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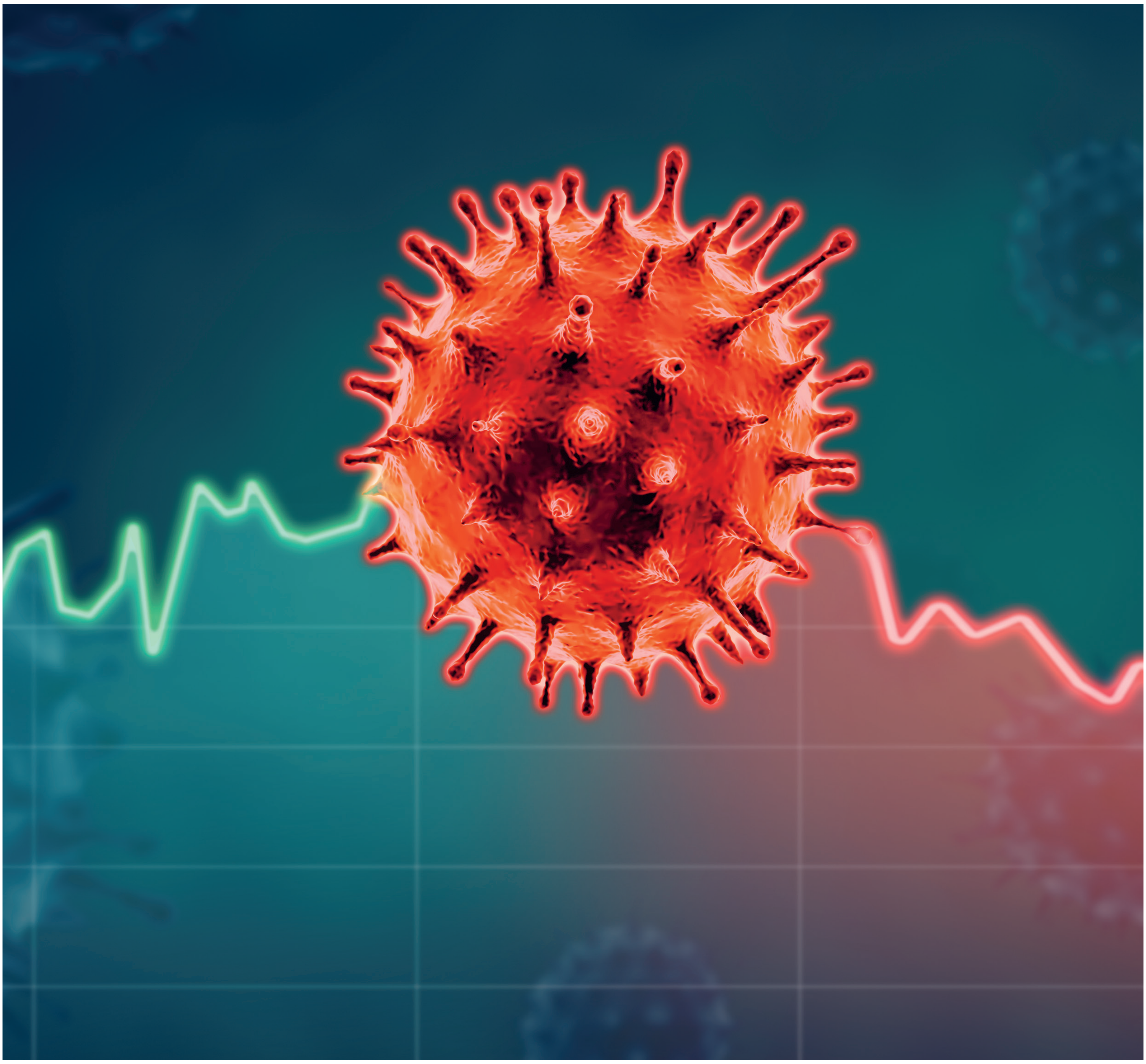
The Malaysian Economic Stimulus Package 2020 – Support for the Malaysian Economy in the Times of COVID-19



The Malaysian Government recently introduced the Economic Stimulus Package ("ESP"), which is designed to 'cushion the impact of COVID-19 and reinvigorate economic growth'. The ESP is anchored on strategies to mitigate the impact of COVID-19, spur economic growth and promote quality investments.

The following newsletter will outline the counter measures supporting the economy and responsibility of businesses, particularly those relating to employers.

A. Background

The global economy is suffering significantly as a result of the outbreak of COVID-19. East Asian markets have been hit particularly hard due to supply chains being tightly connected with the Chinese economy and an often large dependency on tourism.

Although, Malaysia's reliance on China and tourism is less extreme than in many neighbouring countries, it is still significant. As an export-oriented economy, slowing global growth and demand generally affects Malaysia deeply.

If infection rates globally, and within Malaysia, increase rapidly, the direct adverse effect on businesses may be even more substantial.

Nevertheless, Malaysia reported relatively few infections and is comparably well prepared for epidemic outbreaks. In fact, Malaysia ranked third in the region in the Global Health Security Index of 2019, after only Thailand and South Korea, but well ahead of Singapore and Japan.

B. Economic Stimulus Package

The Government has realised the danger for the economy and approved the 2020 ESP. It was announced by the Interim Prime Minister Dr Mahathir Mohamad on 27 February 2020. Dr Mahathir Mohamad has also called on all industry players to do their part in sharing the burden and advises following these measures to allow businesses to be able to continue their operations, improve domestic economic activities and preserve employment in the affected sectors.

The newly appointed next Prime Minister Muhyiddin Yassin has confirm the ESP since then and called for an accelerated execution of the package.

The stimulus package is valued at MYR 20 billion and relies on three overarching strategies: namely, (1) mitigating the impact of COVID-19, (2) spurring individual economic growth and (3) promoting quality investments.

This newsletter covers below key measures introduced by the ESP, but does not discuss each and every measure.

I. Mitigating the Impact of COVID-19

Key measures designed to mitigate the impact of COVID-19 can largely be divided into general strategies and those affecting the tourism industry specifically. Additionally, cash handouts are granted for directly affected individuals such as taxi drivers, doctors or nurses.

1. General Strategies

In order to ease cash flow, companies affected by COVID-19 may revise their profit estimates for 2020 with respect to monthly income tax instalment payments without penalty. A stamp duty exemption on loan restructuring and rescheduling agreements is also introduced.

Furthermore, financing facilities will be provided to assist the cash flow of SMEs. The Malaysian central bank, Bank Negara Malaysia ("**BNM**"), will provide a special relief facility worth MYR 2 billion, which will be offered through commercial banks as loans for working capital at an interest rate of 3.75% per annum. Additionally, the Government owned Bank Simpanan Nasional will allocate MYR 200 million in a microcredit facility for small businesses in affected sectors, particularly in the tourism industry, at an interest rate of 4%. Repayment will only begin after 6 months of the loan disbursement.

Furthermore, in order to assist affected businesses, measures relating to expenditure incurred by companies in providing employees with personal protective equipment have been implemented. If such expenditure is for disposable equipment then it is deductible under s.33(1) of the Income Tax Act. Alternatively, if the equipment is non-disposable, such expenditure can be claimed as capital allowance.

2. Measures Relating to the Tourism Industry

Businesses in the tourism industry may defer monthly tax instalment payments and hotels providing accommodation services are exempt from levying the 6% Service Tax in order to improve cash flow. To help reduce costs for affected companies, exemption from the Human Resources Development Fund levies are effective for 6 months for 8 categories of business, particularly in the tourism and retail industry.

The Government also seeks to encourage employers to invest in raising the productivity of human capital. To assist businesses in doing so, the Government will provide double deduction on expenses incurred on approved tourism-related training. Short courses in digital skills and highly skilled courses in fields including coding, digital marketing and data science will be heavily subsidised.

Lastly, in order to help stimulate the demand for travel and tourism, individual income tax relief is available of up to MYR 1,000 on expenditure related to certain domestic tourism. Further, the Government will collaborate with tourism operators to phase in discount vouchers for domestic tourism of up to MYR 100 per person for domestic flights, rails and hotel accommodations.

II. Spurring Individual-Based Economic Growth

A key measure to boost local consumption growth whilst protecting Malaysian jobs is that contributions by employees to the Employees Provident Fund (“**EPF**”) will be reduced from 11% to 7%.

This new rate will be effective from the 1 April 2020 until the end of the year and apply to employees contributing to EPF and below the age of 60.

However, employees are entitled to elect to continue deduction at their higher current contribution rate by completing a notice form on epf.gov.my.

III. Promoting Quality Investments

The Government intends to sustain the momentum of economic growth by complementing private consumption with investment growth.

The following measures are intended to sustain investments:

1. BNM will provide an SME automation & digitalisation facility of MYR 300 million at an interest cost of 3.75%. This will allow SMEs to upgrade and modernise their productive assets through purchasing equipment, machinery, information and communication technologies (hardware, software, IT solutions and services) (“**ICT**”) and other intangible assets to enhance productivity and efficiency. Tenure offered will be up until 10 years and MYR 3 million per SME.

2. Regulatory agencies will promote public private partnership and private investments. The Ministry of Energy, Science, Technology, Environment and Climate Change will open for bids quota of 1,400 MW of solar power generation in 2020, which is expected to translate to MYR 5 billion of investment. Government linked companies will also focus on accelerating capital expenditure, particularly relating to works with higher local content.

3. The Government will co-invest up to MYR 500 million, which will be matched by private investors at a ratio of at least 1 to 3. This will make the total funds amount to MYR 2 billion for investments in early state and growth-state companies.

4. Waived listing fees for companies seeking to list on LEAP (Leading Entrepreneur Accelerator Platform) or ACE (Access, Certainty, Efficiency) Market. Listing fees are also waived for companies with market capitalisation of less than MYR 500 million seeking listing on the Main Market. This should help encourage successful growth companies to fundraise through the stock market.

5. Qualifying capital expenditure on machinery and equipment, including ICT equipment, will be given accelerated capital allowance for a two-year period for expenses incurred between 1 March and 31 December 2020. This is intended to incentivise businesses to undertake investments in 2020.

6. The Government will provide a tax deduction of up to MYR 300,000 on renovation and refurbishment cost to promote businesses to undertake such refurbishment.

7. Import duty and sales tax exemption on equipment and machinery for port operators used directly in port operations will be granted for 3 years commencing 1 April 2020.

C. Employer Guidelines

In addition to emphasising the importance of avoiding a rise in the rate of unemployment, the Government highlighted the importance of keeping employees in their jobs in order to be prepared for a quick recovery and re-bounce once the global crisis dies down.

In this light, the Ministry of Human Resources already released its "Guidelines on Handling Issues Relating to Contagious Outbreaks Including Novel Coronavirus" ("**MHR Guidelines**") earlier on 5 February 2020. The MHR Guidelines include, in particular, the following non-binding rules:

I. Sick Pay and Sick Leave

Employers are expected to instruct employees who have returned from affected countries, such as China, Japan and Singapore to be examined immediately by a registered medical practitioner or officer.

If employees are diagnosed with and treated for COVID-19, employers must provide full paid sick leave (in accordance with contractual or statutory terms).

Regardless of whether an employee is ordered to quarantine at home or in hospital, employers should provide full pay for the period. Furthermore, if an employee's quarantine order exceeds their sick leave entitlement, employers are encouraged to provide extra remuneration.

Employers should not, in any way, instruct employees to utilize their annual leave entitlement or take unpaid leave while under quarantine.

II. Alternative Working Arrangements

Employers are encouraged to grant employees the flexibility to work from home or invoke their work from home policy should they have such a policy.

D. Conclusion

The Government has recognised the prevalent problems and has taken counter measures, which are intended and designed to reduce the negative impact during this difficult time. However, there is no guarantee the measures will stabilise the economy sufficiently or increase the chances for an efficient V-shaped recovery.

The ESP offers businesses in the most affected sectors useful assistance in the current crisis. Businesses are also well advised to maintain employees and good relationships with more affected customers and suppliers in order to be prepared for a re-bounce once the crisis is over.

Luther can assist businesses with the individual use of the different offers of the ESP and the required steps to utilise the benefits.

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