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Second Economic Stimulus Package: Measures for Businesses



The current COVID-19 crisis has Malaysia in its firm grip. Since the implementation of the Movement Control Order on 18 March 2020, the economy has significantly slowed down and Malaysia is in the midst of what could possibly be the biggest economic crisis since its independence.

Last week, the government reacted and on 27 March 2020 unveiled the Second Economic Stimulus Package 2020 (the “ESP2”) entitled “Prihatin Rakyat ESP2”.

The ESP2 is valued at MYR 250 billion and the funds will be allocated as follows:

- MYR 128 billion for the protection of the Malaysian people’s welfare;
- MYR 100 billion to support businesses, including Small and Medium Enterprises (“SMEs”);
- MYR 2 billion to strengthen the country’s economy; and
- MYR 20 billion announced under the previous Economic Stimulus Package (the “ESP1”) on 27 February 2020. Our newsletter about the initial ESP may be found [HERE](#).

This newsletter seeks to present an overview of key measures to help you identify how your business may benefit from the

newly announced ESP2. Our focus will be on measures in favour of businesses, especially financial, fiscal and labour measures. There are further measures from which Malaysian citizens will benefit directly. For the sake of the purpose of this newsletter, we have not mentioned them here. Please note that this update cannot be deemed wholly conclusive yet, as we are still waiting for the ESP2 to be approved by the Malaysian Parliament.

A. General Measures to Ease Financial Access for Businesses

The government announced in the ESP2 several measures to ease financial access for businesses, especially targeting SMEs. In addition, the government has renewed its call for private banks to support Malaysian businesses in financial distress.

I. Key Initiatives to Assist SMEs

The government and Bank Negara Malaysia (“BNM”) will provide additional funds worth MYR 4.5 billion to enhance access to financing for SMEs and to support economic growth. This fund covers five key initiatives, as follows:

- **Increasing funds to the Special Relief Facility (“SRF”) for SMEs by MYR 3 billion, bringing the total to MYR 5 billion.** In addition, the interest rate for the entire fund will be reduced from 3.75% to 3.5%. The SRF was put in place in the ESP1 to assist the cash flow of affected SMEs by offering loans for working capital at an initial interest rate of 3.75%. Under the SRF, eligible Malaysian SMEs can obtain financing of up to MYR 1 million for working capital with a tenure of up to five and a half years, including a six-month grace period.
- **Increasing the size of the All Economic Sector Facility (“AESF”) fund by MYR 1 billion to MYR 6.8 billion to enhance access to financing for SMEs.** The maximum financing rate is also reduced from 8% p.a. to 7% p.a. The AESF is available to SMEs in most economic sectors, with the maximum tenure of five years and a maximum financed amount of MYR 5 million. This financing can be used for capital expenditure (e.g. purchase of machinery and equipment or renovation cost for owner-occupied business premises), and/or working capital.
- **Providing additional funds of MYR 500 million under the Micro Credit Scheme (“MSC”) to a total of MYR 700 million for loans.** The MCS was initially set up in the ESP1 to

offer a MYR 200 million micro-credit scheme for companies in affected sectors, notably tourism, at an interest rate of 4%, with repayment of instalments beginning only after six months of disbursement of the loan. In the ESP2, the government announced that the MCS, administered by Bank Simpanan Nasional, will be at a reduced 2% interest rate with no collateral. The eligibility criteria have been relaxed as follows:

- the operation period is reduced from a minimum of one year to only six months;
 - the financing amount is increased from a maximum of MYR 50,000 to MYR 75,000 per entrepreneur; and
 - the application is open to all micro entrepreneurs in all business sectors, including taxi operators, bus and taxi operators, the creative industry and online traders.
- **SMEs with business records of less than four years can also leverage the BizMula-I and BizWanita-I schemes,** the latter being specifically for female entrepreneurs, for financing of up to MYR 300,000 under the Credit Guarantee Malaysia Berhad.
 - **Syarikat Jaminan Pembiayaan Perniagaan (“SJPP”) will provide MYR 5 billion worth of guarantees and increase the guarantee coverage from 70% to 80% for SMEs that face difficulties in obtaining loans.** The SJPP administers and manages government guarantee schemes that enable SMEs to gain access to financing facilities by encouraging such financial institutions to offer better rates, terms and conditions to SMEs.

It must be noted that to benefit from these various measures, SMEs must fulfil the following criteria in accordance with the guidelines of SME Corporation Malaysia:

- The entity must be registered with the Companies Commission of Malaysia, authorities or district offices in Sabah and Sarawak, or statutory bodies for professional service providers;
- Malaysians residing in Malaysia must hold a minimum of 51% shareholding in the entity; and
- The turnover or number of employees must be under the following thresholds:
 - For manufacturing businesses: a sales turnover not exceeding MYR 50 million OR full-time employees not exceeding 200 employees; and
 - For services and other sectors businesses: a sales turnover not exceeding MYR 20 million OR full-time employees not exceeding 75 employees.

In a press release on 27 March, BNM instructed interested SMEs to apply for financing by calling or emailing the participating financial institutions (commercial banks, Islamic banks and development financial institutions), or visiting the financing referral platform at imsme.com.my. As mentioned by BNM, SMEs can also avail themselves to Credit Guarantee Corporation Malaysia Berhad to benefit from BizMula-i and BizWanita-i schemes.

II. Other Governmental Measures in Favour of the Corporate Sector

In addition to the specific measures directed at SMEs, the ESP2 announced several measures for all companies facing cashflow constraints such as:

- **Introduction of a MYR 50 billion guarantee scheme to guarantee up to 80% of the financing amount for the purpose of financing working capital**, required by business entities who are facing difficulties due to the COVID-19 situation. The guarantee scheme will be managed and subject to credit evaluation by Danajamin Nasional Berhad, which already provides financial guarantee insurance for bonds and sukuk issuances. The minimum guaranteed loan size will be MYR 20 million per business. This facility will be available for application from May 1 to December 31, 2020, or until the full security deposit is used.
- **Discounts of electricity bills:** Previously the government allocated a 15% discount on electricity bill in the tourism sector, as well as a 2% discount for commercial, industrial, agricultural and household sectors in Peninsular Malaysia, beginning 1 April 2020. Additionally, the ESP2 has declared a tiered-discount, with rates ranging between 15% and 50% according to electricity usage with a maximum limit of 600 kilowatt per month. This discount will be valid for six months beginning with bills charged for the month of April 2020.

III. General Support from Banks and Financial Institutions

In accordance with the government's previous direction, the ESP2 also welcomes the willingness of banking institutions to offer a six-month delay or loan repayment moratorium, conversion of credit card balances to term loans, and restructuring of corporate loans.

The Prime Minister of Malaysia, Yab Tan Sri Dato' Haji Muhyiddin, stated that this measure is important in enabling companies to continue maintaining employment and to continue their business activities. This initiative, which he states to be worth at least MYR 100 billion, should provide relief to borrowers.

To encourage banking institutions to offer individuals and SMEs a moratorium for payments on borrowing, the ESP2 has stated that the bank's income from interest or profit from loans or financing involved with the moratorium will only be taxable when the income is received after the moratorium period (which is from 1 April 2020 to 30 September 2020).

B. Measures for Employers

The ESP2 contains three measures in favour of employers who are struggling to cope with the COVID-19 crisis: the Wage Subsidy Program, the Employer Advisory Services programme and an exemption from payment of Human Resources Development Fund levy for six months.

I. Introduction of Wage Subsidy Program

The ESP2 has introduced the Wage Subsidy Program to subsidise affected employers MYR 600 per month for each employee earning less than MYR 4,000 for a period of three months. The criteria for the program is as follows:

- the employee is earning less than MYR 4,000 per month;
- the employer is experiencing more than a 50% reduction in income since 1 January 2020;
- the employer must not dismiss any employee or direct the employee to take unpaid leave for a period of three months after the program is implemented; and
- the employer is not allowed to deduct the employee's existing salary.

This program will alleviate affected employers' cash flow during this period and ensure that affected employees remain in employment. However, the Wage Subsidy Program only targets the lower-paid workers.

II. Introduction of Employer Advisory Services Programme

The ESP2 has introduced the Employer Advisory Services programme, which should start on 15 April 2020 for services on the restructuring of employers' contributions to the

Employees Provident Fund. This service includes options for delaying payments, restructuring, and rescheduling employer contributions. The government expects this measure to provide cash flow savings to employers and secure the jobs of employees in companies affected by the COVID-19 outbreak.

III. Exemption from Payment of Human Resources Development Fund Levy for Six Months

The ESP2 has provided for an exclusion from levy payments for the Human Resources Development Fund for all sectors for a period of six months beginning April 2020. This measure is expected to assist company cash flow.

C. Measures for Taxpayers

Finally, the ESP2 provides certain tax measures in order to tackle the cash flow issue.

I. Deferment of Monthly Tax Instalments for a Period of Three Months for SMEs

SMEs will be given a deferment for payment of monthly tax instalments for a period of 3 months from 1 April 2020 to 30 June 2020. This proposed measure should help ease the cash flow burden of SMEs.

Nevertheless, further clarification is to be provided by the authorities on the scope of taxpayers that can benefit from such a measure, as the definitions of SMEs by SME Corporation Malaysia (please see above), and under the Income Tax Act 1967 ("ITA"), differ.

Under the ITA, SME is defined as a resident company in Malaysia with paid up capital of up to MYR 2.5 million at the beginning of the basis period and a gross income from all business sources of not more than MYR 50 million for a year of assessment.



II. Amendment of the Monthly Instalments for Other Affected Sectors

In other affected sectors, companies are allowed to amend the tax amount income incurred in the third, sixth and ninth monthly instalments during the basic accounting period.

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