



RM20 billion Stimulus Package

Tax Espresso (Special Edition)

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# Stimulus Package

## Malaysia spends RM20bil for Coronavirus stimulus package

In light of the ongoing COVID-19 outbreak, the much-awaited stimulus package has been unveiled by interim Prime Minister Tun Dr Mahathir Mohamad today, at 5.00 p.m.

Since January 2020, the COVID-19 continues to headline both locally and globally, as it poses risks to public health and economic growth. The measures announced aim at bolstering confidence, stimulating growth and protecting jobs. As countries scramble to contain the virus, we have seen its impact on the country's 2020 economic growth, especially in the gross domestic product (GDP), tourism, airlines, travel companies and tourism-dependent retail industry.

The stimulus package is designed based on three strategies to ensure that Malaysian economy remains on strong foundations: mitigating the impact of COVID-19, spurring rakyat centric economic growth, and promoting quality investments. As a result of the stimulus package, our fiscal deficit is estimated to slightly increase to 3.4% of GDP compared to the original target of 3.2% of GDP whilst projecting our GDP growth in 2020 of 3.2% to 4.2%.

Among the measures introduced to help support businesses are the following:



# Tourism sector

The most immediate economic impact of COVID-19 has been the sharp decline in tourist arrivals throughout the region. Hotels, airlines, travel companies and more broadly the tourism-dependent retail industry have been badly affected. Here are some of the measures to mitigate the impact of businesses in the tourism sector for a period of 6 months from April to September 2020.

- Postponement of monthly income tax instalment payments.
- Revision of tax estimate for 2020 with respect to monthly tax instalment payments without imposition of penalty.
- 15% discount in electricity bills.
- Exemption from HRDF levies for hotels and travel related companies.
- 6% service tax exemption for hotels, effective from March to August 2020.
- Rebates on rental for premises at the airport as well as landing and parking charges.
- Double deduction on expenses incurred on approved tourism-related training.
- Relaxation of existing government guidelines limiting use of hotels.

**Commentary:** The postponement of monthly tax instalment payments for businesses in the tourism sector is a welcomed move as this relieves cash flow constraints faced by these companies. However, this flexibility should be extended to businesses in other sectors such as retail, transportation and entertainment, as they are equally affected by the COVID-19 outbreak. We expect the authorities to provide details on the postponement of monthly tax instalment payments. It is unclear now whether the revision of tax estimates refers to the tax estimate for the financial year 2020 or tax estimate for the period April to September 2020.



# Affected businesses and individuals

- Financing support:
  - Special Relief facility by BNM for SME at 3.75% interest.
  - Microcredit facility by BSN at 4% interest.
  - Restructuring and rescheduling of loans.
  - Agrofood facility by BNM at 3.75% interest.
  - SME Automation & Digitalization Facility by BNM at 3.75% interest.
- Matching grant to fund training of 40,000 employees.
- Grants of RM1,000 each to 10,000 local entrepreneurs to promote sale of their products on e-commerce platforms.
- Subsidy for short courses in digital skills and highly skilled courses.
- Personal income tax relief of up to RM1,000 for domestic travelling expenses.
- Digital vouchers of up to RM100 per person for domestic travelling.
- Employees' EPF contribution reduced to 7% with effect from 1 April 2020 to 31 December 2020.
- A Co-Investment fund of RM500 million for investment in early-stage and growth-stage Malaysian companies.
- Waiving of listing fees by SC and Bursa for 1 year, for companies seeking listing on LEAP, ACE and Main Market (applies to companies with market capitalisation of < RM500million).
- Accelerated Capital Allowances over two years on machinery and equipment including ICT.
- Tax deduction of renovation and refurbishment cost capped at RM300,000.
- Import duty and sales tax exemption on importation or local purchase of machinery and equipment used in port operations for 3 years commencing 1 April 2020.

## Commentary:

Lowering the EPF rate will have an immediate increase in disposable income, which translates to a positive impact on domestic spending as the rate cut is expected to unlock RM10 billion worth of private consumption. It is heartening to note that this is not made mandatory and Malaysian

workers can still choose to opt out from the scheme. The limited time frame allowed for the EPF cut is a good measure to preserve retirement savings.

The Special Relief Fund of RM2 billion by Bank Negara Malaysia and RM200 million in microcredit facility by Bank Simpanan Nasional will help to ensure that affected companies can stay afloat and ride through the current challenging environment. BNM is tasked to ensure that all financial institutions will assist all companies in need without exception.

We expect more details to provide more clarity on the qualifying conditions for the Co-Investment fund.

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