FMM's 2021 Budget Wishlist and Proposals on Additional Measures to Mitigate Impact of Third Wave of Covid-19

Kuala Lumpur, October 26, 2020 – The world has changed drastically in 2020 due to Covid-19 with global lockdowns in place to contain the pandemic especially in the early part of the year. The pandemic and the lockdowns had resulted in the tragic loss of many lives and livelihoods with an unprecedented collapse in business activities with an almost standstill in trade and major disruptions to global supply chains.

The Government had been quick in providing support to individuals, households and industries to ensure that the country goes through this difficult period strongly and recovers quickly. However, the economic landscape remains uncertain as the Covid-19 pandemic and the Conditional Movement Control Orders have given rise to a 'new normal' to business operations as stringent conditions and Standard Operating Procedures (SOPs) have been put in place and would continue to be observed.

We continue to see spikes in cases globally as well as domestically where we are currently experiencing the third wave of infections which have forced the Government to institute more stricter controls to reduce the rate and break the chain of infections swiftly before there are more serious repercussions on both the *rakyat* and economy. Hopefully, the pandemic would recede in 2021, thus allowing the recovery phase for most companies to proceed as they restart and ramp up operations to reach a sustainable and stable position in terms of business and finance before they are able to start achieving the pre-Covid-19 position and growth.

The economy and in particular the manufacturing sector must continue to be supported in their recovery journey through initiatives to be implemented under the 2021 Budget as the industry continues to be impacted by the pandemic. Manufacturing must continue to be supported as the catalyst of growth, main contributor to exports and main source of demand for output from the other economic sectors. The following are most crucial for continued support including the resolution of pressing issues currently hampering business operations and initiatives moving forward:

- Immediate support to mitigate the impact of the third wave of Covid-19 infections
- Driving business transformation, technology and digitisation adoption, productivity enhancement and innovation;
- Ensuring a conducive and friendly business and investment climate
- Developing human capital
- Strengthening trade including domestic trade
- Strengthening SME and Entrepreneurship
- Support for energy conservation initiatives

Immediate support to mitigate the impact of the third wave of Covid-19 infections and improve cash flow for businesses especially the SMEs

i. **Extend the moratorium on loans and financing until year-end** or even to March 2021to relieve business cash flow. Although Bank Negara Malaysia has been very aggressive and proactive in reaching out to SMEs to approach their banker early to reschedule and/or restructure their loans / financing, an extended moratorium is still the preferred and more effective assistance, especially since the onset of the third wave of the Covid-19 had again raised market uncertainties and risks.

ii. Recognise that during the current pandemic, sales in many economic sectors are adversely affected. There should be **flexibility in the definition of company size based on sales turnover to assist all companies which have suffered significant declines** to the extent that they can fall within the ambit of the national SME definition. These companies are among the most badly affected and in dire need of assistance and support and will likely be the mid-tier companies (MTCs), which also have the potential to create a strong multiplier effect. MTCs as defined in MATRADE's Mid-Tier Companies Development Programme are companies with annual revenues between RM50 million to RM500 million in the manufacturing sector and between RM20 million to RM500 million in other sectors. There are approximately 10,000 MTCs in Malaysia, and despite being just 1% of all Malaysian firms, they collectively contribute ~30% of the country's GDP and employ over 22% of the workforce. These statistics clearly show that mid-tier companies have the capacity to create wider and stronger multiplier effect up- and downstream of the supply chain. **Tax relief and assistance accorded to SMEs should also be accessible to MTCs for at least the next two years** to help in their recovery.

iii. A key booster will be the **waiver of both corporate and individual income taxes for Year of Assessment 2020 and 2021**. Since taxable income is greatly reduced, the loss in tax revenue to the Government may be comparatively minimal. But for businesses, the waiver will allow them to recoup and strengthen their internal finances to rebuild their businesses; while employees as consumers will have higher disposable income for consumption and demand for goods and services. **Both corporate and personal income taxes have to be waived for a stronger impact and multiplier effect from consumer to business to workers** in the virtuous cycle of supply and demand.

iv. The **Wage Subsidy Programme (WSP)** has helped SMEs in the past few months however there is growing unease that for the mid-tier and larger companies with more than 200 employees with turnover exceeding RM50million and which contribute significantly to the GDP, the wage subsidy is grossly inadequate and will lead to problems in the coming months if not addressed. Wage subsidies are given to companies to assist them to retain their workers through this difficult environment. For wage subsidies we would expect all employees in a company to be treated equally but unfortunately the current WSP is limited to only the first 200 employees in a company. There are many companies employing more than 200 and they are left unassisted. In addition, the other condition of the salary cap of RM4,000 has made more workers ineligible for the WSP. **Propose that the Government consider removing the 200 employees limit and RM4,000 salary cap. Further it can be more targeted to the mid-tier companies by a restriction perhaps not exceeding 800 workers**. **Extend the WSP to assist companies impacted by the third wave of the Covid-19.**

Driving business transformation, technology and digitisation adoption, productivity enhancement and innovation

i. **Support for technology and digitisation Adoption**
   - Continue with support programmes for Industry 4.0 adoption;
   - Expedite development and offering of online courses by institutions of higher learning;
   - Promote and support growth of local companies to manufacture robots through tax incentives such as pioneer status & tax-free income;
   - Roll-out affordable and good quality broadband access to industries and speed up investment in broadband and 5G infrastructure;
   - Establish Next Generation Training Centre (NGTC) focusing on Big Data Analytics (BDA)/Science and Solutions and Promote Manufacturing Research Collaboration between universities and industries

ii. **Continuous Support for Automation and Upgrading Activities** to support Industry 4.0 adoption and integration as well as reduction of manual labour.

iii. **Double Tax Deduction** for Expenses Incurred in Implementing a **LEAN Management System** which has been proven to increase the productivity of industries.

iv. **Support for Research and Development (R&D)** by removing the RM50,000 threshold and the time bar and **extend the AUTOMATIC double tax deduction to all companies** including mid-tier and larger companies given their potential to spur innovation and creativity.

v. **Allocate RM100-200 million** to set up a **Future Manufacturing Fund** to support R&D work and implementation of R&D by universities and key engineering research centres to support Industry 4.0 adoption and implementation by the manufacturing sector

vi. **Research and Development (R&D) Voucher Scheme for SMEs** - offer financing up to **RM50,000 depending on company size which SMEs have to match with investments of up to 20% of the voucher amount** in order to make it financially manageable for SMEs to embark on innovative activities.

Ensuring a conducive and friendly business and investment climate

i. **Enhancing the Domestic Investment Strategic Fund (DISF)** - scope should be **simplified and expanded** to cover product, process, quality and productivity improvements, development and upgrading, fundamental to SMIs in closing the gap on mechanisation, automation and in building capacity to embark on R&D activities. **More transparent** i.e. provide a list of eligible expenses, the quantum of support allowed; and reasonable guidelines on assessment of applications.

ii. **Business and Investment Friendly Regulatory Environment**
   - Ensure government policies enhance competitiveness; reduce cost of doing business; champion a pro-business environment; enable businesses to grow and develop; and are credible, consistent, transparent and predictable.
   - Government policies are reviewed to identify constraints and strategies to further boost local and foreign investments and ensure business friendly investment climate & policies by reducing unnecessary regulatory burden

- Mandatory for all ministries and agencies to adhere to the National Policy on the Development and Implementation of Regulations (NPDIR) for all new proposed regulations or review of existing regulations which has impact on business, investments and trade.
- Regular and earnest consultation with industry associations to help implement government policies and ensure a win-win solution for all stakeholders. Trade associations could be the conduit in ensuring government incentives and grants are implemented properly and yield the intended results.
- **Re-engineer Investment Promotion Agencies under ONE AGENCY** with specific KPIs; focus on realising **high-value and high-tech investments**; provide more incentives for Domestic Direct Investments (DDI). Instrumental to set up **Fully High-Tech Special Investment Zones** to be smart manufacturing campus with technology providers, full R&D Centres with researchers, TVET Institutes, fully integrated logistics, top quality utility and infrastructure for high technology and high value-added manufacturing companies.
- Set up **integrated industrial parks** that are affordable to SMEs with proper industrial clusters and centralised environmental management facilities to support sustainable development.

iii. A more **competitive tax regime for personal and corporate tax**;
- **Gradual reduction in corporate tax rate to 20%** and **flat corporate tax rate for SMEs at 15%** for all SMEs that meet the national SME definition
- Restructure personal income tax bands so that tax payers would not hit higher tax rates too quickly.

<u>Developing human capital</u>

i. Emphasis on Technical Vocational Education and Training (TVET) including Setting up a TVET Apprenticeship Fund
- **Expedite setting up of single champion agency** ideally TVET Commission governed by TVET Commission Act to drive TVET direction and efficiency to overcome current fragmentation; standardise training and qualification; cost-effectiveness, quality assurance, portable qualification, recognition of prior learning; and build recognition of TVET as career of choice for students & parents.
- Set up of a **TVET Apprenticeship Fund utilising the foreign worker levy** to fund apprentice programmes by employers to close the skills gaps amongst locals via implementation of employer-led training. FMM has proposed that 60% of the levy collected be channelled towards the TVET Apprenticeship Fund and the remaining 40% be channelled towards Automation & Industry 4.0 technology implementation.

ii. Minimum Wage
- **Moratorium on the minimum wage rate for the next two years** as companies revive their businesses and try to return to their pre-COVID-19 position and growth.

- **Review definition of MW as take home pay**, not basic wage. Minimum wage should be basic wage AND all fixed cash payments and allowances defined as wages under Section 2 of Employment Act 1955 (EA).
- **Link wages to productivity** and support implementation of Productivity Linked Wage System (PLWS)
  - Clear guidelines on PLWS acceptable to both employers and employees
  - More affirmative action to support implementation of PLWS by way of strengthening legislation and enforcement capability
  - Support companies wanting to implement PLWS models by allowing double tax deduction on the expenses incurred in setting of the system and implementation tools including consultation cost.

iii. Foreign Worker Management Policy
- **Single Ministry** in charge of foreign worker policy and management
- **Single online processing & approval system** end-to-end from recruitment to repatriation
- **Implement market-based levy mechanism** based on easy & transparent criteria; pre-announced at least THREE years' ahead of deadline; planned & transparent schedule of cost increase; gradual increase in rates to minimise impact on business cost and incentives to reward businesses the reduce FWs
- **Remove ratios/caps and third-party service providers**
- **Plough back levy to industry** to support their initiatives in mechanisation, automation and productivity improvements through the proposed set up of a TVET Apprenticeship Fund and Automation and Industry 4.0 Fund.

<u>Strengthening / Supporting Trade including Domestic Trade</u>

i. **Increase ceiling of Market Development Grant** to RM500K
ii. **Reinstate Brand Promotion Grant** to complement M'sian brand promotion efforts
iii. **Conclude Regional Comprehensive Partnership Agreement (RCEP)** and implement Free Trade Agreements (FTAs) which have been signed such as the **Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP)** in order to provide market access for Malaysian exporters.
iv. **Explore non-traditional markets** including the Middle East, Eastern Europe and Africas through Preferential Trade Agreements (PTA) in order to provide greater market access for Malaysian products
v. **Support needed for new business / diversify existing business ventures** in the essential goods for import substitution and exports such as face masks, respirators and thermometers, hand sanitiser, protective wear; and reusable medical and surgical gown fabric.
vi. **Reinstate Regional Distribution Centre (RDC)/ International Procurement Centre (IPC) Status** - Would help the national agenda in terms of attracting more investment and increasing exports. Propose reinstating the RDC/IPC status especially for companies that wish to complement their manufacturing activities with repacking / break bulking / minimum value-added activities
vii. **Reinstate GST at 3%** with a threshold of RM500,000 and transition period of 6 months. There must be provisions for interest on late repayment of GST refunds and a more efficient scheme to replace the Approved Trader Scheme (ATS) and

Approved Toll Manufacturing Scheme (ATMS) as these schemes are complicated and difficult to implement. Ensure that the outstanding GST refunds are paid in full before the new tax system is introduced.

viii. **Allowance for Increased Exports (AIE)** – in July 2019 the previous Rules and Order were revoked and new conditions set for both Allowance for Increased Exports (AIE) under Income Tax (Allowance for Increased Exports) Rules 1999 [PU(A) 128/1999] and incentive for significant increase in export penetration into new markets (Income Tax (Exemption) (No. 17) Order 2005 [PU(A) 158/2005]). The previous qualifying company condition for normal AIE was company resident in Malaysia and for AIE for significant increase in export penetration was 60% of issued share capital of the company is Malaysian owned. In July 2019 the new qualifying criteria for both schemes is 60% of issued share capital of the qualifying company is owned directly by Malaysian citizen. This has resulted in a company with minimum shareholding of 60% Malaysian citizens held through another company being no longer qualified and all Malaysian companies including SME with corporate shareholders no longer being entitled. The purpose of AIE is to promote export of Malaysian manufactured products and introduced to promote industrialisation in Malaysia especially for value added products. The previous gazette orders facilitated this where they have consistently not had the requirement for 60% shares of the company to be held by an individual. In this respect FMM requests for the **qualifying criteria to be reviewed and to reintroduce the previous qualifying requirement where 60% of the issued shares of the company is Malaysian owned**.

ix. **Buy Made-in-Malaysia & Government Procurement Policy Enforcement**
- More tax incentives such as tax rebates and double tax deductions to encourage companies to continue to Buy Made-in-Malaysia
- Welcome proposal by MOF to develop a singular GP legislation to house all GP related laws and policies relating to goods, works and services to ensure the regulations are enforced effectively.

x. **Address Illegal Trade of Goods** - tighten enforcement on smuggling & counterfeit

Strengthening SME and Entrepreneurship - Industrial Linkage Plan (ILP) and Strengthening Supply Chain Networks

i. **Industrial Linkage Plan (ILP)** should be a major project to support the recovery and strengthening of the SMI supply chain.
- **Specific allocations** should be given to MIDA to implement the ILP aggressively;
- **Tax incentives** such as lower corporate taxes or possibly, assurance of market access through government & GLCs procurement and MNCs to encourage large companies to participate as anchors;
- **Funds (grants or soft loans) and assistance to help SMEs** build and upgrade their capacity and capabilities to meet their anchors' requirements, to expand export activities and integrate with the local and global supply chain. Grants to be in form of upfront payment of certain percentage and in tandem with stages of project development needs i.e. more upfront & at the start, and lower allocation towards end of project. Matching grants to only require SMEs to match 20% of grant amount. Soft loan interest rates should be at most BLR rate, but preferable at ZERO interest rate like TEKUN under PENJANA for micro-enterprises;

ii. **Establish networking platform for Manufacturing Trade Organisations in ASEAN** to mobilise collective efforts to ensure uninterrupted production and supply chains by utilising supply chain connections within Southeast Asia for the production of essential goods to be made available at national and regional levels;
iii. **Enhancing supply chain data visibility, transparency, accuracy and confidence** through a trusted standard-based information / data system to allow open and efficient sharing of products and supplies data.
iv. As Mergers & Acquisitions (M&A) become strategic business strategies in the current investment climate, there must be further support in addition to the stamp duty exemption in the form of **Real Property Gain Tax (RPGT) exemption for asset revaluation in M&A deals.**

Support for energy conservation initiatives

i. **Cap increase of energy tariffs**, if any, for 2021 and consider extending the rebate/discount for electricity and natural gas (NG) in 2021 to targeted affected companies during the recovery period. The rebate/discount for electricity and NG should be timely and commensurate with price movements in the energy market.
ii. **Allow tax deduction on the energy assessment fees** to cultivate important practice of energy audits over a specific period and **tax deductions to encourage installation of Energy Management Information System (EMIS) to effectively manage energy use** in a structured manner to achieve efficiency improvements.
iii. On Renewable Energy the following is proposed:
    - No time limit imposed on the one-on-one offset basis under the Net Energy Metering Scheme (NEM) as stipulated in the scheme when it was first introduced.
    - Energy Commission to continue being transparent and publish list of offers received from bidders during bid opening and those shortlisted for the Large-Scale Solar (LSS) scheme as practiced in the past. Offering based on 10-30MWac and 30-50MWac range should also be maintained for future LSS.
    - Energy Commission to proceed with plan to introduce Corporate Renewable Power Purchase Agreement (PPA) whether in replacing or concurrent with LSS which provides companies with long-term hedge against fluctuating energy prices and assists in delivery of a corporation's sustainability commitments.

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FMM Advocates Transparency, Integrity and No Corruption

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