalise family benefits for both men and women, as well as encourage the use of flexible work arrangements by all.

In the 2020 Budget, to encourage women to participate/return to the work and to encourage employers to hire women, the following incentives were provided:

- Income tax exemptions for women returning to work; and
- Salary incentive of MYR500 per month for two years for an individual returning to work and hiring incentive of MYR300 per month for their employers.

These are novel initiatives that we consider should be continued in 2021. However, considering the unexpected economic and employment fallout brought on by the COVID-19 outbreak, we suggest that the requirements for accessing the income tax exemption be relaxed.

Further to this, the Ministry for Women, Family and Community Development should champion and work with the Ministry for Human Resource Development, businesses and education institutions to:

- create more job placements and accessible training/skills-development programmes for women. This includes the number of leadership and directorship training courses and expansion of mentoring programmes for aspiring directors and senior managers
- increase awareness of:
    - job roles and opportunities amongst women and their families,
    - government initiatives to encourage women to participate in the workforce,
    - shifting gender-role beliefs, sharing household task and child-care responsibilities, as well as domestic well-being.
- improve support for women managing paid and unpaid (domestic) work, such as safe and affordable childcare facilities, elderly care facilities, lobbying for more gender-neutral parental leave policies in public and private organisations, study and develop a framework for flexible work arrangements, etc.;
- improve publicly-available aggregated data on the number of women in senior leadership positions, as well as firm-level gender pay.

Assisting businesses build their business capabilities

1. <u>Provide grants to small businesses encourage them to seek business advice</u>

We suggest that the government fund programmes that support business recovery by encouraging local businesses (particularly micro, small, and medium enterprises (MSMEs)) to seek professional advice and assistance on the recovery and reinvention of their business.

Many larger businesses will no doubt use external expertise to help hasten their recovery and the reinvention of their business – smaller businesses should have access to similar expertise. To accelerate Malaysia's economic recovery and transformation, MSMEs should receive funding in this budget to access professional support and advice.

One option for this is funding a business advice voucher system of MYR3,000 to MYR5,000 per business that can be redeemed by eligible businesses with their professional business adviser.

Such a voucher is an opportunity for the Government and professional business advisers to collaborate to improve the capability and capacity of Malaysia's small business sector.

2. <u>Other grants to help viable small businesses</u>

The Government should also consider collaborating with trade associations and business chambers to make available one-off grants to businesses to:

- assist viable businesses in financial distress with working capital, rental support and crisis management costs
- support the reinvention of businesses through helping meet marketing costs, market diversification efforts, and re-branding and designing costs
- encourage businesses to upgrade their capabilities through helping meet the costs of reskilling of workers, purchasing of productivity solutions and business process improvements, etc.

Assisting businesses build technological capabilities

A large portion of Malaysia's SMEs are family-owned and require increased digital capability and capacity to be able to grow.

Government agencies such as MDEC and SME Corp should consider collaborating with e-commerce platforms who have a substantial presence in Malaysia, such as Ali Baba and Lazada (who has already rolled out a private support package), to develop a programme that will support SMEs develop and implement an e-commerce strategy by providing them with the necessary training and access to infrastructure and experts.

The Government could also consider providing an additional subsidy/grant to SMEs to help them meet the cost of labour to improve their e-commerce functionality, such as a one-time support of up to 70 per cent of the qualifying labour costs for three months. A similar collaborative initiative is undertaken in Singapore under Enterprise Singapore's "E-commerce Booster Package" could be used as a reference point.

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.

Developing Malaysia as an Intellectual Property (IP) hub

IP has the potential to catalyse social and economic growth by promoting innovative ventures, foreign investments and technology transfer.

In 2007 the National IP Policy (NIPP) was launched with an intent to develop Malaysia as an IP hub by 2020. We note the following as some of the challenges faced in positioning Malaysia as the IP Hub of South East Asia:

- the slow growth of IP awareness among Malaysians particularly around the protection IP registration offers and how IP can be monetised to maximise income;
- the lack of understanding of the contribution of IP in a business;
- relatively long IP registration process.

To support MSMEs with business recovery and reinvention while growing Malaysia's position as an IP destination, we suggest that Economic Advisory Council, together with the Ministry of Science, Technology and Innovation and MyIPO:

- Review Malaysia's IP infrastructure. This should include reviewing the effectiveness of the government agencies that enforce infringements of IP rights under the various legislation and regulations.
- Review MyIPO's application procedures and registration process to understand what may be prolonging the registration process. This could include considering whether digitalisation will quicken the process and lower cost.

- Collaborate with the Ministry of Entrepreneurial Development and Cooperatives to promote commercial exploitation of IP by MSMEs. The promotion efforts should include conducting workshops to educate IP owners on how the IPs can be exploited for maximum value.
- Assist the capturing of IP value by MSMEs on their balance sheets, and promote MSMEs to collaborate with their accountants.
- Work with Bank Negara Malaysia and banks to develop IP-based banking and financial instruments for collateralisation and securitisation of IP assets such as Intellectual Property Pledge financing. This will encourage more innovation efforts locally and widen financing channels for innovative businesses and ease their financing difficulties.
- Release IP rights that are not exploited by the government to business and individuals for commercial exploitation through licensing or assignment.

Long-term tax transformation

The significant economic, social and fiscal impacts of the current crisis should in our view necessitate a reflection on Malaysia's tax system. New tax measures (e.g. carbon taxes, solidarity levies, etc.) could be contemplated, as well as existing taxes (e.g. corporate profit taxes a, withholding taxes, consumption taxes, etc.) be reconsidered. The progressivity of the overall tax system should also be reflected upon, as well as its contribution towards Malaysia's economic development and international competitiveness.

The tax challenges brought about by the accelerated digitalisation of trade and the economy will become more prominent and international tax cooperation will be increasingly important to avoid tax disputes that harm recovery.

There is significant potential for Malaysia to enhance its tax system across a range of areas, including expanding its tax base, improving tax certainty through improved disputes resolution and prevention mechanisms, as well as lowering the cost of compliance through increased digitalization.

As such, we suggest that the government undertake a comprehensive and public 'root and branch' review of Malaysia's tax system to consider its long-term adequacy and reform opportunities. Such a review should consider the competitiveness and efficiency of the tax system, as well as how to improve businesses' confidence in the system, simplify compliance and consider whether revenue collection should be brought under one body.

Such a review may also provide the government an opportunity to assess its policy positions on and the fiscal sustainability of its social security policies.

We suggest that the government allocate funding in this budget to commence a comprehensive review of the tax system in 2021.

Public sector transformation

Accelerating digitalisation of the government services

To improve the delivery of government services, the Government should consider using this Budget to commit to fully digitalising its services.

In designing the delivery of digital services to the public, the Government also needs to consider the efficiency and effectiveness of having various agencies operating multiple platforms to deliver services. Consolidating the various services in one directory/space not only makes it easier and faster for the public to access government services, but also allows the Government to centralise the collection of data from each interaction with the public.

Take the example of Vietnam and certain European countries that are moving in the direction of "once-only government": one-stop, single-point services for all citizen-government interactions—applying for unemployment, renewing health insurance, or registering for retraining programs, can be conducted with a single digital identification. Swedish taxpayers receive a prefilled tax return prepared from income statements from employers and banks, reducing the time they must devote to tax filings. In Austria, the birth of a child automatically triggers the transfer of information from the hospital to the central civil registry; from there, it moves to the finance ministry, which passes it on to local tax offices. In Vietnam, the National Public Service Portal, launched as a means to cope with COVID-19, has also helped improve transparency and accountability of local governments.

As the Malaysian Productivity Corporation (MPC) is already pursuing improvements in public service administration, initiatives for digitalisation should continue under the auspices of the MPC, with strong backing from the Prime Minister's Office. This endeavour necessitates that the government review the effectiveness of current and planned digitalisation projects as well as whether such projects are still relevant in a post-COVID 19 environment.

Efforts in this space will also boost Malaysia's ranking in the Ease of Doing Business index, contribute towards regulatory reforms that look at reducing bureaucratic processes and support the longer-term vision of growing and globalising local capabilities, while attracting foreign investment.