



COVID-19 Pandemic: Announcement of Economic and Fiscal Relief Measures by the President of Malawi

Tax Alert 04/2020 - Malawi

The President of the Republic of Malawi, Professor Arthur Peter Mutharika, addressed the nation of Malawi on 4 April 2020 to announce the first phase of emergency economic stimulus and tax relief measures in response to the rapidly evolving COVID-19 pandemic.

The objective of the measures was to address the negative economic and social effects stemming from the disruption caused by the COVID-19 pandemic. This follows on from the President's address to the nation of Malawi on 20 March 2020, in which a State of Disaster was declared in the country.

Further to the abovementioned statements, a 21-day national lockdown was subsequently announced by the President of Malawi on 14 April 2020, with the lockdown due to be effective from midnight on 18 April 2020. The uncertainty caused by the growing COVID-19 pandemic has resulted in a measurable impact on the economy, a slowdown in local business, and a heavy blow on importers, who are bearing the brunt of transportation delays and travel restrictions.

The main intended beneficiaries of the proposed economic and fiscal measures are the private sector, which plays a critical role in Malawi's economy, as well as households and formal and informal businesses.

It is expected that the Ministry of Finance will provide further details on the measures, and we will communicate any further developments as we become aware of them. In addition, we may update this document once the legislation becomes available and more detail is provided.

The key fiscal and economic measures announced are as follows:

Key Economic Measures

□ Protection of the foreign exchange market

The President announced a cushioning of the foreign exchange market in order to ensure the availability of forex, and the stability of the foreign exchange rate. This was coupled with the implementation of an Emergency Assistance Framework, to support local commercial banks in the event of worsening liquidity, and to aid on a case by case basis.

□ Continuity of Tobacco Trading Floors

As an agriculturally based economy, Malawi continues to rely heavily upon tobacco production and tobacco sales to support the economy, with tobacco accounting for over 55% of Malawi's total exports. The President therefore directed the Ministry of Agriculture to ensure that tobacco auction floors in the country continue to trade normally during the COVID-19 pandemic, in order to maintain the tobacco marketing season and protect tobacco farmers.

□ Special Fund for agricultural produce

In the same vein, the President also announced the provision of a special fund of MWK 3 billion for the Agricultural Development and Marketing Corporation (ADMARC) to purchase agricultural produce at competitive prices, for the benefit of local Malawians.

□ Reduction in Fuel Prices with immediate effect

As directed by the President in his National Address of 4 April 2020, the Malawi Energy and Regulatory Authority (MERA) reduced the prices of fuel with immediate effect, in order to reduce transportation costs in the country. Petrol prices were reduced from MWK 930 to MWK 780 per litre, Diesel prices were reduced from MWK 887 to MWK 765 per litre, and Paraffin prices were reduced from MWK 693.60 to MWK 625 per litre.

□ Increase in Loan Facilities for SMEs and Moratorium on Interest

The President also directed a MWK 2 billion increase in the Malawi Enterprise Development Fund (MEDF) loan allocation, which has increased to MWK 15 billion, in order to help Micro, Small, and Medium Scale businesses that have been seriously affected by the pandemic. This is coupled with a three-month moratorium on interest on principal loan repayments due by SMEs to commercial banks. Banks are to further restructure loans to more than 1 year.

Key Tax Measures

□ Tax Amnesty

The President directed the Malawi Revenue Authority (MRA) to open a voluntary tax compliance window (VCW) for a period of six months from **8 April 2020 to 31 October 2020** to allow taxpayers with arrears to settle their tax obligations in instalments without penalty, interest, or charges. The scheme is open to all businesses, corporate organisations, and individuals.

The MRA published a formal notice on 8 April 2020, advising that in order to benefit from the VCW, taxpayers are expected to complete a VCW Application Form, available from the MRA website. Completed applications are to be emailed to the MRA, sent to a mobile phone number, or uploaded to the MRA website. Applicants will be notified of the outcome of the application through the same channel through which the application is submitted.

All businesses, individuals and corporations are eligible to apply, provided:

- The entity (or person) is not registered with the MRA, but has transactions that were supposed to be taxed and are not being taxed;
- The entity is registered, but is not filing returns or remitting taxes;
- The entity is registered but has filed incorrect returns;
- The entity initially filed returns, but became non-compliant;
- The entity has tax arrears and no payment arrangement was made;
- The entity has not declared imports (smuggling) or has misclassified or under declared imports.

Comment: The main objective of the VCW is to increase voluntary tax compliance among business people. The relief is available for transgressions in the Pre COVID-19 period, as well as for the likely non-compliance at present due to the financial implications of COVID-19. It is our expectation that the government will publish enabling legislation in order to facilitate the implementation of these measures.

□ Tax Waivers on the importation of essential goods

The President further announced tax waivers on the importation of essential goods for Coronavirus management, which include, but are not limited to, personal protective equipment (PPE), hand sanitizers, soaps, and water treatment chemicals.

Comment: This development has been welcomed by the health sector, but it is felt that the benefits of this measure may not be fully realised in practice, as many of Malawi's trading partners are hesitant to export critical protective equipment at this time, due to domestic necessity.

□ Tax Waivers for the Health Sector and Tourism Industry

The President also announced a waiver of Resident Tax on all foreign doctors and Medical Personnel in Malawi, in order to encourage the availability of personnel in the sector at this critical time.

This is coupled with a waiver of the non-tourism levy, in order to support the tourism industry in Malawi.

Other Key Measures

Other notable measures announced by the President include:

1. A reduction in fees charged on electronic money transactions, in order to promote the use of the same; and
2. An increase in consumer protections with respect to the prices of essential goods, including stiff fines for retailers that artificially inflate the price of goods for profit making purposes.

Effective Date

The economic stimulus and relief measures detailed above are effective immediately, and it is expected that more measures will be implemented, through the Ministry of Finance, for promulgation in the coming weeks. The tax amnesty measures, on the other hand, are effective for a period of 6 months from **8 April 2020** to **31 October 2020**.

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