

# The Malaysian Budget 2021: Key Measures for SMEs, MSMEs and Entrepreneurs

A continuity from the economic stimulus packages, the Malaysian Budget 2021 is an expansionary budget worth of RM322.5 billion, the largest expenditure in the Malaysian history. Aiming to improve Malaysians' welfare and rebuilding the Malaysia economy after an unprecedented pandemic, the Budget 2021 focuses on three integrals goals, namely, Malaysians' wellbeing, business continuity, and economic resilience.

Various incentives and assistance schemes have been proposed for small and medium enterprises (SMEs), micro-SMEs (MSMEs), and entrepreneurs as they keep their business afloat amid the economic fallout from the COVID-19 pandemic. We briefly highlight the key measures under the Budget 2021 for the benefits of SMEs, MSMEs and entrepreneurs, following the passage of the Budget 2021 by Malaysian Parliament on 15 December 2020.

## SMEs and MSMEs

### *Financing and Grants*

- RM2 billion Targeted Assistance and Rehabilitation facility under *Bank Negara Malaysia* (BNM) will be introduced through loans from banking institutions to assist affected SMEs.
- A total of RM1.9 billion of soft loan funds and grants will be given to help SMEs and MSMEs entrepreneurs who have difficulty in accessing financing through the PRIHATIN and PENJANA packages, amongst others, which include:
  - RM50 million allocated to support peer-to-peer financing platforms (P2P) on a matching investment basis.
  - RM1.2 billion worth of micro credit financing will be provided through TEKUN, PUNB, Agrobank, BSN and other financial institutions, including RM110 million to Micro Enterprises Facility under BNM to encourage entrepreneurship among gig workers and self-employed and to support the iTEKAD program.
- RM230 million allocated as financing to SMEs for working capital, upgrading of automation systems and equipment, and expenditure related to the implementation of COVID-19 SOP compliance.

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### **Assistance in Cash Flow**

- Targeted Loan Repayment Assistance (TRA), which began on 1 October 2020, extended moratorium and flexible repayment have been continued for eligible SMEs.
- Micro enterprises with loans up to RM150,000 are further presented with 2 options:
  - a 3-month repayment moratorium; or
  - 50% reduction on the monthly instalments for 6 months.
- The National Supply Chain Finance Platform (*JanaNiaga*), which will be led by EXIM Bank together with several financial institutions, assists SMEs facing cashflow problems to secure loans.

### **Incentives & Deductions for Hiring**

- *Penjana Kerjaya* under PERKESO will be continued with several enhancements, including the following measures for 6 months:
  - incentive for employees (earning above RM1,500) will be increased from RM800 per month to 40% of monthly income, capped at a maximum incentive of RM4,000.
  - employers will be given an additional incentive of 20%, i.e. a total incentive of 60% of the employee's monthly income for employing disabled, long-term unemployed workers, and retrenched workers.
  - For sectors with a high reliance on foreign workers (such as, construction and plantations), a special incentive of 60% of monthly salary will be provided, whereby 40% will be channelled to the employer while 20% to the local worker replacing the foreign worker as a wage top up.
- Tax deduction on remuneration for employers who employ senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependents will be available up to Year of Assessment (YA) 2025.

### **Exemption of HRDF**

- Companies affected by COVID-19 will be exempted from the Human Resources Development Fund (HRDF) levies for 6 months, effective from 1 January 2021.

### **Supports for Bumiputera Entrepreneurs**

- RM4.6 billion will be provided to support *Bumiputera* entrepreneurs, amongst others include:
  - RM510 million to finance *Bumiputera* SMEs and MSMEs through TEKUN and PUNB.
  - RM2 billion to assist the financing of *Bumiputera* SMEs through *Syarikat Jaminan Pembiayaan Perniagaan* (SJPP).
- RM500 million from Maritime Development and Logistics Scheme; Sustainable Development Financing Scheme; Tourism Infrastructure Scheme; and Public Transport Fund will be allocated to *Bumiputera* entrepreneurs to increase their involvement in the key sectors.
- RM300 million *Lestari Bumi* financing facility will be allocated for *Bumiputera* micro and small businesses.

### **Supports for e-commerce, Automation and Digitisation**

- RM150 million has been proposed for training programs, sales assistance, and digital equipment for 100,000 local entrepreneurs to encourage the adoption of e-commerce under the e-Commerce SME and MSMEs Campaign.
- RM150 million will be provided under the SME Digitisation Grant Scheme and the Automation Grant to support automation and modernisation. The eligibility conditions have been relaxed for MSMEs and start-ups that have been operating for at least 6 months.

### **Manufacturing Sector**

- The application for special tax rates to selected manufacturing companies which relocated their businesses to Malaysia and bring in new investments will be extended until 31 December 2022 through PENJANA.
- The scope of incentives will be extended to companies in selected service sectors which have significant multiplier effect by providing an income tax rate up to 10% for 10 years.

### **Pharmaceutical & Healthcare**

- Tax incentive (including preferential tax rate of 0% to 10% for 10 years and income tax rate of 10% for the subsequent 10 years) for manufacturers of pharmaceutical products, especially COVID-19 Vaccine. This incentive is available for applications received by Malaysian Investment Development Authority (MIDA) from 7 November 2020 to 31 December 2022.
- The Malaysia Healthcare Travel Council will receive RM35 million to enhance the competitiveness of the local health tourism industry.
- The income tax for the export of private healthcare services will be exempted until YA 2022.

### **Science, Technology & Innovation, Research & Developments (R&D)**

- A special incentive package of RM1 billion will be allocated for high value-added technology, including R&D for the electronic and aerospace industries.
- A High Technology Fund of RM500 million will be provided for high technology and innovative companies.
- Tax incentives for non-resource-based R&D product commercialisation activities will be reintroduced.
- Other measures:
  - Relaxation of tax incentive conditions for Principal Hub and the incentive will be extended until 31 December 2022.
  - New tax incentive for the establishment of Global Trading Centre (GTC) at a concessionary rate of 10% for 5 years and renewable for another 5 years.
  - Increase of the threshold for value-added activities carried out in the Free Industrial Zone (FIZ) and Licensed Manufacturing Warehouse (LMW) from 10% to 40% of the total annual sales value.

## Construction & Infrastructure

- RM2.5 billion will be allocated to contractors in Class G1 to G4 to carry out small and medium projects including RM200 million for maintenance projects for Federal Roads and RM50 million for *Program Perumahan Rakyat* (PPR) houses. The flexibilities accorded on procurement procedures will also be extended until 31 December 2021 to expedite the implementation of developmental projects.
- RM50 million will be allocated as financing under *Skim Pembiayaan Kontrak Ekspres* (SPIKE) via MARA for *Bumiputera* construction contractors who deal with the government to facilitate cash flow in implementing projects.
- Tax incentive on industrialised building system (IBS) will be extended to 31 December 2025 to further improve technology adaptation in construction sector through usage of IBS.
- Companies eligible for this tax incentive are required to produce at least 3 basic components of IBS or IBS system that uses at least 3 basic IBS components. However, the incentive is now restricted to an Investment Tax Allowance of 60% on qualifying capital expenditure incurred within 5 years and this allowance can be set off against 70% of statutory income for each YA.

## Sustainable Finance

- The government's first Sustainability Bond for environmental and social initiatives will be issued in 2021.
- The existing income tax exemption for Sustainable and Responsible Investment (SRI) green sukuk grant is extended to all types of sukuk and bonds and this exemption will be extended to 2025.
- RM2 billion to be allocated to Green Technology Financing Scheme 3.0 for 2 years up to 2022 which will be guaranteed by *Danajamin* to encourage the issuance of SRI sukuk.

## Tax Deductions, Exemptions, and Incentives

- The existing tax incentives for Maintenance, Repair and Overhaul (MRO) activities for aerospace, construction and repair of ships, Bionexus status, and economic corridor developments will be extended until 2022.
- The existing tax incentives for the East Coast Economic Region Development Corridor, Iskandar Malaysia, and Sabah Development Corridor are extended to 2022.
- Investors who take part in Equity Crowd Funding (ECF) will be given income tax exemption of 50% of the investment amount up to RM50,000 each year. The deduction is limited to 10% of aggregate income.
- RM30 million will also be allocated via matching grants to be invested on ECF platforms under the Securities Commission's supervision.

For any enquires on the Malaysian Budget 2021, please contact **Fan Xiao Jun** ([xiaojun@ganlaw.my](mailto:xiaojun@ganlaw.my)).

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