



CIRCULAR NO: 3/2019

DATE: 7 January 2019

TO: ALL MEMBERS

### **SUMMARY OF THE NATIONAL BUDGET 2019**

Below is the summary of the recently announced Budget 2019 which is related to the manufacturing sector, for your information:

#### **1. Taxation**

The Government will be reviewing the existing reliefs and incentives under the various Tax Acts to make them more relevant and reduce leakages. A time limit will be placed on the carrying forward of losses and allowances for tax reliefs to a **maximum of 7 years**. This would be applicable to unutilised business losses, capital allowances, **reinvestment allowance**, investment tax allowance and pioneer losses.

#### **2. Education and Training**

To improve employment and employability, the Government will introduce the following:

- (i) The Human Resource Development Fund (HRDF) will launch two new programmes, "Apprenticeship" and "Graduate Enhancement Programme for Employability" to provide skills to school-leavers as well as to increase the marketability of the graduates from the institutions of higher-learning.
- (ii) HRDF will allocate RM20 million in matching grants for these programmes which will benefit at least 4,000 youths.
- (iii) The government will introduce policies to encourage the employment of those past the retirement age of 60. By 2020, there will be an estimated one million Malaysians aged **between 61 and 65 years old** who will still be active and productive.

It is proposed that the employer portion of EPF contributions be cut to **4% from the current 6%** effective 1 January 2019. To boost the disposable income of working retirees, it is also proposed that the current mandatory employee contribution for this group be zeroed. The Government will provide additional tax deduction to employers who employ this group up to a monthly salary of RM4,000.

- (iv) A RM30 million Training and Vocational Education and Training (TVET) Prestige Fund will be introduced, a contestable fund where the Government will encourage the various training institutions to bid for funds to run competitive programmes with specific KPIs on job placements for the graduates.

There will also be an additional allocation of RM20 million to raise youth competency via a TVET sponsored Bootcamp.

#### **3. Embracing the Digital Economy**

To support new technology developments and ensure sufficient funding for entrepreneurs via conventional and alternative financing sources, the following initiatives will be proposed:

- (i) The venture capital funds managed by several Government agencies – Malaysia Technology Development Corporation, Malaysia Debt Ventures Bhd, Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Cradle Fund Sdn. Bhd, will be

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streamlined and made more efficient in delivering capital to companies in various stages of financing needs. Therefore, to ensure that the funds are accessible to those who are most likely to succeed, the funding disbursements will be tied to the companies' ability to secure matching funds from the private sector.

- (ii) Government-Linked Investment Funds will similarly allocate RM2 billion in matching funds to co-invest with the private equity and venture capital funds. This Fund will focus on strategic sectors and new growth areas for Malaysia.
- (iii) The Government will allocate RM50 million to set up a Co-Investment Fund (CIF) to invest alongside private investors via new alternative financing platforms via Equity Crowdfunding and Peer-to-Peer Financing.
- (iv) To support the growth of the digital economy, the Government will launch the National Fibre Connectivity Plan in 2019 with an allocation of RM1 billion. The plan will develop our broadband infrastructure to ensure more efficient spectrum allocation to achieve the targeted 30 Mbps speed at rural and remote areas in the country within 5 years as part of the overall plan to achieve world class infrastructure at affordable prices.

#### **4. Accelerating Adoption of Industry 4.0**

- (i) The Government will allocate RM210 million from 2019 to 2021 to support the transition and migration to Industry4.0. The Government will assist the first 500 SMEs to carry out the Readiness Assessment to migrate to Industry4.0 platforms via Malaysia Productivity Corporation.
- (ii) The Government will provide RM2 million in the Knowledge Resource for Science and Technology Excellence (KRSTE.my) to enable greater collaboration between public and private sector based on existing resources. In 2019, the Government will make available 250 facilities and 1,200 scientific equipment and research data for the private sector to access and share.
- (iii) To modernise SMEs to invest in automation and modernization which forms part of the Industry4.0, the Government has allocated RM2 billion under the Business Loan Guarantee Scheme (SJPP) where the Government will provide guarantees of up to 70%.
- (v) The Government will create a RM3 billion Industry Digitalisation Transformation Fund with a subsidised interest rate of 2% under Bank Pembangunan Malaysia Berhad. The purpose of this fund is to accelerate the adoption of smart technology consisting of driving automation, robotics and artificial intelligence in the industry.
- (vi) MIDA will continue to provide matching grants through its High Impact Fund (HIF) with a specific emphasis of Industry4.0 initiatives. This includes activities such as Research & Development, initiatives to obtain international certification and standards, modernizing and upgrading of facilities and tools and licensing or purchase of new or high technology.
- (vii) The Government also intends to upgrade the marketability of our graduates and the skill-level of the Industry4.0-related workforce by providing double tax deduction:
- (viii)
  - (a) For scholarships and bursaries provided by companies to students enrolled for technical and vocational training, diploma and degree courses in engineering and technology;
  - (b) For company expenses related to participation in the National Dual Training Scheme for Industry4.0 and other related programmes approved by the Ministry of Human Resources, or the Malaysia Investment Development Authority; and

- (c) For company expenses in carrying out structured training programmes for students in the fields of engineering and technology which are approved by the Ministry of Human Resources.

## **5. Strengthening Small Medium Enterprises (SMEs)**

To ensure that they continue to thrive, especially in the key targeted industries, the Government will implement the following measures:

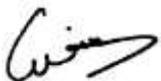
- (i) A RM4.5 billion SME Loan Fund will be made available via commercial financial institutions with a 60% guarantee from Skim Jaminan Pembiayaan Perniagaan (SJPP), including RM1 billion for Bumiputera SMEs;
- (ii) The corporate income tax rate for taxable income of up to RM500,000 and SMEs with less than RM2.5 million in paid up capital, will be reduced from 18% to 17%.
- (iii) The Government will encourage exports through financing by EXIM Bank by making available RM2 billion worth of credit and takaful facilities to the SME exports.
- (iv) The Government will be allocating RM100 million to upgrade the capability of the SMEs in the halal industry via various programs in order to increase exports and to make Malaysia a global halal hub by 2020.
- (v) To ensure the continued upgrading of our local corporations, the Government is also committed to reduce our dependency on low-skilled foreign labour. Therefore, the Government will implement a new tiered levy system where the levies charged will be higher for employers with a higher percentage of foreign workers.
- (vi) The shortage of workers in the agriculture and plantation industry and the decline in prices of agricultural commodities have affected output in these sectors. The Government will assist these two sectors by reducing the extension levy for foreign workers who have served for 10 years or more, from RM10,000 to RM3,500 per worker per annum.

## **6. Environment and Energy**

- (i) To attract environmentally-friendly investments and to reduce the usage of conventional plastics, the Government proposes Pioneer Status incentive of 70% or investment allowance of 60% for 5 years to be granted to companies which produces environmentally-friendly plastics based on bio-resin and biopolymer.
- (ii) To incentivise investments in green technology, there will be a RM2 billion Green Technology Financing Scheme (GTFS) made available at selected commercial banks where the Government will subsidise the interest cost by 2% for the first 5 years.

For enquiries, please contact Mr SC Chan of MPMA Secretariat at Tel: 603-7876 3027 or Email: scchan@mpma.org.my.

Yours sincerely,



**ST GIAM**  
Executive Director