

## Help Is on the Way – Government and Banking Sector Support Business in COVID-19 Crisis



Businesses in Malaysia are severely affected by the Movement Control Order (the “**Order**”), which came into effect on 18 March 2020 and forced most businesses to close their premises for at least until 31 March 2020. In addition, the rest of the world is fighting the COVID-19 crisis as well and international trade is in distress.

In order to support both Malaysia’s businesses as well as the public in these difficult times, both the Malaysian Government and the banking sector are implementing measures to help mitigate the impact of COVID-19 on businesses and ease the long-term consequences.

The purpose of this update is to provide you with an overview of the relevant measures and explain how they could help businesses to tackle the current situation.

### **A. Support from the Government**

Since the issuance of the Economic Stimulus Package (“**ESP**”) in February, the Government has announced several complementary measures. Special efforts have been made in favour of employers and taxpayers.

## I. Complementary Measures to the Economic Stimulus Package

The Malaysian Government announced an ESP on 27 February 2020, which was valued at MYR 20 billion and relied on three overarching strategies, namely: (i) mitigating the impact of COVID-19, (ii) spurring individual economic growth, and (iii) promoting quality investments. Our previous newsletter about the initial ESP may be found [HERE](#).

Complementary measures have subsequently been announced and the Government has stated that the new measures released on 16 and 23 March 2020 form part of a more comprehensive Economic Stimulus Package and People's Aid, which is to be announced imminently.

On 16 March, the Malaysian Government announced that they will ensure the implementation of the ESP with additional measures to mitigate the impact of COVID-19. Such additional measures include a nationwide electricity discount of 2% for industrial, commercial and domestic users, which is expected to involve around MYR 500 million. This discount should be in addition to the 15% discount for hotels, aviation companies and exhibition malls under the ESP. Moreover, some additional measures for employment have been announced (please see below).

The Prime Minister, on 23 March 2020, again announced further initiatives intended to ease the prevalent financial issues, which were decided at the Economic Action Council Meeting on the same day. The measures announced on 23 March can be summarised inter alia as follows:

- **Financing medical equipment:** The Government agreed to allocate an additional MYR 500 million to the Ministry of Health (“MOH”) to support the fight against COVID-19, by financing the purchasing of medical equipment. An allocation of MYR 100 million was also provided to the MOH to appoint 2000 new contract workers, particularly nurses.
- **State Government allocation:** MYR 130 million will be allocated fairly to each state to help local governments cope with the COVID-19 crisis. Such provision can be used to assist affected hawkers and small traders, COVID-19 patients and their families, and to provide assistance to state-level personnel involved in the crisis.

- **Extension of the period for repayment of the of the National Higher Education Fund Corporation (“PTPTN”):** The period of three months will be extended to six months for the delay in repayment of the PTPTN loan amounting to MYR 750 million. This postponement is effective immediately and until 30 September 2020.

## II. Measures to Help Employers and Employees

Following the Order, all business premises are to be closed until the end of the month to prevent people from gathering and spreading COVID-19. Hence, it is prohibited to continue working in office premises except for those involved in essential services (such as water, electricity, energy, telecommunications, post, transportation, irrigation, oil, gas fuel, lubricants, broadcasting, finance, banking, health, pharmacy, fire prevention, prisons, ports, airports, security, defence, cleaning, food supply and retail).

Working from home, as far as this is feasible, is not prohibited. However, employees who cannot work from home, are effectively barred from working.

The situation has raised many concerns among both employers and employees. In the short term, employers are required to pay their employees' salaries in full, as mentioned in the Frequently Asked Questions issued by the Malaysian Ministry of Human Resources on 19 March. This financial burden will not be sustainable for many employers and may ultimately result in large-scale retrenchment exercises.

Consequently, to mitigate the impact on both sides, the Government has announced a number of measures:

- **Exemption from Human Resources Development Fund (“HRDF”) levy:** Certain categories of businesses (air travel, domestic ground transport, convention centres, shopping malls, travel tour operators, hotels, franchises & hypermarkets) will benefit from an exemption from HRDF levies for a period of six months effective 1 April 2020 to 30 September 2020. This measure will help reduce costs for companies affected by COVID-19.
- **Diminution of the minimum contribution to the Employees Provident Fund (“EPF”):** From 1 April to 31 December 2020, the minimum EPF contribution for employees will be reduced by 4% percent from 11% to 7%. However, EPF members have the option to elect to continue deduction at a higher

rate. This measure is aimed at increasing available cash in hands in households facing difficulties.

- **Authorised withdrawals from Employee Provident Fund (“EPF”):** In addition to a reduction of the employees’ EPF contribution rate of 4% effective April 2020, all EPF members under the age of 55 will be authorised to make withdrawals of up to MYR 500 per month from the EPF, for a period of twelve months, with applications available from 1 April 2020. This measure should help maintain cash flow and enable individuals and their families to purchase necessary items and cover household bills. It will also allow employees to enter more willingly into arrangements with their employers to accept voluntary measures such as reduced working hours or unpaid leave.
- **Measures regarding the Employment Insurance System (“EIS”):** The EIS has a fund of MYR 1.1 billion and assists retrenched workers under certain conditions. To further assist them, EIS will relax the eligibility criteria for retrenched workers from affected sectors, by waiving the minimum requirement of three months contribution.
- **Monetary help for workers on forced leave:** On 16 March 2020, the Government announced a monetary assistance scheme amounting to MYR 600 per month for up to six months for employees given unpaid leave. In this context, it is important to understand that this is no “invitation” for employers to their employees on unpaid leave. The situations in which unpaid leave is legal are very limited and need to be assessed with utmost care. We refer to our [LinkedIn](#) article, published on [20 March 2020](#), for further details.

### III. Measures to Help Taxpayers

The Government has used the tax system to support both companies and individuals; on the one hand by postponing the filing date of the tax return and, on the other hand, by introducing various new tax support measures.

#### 1. Extension of the period to file the returns

The Malaysian tax authorities have extended the deadline to file income tax returns by two months. In particular, the employers (companies) can submit the E Form until 31 May 2020 (instead of 31 March 2020), and individuals (not carrying business) can submit their BE Form until 30 June 2020 (instead of 30 April 2020).

Additionally, the Malaysian tax authorities will omit or reverse default penalties for failure to pay on time during the lockdown period, provided that payment of the taxes is made before 30 April 2020.

#### 2. Tax support measures

The Government has announced various tax support measures, in order to reduce the tax burden for both companies and individuals. Some key measures for businesses are:

##### Income tax:

- **Deferment and revision of income tax estimation:** Businesses in the hospitality and tourism industry will be given a deferment of their monthly tax instalments for six months from 1 April 2020 to 30 September 2020. Other affected businesses will be allowed to revise their monthly tax instalments earlier, on taxable amount due in the third month of instalments, should the third instalment fall in the year of 2020.
- **Accelerated capital allowance for machinery and equipment including Information Communication Technology (“ICT”) equipment:** Qualifying capital expenditures on machinery and equipment including ICT equipment are given Accelerated Capital Allowance, which can be claimed within a two year period for expenses incurred from 1 March 2020 to 31 December 2020.
- **Special tax deduction on costs of renovation & refurbishment:** Costs of renovation and refurbishment for business premises up to MYR 300,000 will be given tax deduction limited to qualifying expenditures incurred from 1 March 2020 to 31 December 2020.

##### Indirect tax:

- **Service tax exemption for hotels:** Hotels are exempted from levying service tax on taxable services provided for a period of six months from 1 March 2020 until 31 August 2020.
- **Import duty and sales tax exemption on equipment and machinery for port operators:** Port operators will be given import duty and sales tax exemption on imported or locally purchased of equipment and machinery used directly in port operation from 1 April 2020 to 31 March 2023.

- **Stamp duty:** Stamp duty exemption will be given on loan agreements arising from restructuring and rescheduling of business loans between borrowers and financial institutions, subject to the terms that the original loan agreement has been duly stamped and the loan agreement is executed from 1 March 2020 to 31 December 2020.

## B. Support From the Banks and Financial Institutions

The Malaysian Government asked banks and financial institutions to support their clients to mitigate their financial stress caused by COVID-19. The banks have announced various measures, in addition to offering to their clients the special facilities as set up by the Government.

### I. Voluntary Measures From the Banks and Financial Institutions

In the ESP, the Government asked the banks and financial institutions to proactively assist viable businesses and households that face temporary financial constraints to restructure and reschedule their financing facilities, including potentially payment moratoriums.

The Government's request to the banks to support their customers has not gone unheeded. To date, several banks have already announced that they will take steps in this direction, showing that the private sector is also supporting the Malaysian economy.

As an example, UBO announced on 20 March, that it will grant relief measures to both individuals and businesses, on a case-by-case basis. For businesses, the measures include a moratorium on their loan repayments for up to one year, and the flexibility to request extension of trade bills maturing between March 18 and March 31, 2020, for clients with "good" track records, and review to grant additional facilities based on clients' financing needs for those who need access to additional financing. Public Bank, HSBC, Alliance Bank, and CIMB Bank, amongst others, have announced similar measures to help their clients.

### II. Measures From the Government implemented Through the Banks

Furthermore, all banks will make available government-guaranteed borrowing. In particular, eligible Malaysian SMEs

(with at least 51% shares held by Malaysians), can benefit from the following facilities, available from 6 March 2020 to 31 December 2020:

- **The Special Relief Facility:** Under the Special Relief Facility, which is supported with an allocation of MYR 2 billion by Bank Negara Malaysia ("**BNM**"), 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.
- **The SME Automation and Digitalisation Facility:** supported with an allocation of MYR 300 million from BNM, eligible Malaysian SMEs can obtain financing of up to MYR 3 million for a tenure of up to ten years when buying equipment to automate processes and digitalise operations used to improve productivity and efficiency. The financing rate is at 4.00% p.a.

These new facilities come in addition to existing ones. A distressed business entity should contact its bank account manager for more support, or could visit the [imSME1](#) platform or [MyKNP](#).

## C. How Can We Help

Our team in Malaysia can help you to identify the applicable measures introduced by the Government due to the COVID-19 outbreak, and provide recommendations to sustain your business operations and safeguard your company's interests.

As the situation develops quickly, we are constantly monitoring the situation in Malaysia on corporate, social, immigration and tax related issues and will keep you updated at all times.

## Your Contact



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