Tax Proposals in 2025 Budget

The Prime Minister cum Finance Minister of Malaysia tabled the 2025 Budget yesterday. This e-Alert summarises the key tax implications, comprising of both direct tax and indirect tax measures.

Key Numbers

1. The total tax revenue is expected to *increase by 7.5%* in 2025.
2. Direct tax collection for the current year (2024) is forecast at RM177 billion, which is *4.3% lower* than the numbers tabled in the 2024 Budget.
3. For SST collection, a *RM5.8 billion (14.2%) increase* is expected from the existing law. A further *RM5 billion* is expected from the new SST measures tabled yesterday.

1. Imposition of tax on dividend

Income tax at the rate of 2% is to be imposed on dividend income received by *individual shareholders (i.e. excluding corporate shareholders).*

This new tax would be effective from the year of assessment ("YA") 2025, i.e. from 1st January 2025 and is applicable only if the respective individual shareholder's total dividend income is in excess of RM100,000 per annum.

This measure is expected to reinforce *horizontal equity* with regards to progressivity of the personal tax regime. Presently the progressive tax rates are effective on high wage earners, but not on passive investors earning dividend income (as dividend income is subject to corporate tax, and presently exempt in the hands of the shareholders).

Impact of the new dividend taxation is illustrated below with two individuals with the same annual income.

Mr. A
CEO (no shares)

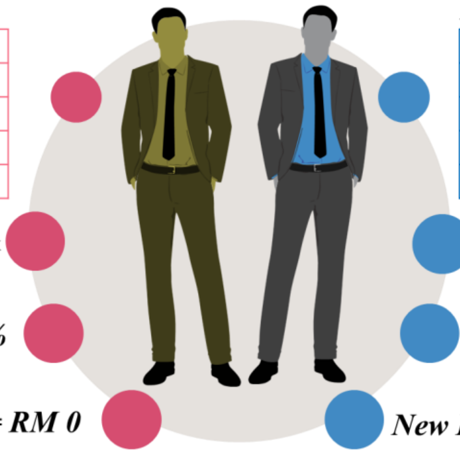
Annual Income:

	RM('000)
Salary	1,200
Rental income	200
Dividend income	0
Total	**1,400**

Current Income Tax* = RM357k

Highest Tax Rate = 28%

New Dividend Tax = RM 0



Mr. B
CEO (shareholder)

Annual Income:

	RM('000)
Salary	360
Rental income	200
Dividend income	840
Total	**1,400**

Current Income Tax* =RM123k

Highest Tax Rate = 26%

New Dividend Tax = RM16,800 (2%)

** Based on the current law, only salary and rental income are subject to tax as dividend is presently exempt from tax. The tax amount is computed based on the assumption that the taxpayers do not qualify for any relief other than the standard self relief, EPF and SOCSO.*

Both Mr. A and Mr. B earn a total income of RM1.4 million per annum but the highest tax rate applicable to Mr. A is 28% whilst the highest tax rate for Mr. B is 26%.

The dividend income received by Mr. B is presumably paid out of profits which has already been subjected to a 24% corporate tax. Hence, *there is no need to impose full personal tax on the dividend income* but there is arguably a case to *address the difference in the progressive tax rate* (28% for Mr. A but 26% for Mr. B on the same annual income). The new 2% dividend tax achieves just that, without causing much disruption to the overall features of the single-tier tax system in place since the year 2008.

As for the technical details of the proposed taxation on dividends, the following clarifications have been provided:

- The tax is applicable on the net income after deduction. It appears likely that a deduction can be claimed for any financing cost incurred to finance the investment.

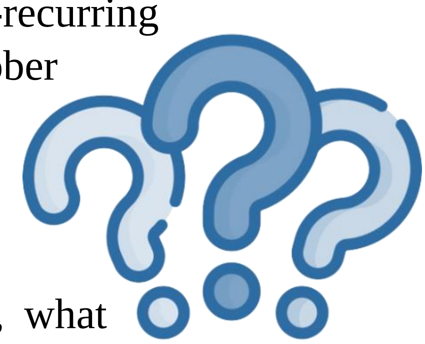
- There are *exemptions* for dividend income received from foreign companies, from Labuan companies or from domestic companies that has been granted with certain tax incentives.

- There are also *exclusions/exemptions* for dividends/profit distributions by any unit trust, closed-end funds, cooperatives, EPF, LTAT and ASNB.

The following details are expected to be clearer upon release of the Finance Bill:

- Whether there would be a withholding tax mechanism, or the first incidence of tax is upon submission of annual income tax return by the shareholder?

- Whether the new dividend tax of 2% would form part of income tax estimate for the purpose of payment of advance tax instalments during the year? Due to the non-recurring nature of dividend income and the 31st October cut-off to amend tax estimates, there would be challenges if dividend income is included as part of the tax estimate.



- If there is no withholding tax mechanism, what would be the mechanism to collect the tax from non-resident individuals who own shares in Malaysian companies?

- Whether trust bodies would be impacted by the proposed dividend tax?

2. Expansion of Sales Tax and Service Tax ("SST")

Since 2018, sales tax applies on goods sold by manufacturers as well as any goods imported into Malaysia. No revision to the standard tax rate of 10% is announced in the Budget, but the scope of *exempted goods is being revisited to exclude non-essential items*. It has been emphasised that the non-essential items would include imported premium goods such as avocado and salmon. The scope of the revision may also impact locally manufactured goods. These changes are effective from 1st May 2025.

As for the service tax, the standard rate was increased from 6% to 8% in March 2024 (save for certain services like F&B and carpark charges), along with an expansion of scope of taxable services to include four (4) new services. It has been announced that the list of *taxable services would be further expanded effective from 1st May 2025* to impose service tax on a wider range of services such as commercial service transactions between businesses (i.e. *B2B transactions*). Fee-based financial service is quoted as an example of such service that would be subject to service tax. The *full list of additional taxable services is not disclosed* at this juncture.

The sales tax and service tax measures are expected to bring additional revenue of RM2.2 billion and RM2.8 billion respectively for fiscal year 2025. Further, an additional RM5.8 billion of additional SST collection is expected from continued and improved administration of the existing SST law. With a cumulative increase of RM10.8 billion in SST, fiscal year 2025 would be the first time that the SST collection target *exceeds RM50 billion mark*. This is yet another reminder for businesses to *pay closer attention to indirect tax* compliance and optimisation.

3. Tax Incentives

(i) New Tax Incentive Framework from Q3 2025

A new tax incentive framework is planned for implementation in Quarter 3 of 2025 with focus on high value activities. The following six (6) measures have been announced incidental to the new incentive framework.

Tax Incentive for increased exports	Scope of incentive widened to include Integrated Circuit ("IC") Design services from YA 2025
Cost of Developing New Education Courses	✓ Full tax deduction for costs incurred by private higher education institutions ✓ The deduction is allowed to be fully claimed within the same YA ✓ Applicable to new courses on digital technology, artificial intelligence ("AI"), robotics, Internet of Things ("IoT"), data science, FinTech and sustainability technology ✓ The deduction also extends to development of Technical and Vocational Education and Training ("TVET") courses by private skills training institutions ✓ The proposal is to be effective YA 2025 to YA 2030
Supply Chain Resilience Program	✓ Double deduction up to 3 consecutive years for costs up to RM 2 million incurred by multinational enterprises ("MNEs") ✓ MNE or its suppliers who enter joint venture with local vendor is given a tax deduction for cost of investment in the joint venture ✓ The local vendor involved in the program is granted an incentive package based on the outcome achieved
New Economic Groupings	Recognition of economic group based on speciality of the respective state such as renewable energy in Perlis and Sabah, and specialised chemical industries in Pahang and Terengganu
Concessionary Tax Rates for 21 sectors in certain states	✓ Tax incentive by way of concessionary tax rates for investment in 21 sectors in certain states, namely Perlis, Kedah, Kelantan, Terengganu, Sabah and Sarawak ✓ This is subject to outcome on economic spillover
Carbon Capture, Utilisation and Storage ("CCUS")	Tax incentives such as Investment Tax Allowance ("ITA") or tax exemption is continued to be granted to CCUS activities (with the relevant governing law for CCUS gazetted as a parallel effort).

Also, strategic investment fund of RM 1 billion is introduced for domestic capacity building and to encourage high value activities in Malaysia.

(ii) Global Minimum Tax (GMT / Pillar 2)

The legislation for implementation of GMT / Pillar 2 for financial year commencing on or after 1st January 2025 has already been gazetted.

To maintain the investment climate, the Budget tabled yesterday commits to:

Review the existing incentives	Introduce non-tax incentives	Study implementation of Strategic Investment Tax Credit

The Strategic Investment Tax Credit proposed to be studied would presumably be compliant with the OECD's requirements Qualified Refundable Tax Credit ("QRTC") which mandates a monetary refund to taxpayers in the event they do not generate sufficient income to fully offset the tax credit against tax payable within four (4) years.

The proposal above has direct impact only on MNE with annual global turnover in excess EUR 750 million (approximately RM 3 billion).

(iii) New Tax Incentive for Smart Logistics Complex

ITA of 60% on qualifying capital expenditure incurred for a period of 5 years in respect of Smart Logistics Complex ("SLC"). This ITA can be set-off against up to 70% of statutory income for each YA.

This incentive is effective for applications received by MIDA from 1st January 2025 until 31st December 2027, and is subject to the following conditions.

Eligible SLC companies

SLC Investor and Operator that invest in the construction of smart warehouses and undertake eligible logistics services activities; or

SLC Operator that leases a smart warehouse under a long-term lease of at least 10 years and undertakes eligible logistics services activities.

Eligible logistics services

1. Regional distribution centres;
2. Integrated logistics services;
3. Storage of hazardous goods; or
4. Cold chain logistics.

Warehouse with a minimum build-up area of 30,000 square metres

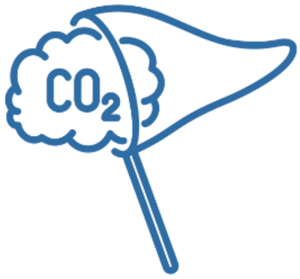
Adaptation of at least three IR4.0 elements

Other conditions as prescribed

4. Johor- Singapore Special Economic Zone

- Memorandum of Understanding ("MOU") between Malaysia and Singapore has already been signed earlier this year.
- Forest City (*Pulau 1*) has been gazetted as a *Duty-Free Island* for the purposes of Free Zone Act, Customs Act (import duty), Excise Act, Sales Tax Act and Service Tax Act.
- Tax exemption for *Forest City Special Financial Zone* has been announced to attract global financial institutions and FinTech.
- *20-year tax exemption for Single Family Offices ("SFOs")* along with residence pass and employment pass administered by Securities Commission.
- *Invest Malaysia facilitation centre* being setup within the Johor-Singapore Special Economic Zone for more efficient approvals at various levels.

5. Carbon Tax



Carbon tax is proposed for *iron and steel industry as well as energy sector* effective from 2026. This is well-timed with the European Union ("EU")'s Carbon Border Adjustment Mechanism ("CBAM") definitive regime that goes live in 2026.

It is presumable that the new carbon tax would qualify as a 'carbon price which is effectively paid in Malaysia (as a country of origin)' as per EU definition, and hence lead to a reduction in CBAM exposure in EU for Malaysian exporters.

This proposal is presumably a strategic move to improve the Government's fiscal revenue without additional cost for industry players, particularly for Malaysian industries that export to the EU countries. It remains to be seen how this new tax will affect iron, steel and energy output for domestic market and for export to countries outside of EU.

6. Corporate Tax Measures

- For taxpayers who *fully implement e-Invoicing* as per the dates in the Rules, an Accelerated Capital Allowance ("ACA") is granted on the cost of Information and Communication Technology ("ICT") equipment and software (license and customized software) at the rate of 20% for initial allowance and 40% for annual allowance. This means that the tax depreciation (i.e. capital allowance) can be *fully claimed within a 2-year period*. The ACA is applicable for capital expenditure ("CAPEX") incurred in YA 2024 and YA 2025. *Taxpayers should manage timing diligently.* For example, a company with turnover not exceeding RM25 million is required to comply with e-Invoicing requirement from 1st

July 2025, but if the company's financial year-end is on 31st March, the CAPEX should be incurred by 31st March 2025 to qualify for the ACA (because after 31st March 2025 it would be YA 2026 to which the ACA treatment does not apply).

- Tax deduction on contributions and sponsorship of Smart Artificial Intelligence ("AI") Driven Reverse Vending Machines ("RVM") is extended for applications made until 31st December 2026.
- The income tax exemption given to Labuan trading entities that undertake Islamic financing activities is proposed to be expanded to include qualifying Labuan takaful business activities (and the related activities) effective YA 2025 to YA 2028.
- Scope of *charitable expenses* for the purposes of Section 44(6) of Income Tax Act is expanded to include remuneration of teaching staffs borne by an institution or organisation with an education related objective. Also, the scope is expanded to include amounts spent for the welfare of non-Malaysian (this is potentially limited to amount spent on affected non-Malaysians during their physical presence in Malaysia – pending details).
- Tax deduction on cost of new equipment and machinery contributed by companies to *Institut Latihan Kemahiran Awam* ("ILKA"), Polytechnic and Vocational Colleges with effect from YA 2025 to YA 2027.
- Extension of tax deduction for higher education borne by employer for students of less privileged background.

7. Personal Tax Measures

(i) Exemption for Foreign-Source Income

Incidental to the introduction of taxation on foreign-source income in 2022, an exemption was granted on all types of foreign-source income (save for partnership income) received in Malaysia by individuals for a five-year period commencing 1st January 2022. The exemption has now been granted a 10-year extension *up to 31st December 2036*. This early announcement offers more certainty to taxpayers on the future tax policy beyond just the near term.

Note: There is no announcement on whether the foreign source income exemption for dividend income received in Malaysia by companies would also be extended beyond 31st December 2026.

(ii) Personal Reliefs

There are changes to the scope of existing personal tax reliefs, as summarised below.

Relief Type	*Present Limit*	*Proposed Limit*	*Other Proposed Changes*	*Effective Date*
Medical Treatment expenses for self, spouse and child	RM10,000	RM10,000	It has been clarified that the scope of this relief includes medical costs incurred by the taxpayer under medical insurance plans with co-payment by the insured. The scope of the RM1,000 relief for medical checkup and Covid-19 detection test are expanded to cover fee for a wider range of detection examination conducted at clinic or hospital (such as blood test, ultrasound, mammogram and pap smear), purchase of self-testing medical devices (i.e. glucometer, pulse oximeter, blood pressure monitor and thermometer) and influenza test kits. In respect of assessment and diagnosis for children below 18 years with the learning disabilities, the maximum relief amount is increased from RM4,000 to RM6,000.	Effective from YA 2025

Relief Type	*Present Limit*	*Proposed Limit*	*Other Proposed Changes*	*Effective Date*
Parents Medical	Up to RM8,000	Up to RM8,000	The relief is extended for expenses incurred for grandparents. Cost of vaccination included in the scope of the relief subject to a limit of RM1,000 along with the cost of full medical check-up.	Effective from YA 2025
Elderly Care	N/A	RM3,000 (combined limit with child care)	Newly introduced for elderly care of parents or grandparents.	Effective from YA 2025
Education and Medical Insurance (self, spouse and child)	RM3,000	RM4,000	N/A	Effective from YA 2025
Disabled Person (self)	RM6,000	RM7,000	N/A	Effective from YA 2025
Disabled Spouse	RM5,000	RM6,000	N/A	Effective from YA 2025
Disabled child (unmarried)	RM6,000	RM8,000	N/A	Effective from YA 2025
Deferred Annuity and Private Retirement Scheme (PRS)	RM3,000	RM3,000	Period extended for 5 years	Effective YA 2026 to 2030
Net Savings in the National Education Savings Scheme ("SSPN")	RM8,000	RM8,000	Period extended for 3 years, subject to the following additional conditions: i. The tax relief can only be claimed by either parent. ii. Withdrawals from the SSPN fund intended to finance education costs for further studies will not be considered in the calculation of net savings for that	Effective YA 2025 to YA 2027

Relief Type	Present Limit	Proposed Limit	Other Proposed Changes	Effective Date
			particular year and will not affect the eligible amount for tax relief.	
Nursery or Kindergarten Fees	RM3,000	RM3,000	Period extended for 3 years	Effective YA 2025 to YA 2027
Sports equipment & activities	Up to RM1,000	Up to RM1,000	Scope expanded to cover from “self, spouse and child” to “self, spouse, child and parents”.	Effective from YA 2025
Housing Loan Interest Payment for First Residential Home	N/A	i. RM7,000 if the house price is RM500,000 or below; or ii. RM5,000 if the house price is above RM500,000 but not exceeding RM750,000	Tax relief on the interest payments for the first residential home loan (individually or jointly owned). Tax relief on the interest payment is subject to the following conditions: i. The residential home must not be used to generate any income. ii. The sales and purchase agreement must be executed from 1st January 2025 until 31st December 2027. iii. The amount of individual income tax relief on allowable interest payments is applicable for 3 consecutive years of assessment, commencing from the first year the housing loan interest is paid. iv. Two or more individuals are eligible to claim tax relief on housing loan interest for the same residential home based on apportionment of the interest payment.	For Sale & Purchase Agreement (“SPA”) executed from 1st January 2025 to 31st December 2027
Expenses for the Purchase of Domestic Food Waste Composting Machine	N/A	RM2,500 (combined limit with EV charging equipment)	The conditions are: i. The purchase of food waste composting machines for household use. ii. Allowed to be claimed once within 3 years of assessment	Effective YA 2025 to YA 2027

(iii) Other Personal Income Tax Measures

- Further tax deduction for capacity building and software acquisition for the purposes of implementing *Flexible Work Arrangement ("FWA")* is reintroduced, but the quantum of further deduction is 50%. Hence, if RM100,000 is spent, the employers would qualify for a tax deduction of RM150,000. The expense that qualifies for this deduction is limited to RM500,000. The application to Talent Corp for expense verification is to be made between 1st January 2025 and 31st December 2027.

- To complement the tax exemption given to *women returning from career break*, a further tax deduction of 50% is proposed for employment expenses paid (i.e. remuneration) for a period of 12 months upon returning to work after a career break. The application to Talent Corp is to be made between 1st January 2025 and 31st December 2027.
- Further tax deduction of 50% for employers on cost of additional paid leave (of up to 12 months) provided to *employees caring for children or ill or disabled family members*. The application to Talent Corp is to be made between 1st January 2025 and 31st December 2027.

- Further tax deduction for employers in respect of *elderly care allowance* (for parents and grandparents) paid to employees effective from YA 2025.
- Tax exemption for *cash rewards received by sport athletes or teams* through *Skim Hadiah Kemenangan Sukan* by the Government.

8. Stamp Duty Measures

- It has been 2 decades since self-assessment regime was introduced for income tax. The scope of self-assessment is gradually expanded with the most recent addition being self-assessment for RPGT starting from 1st January 2025. Yesterday's Budget announcement expands the scope of *self-assessment to stamp duty from 1st January 2026* for rental, lease, general stamping and securities, *1st January 2027* for instruments of transfer of property ownership and *1st January 2028* for all other instruments and agreements. The implementation of self-assessment should make the stamping process more efficient with the right for tax authority to audit within certain number of years from stamping.
- Full stamp duty exemption for loan or financing agreements made by Micro, Small and Medium Enterprises ("MSMEs") and investors through Initial Exchange Offering ("IEO") platforms registered with the Securities Commission. This exemption is proposed to be applicable for financing agreements executed from 1st January 2025 to 31st December 2026.

- The maximum loan amount for stamp duty exemption for *Skim Pembiayaan Mikro* ("SPM") loan or financing agreements is raised from RM50,000 to RM100,000 for agreements executed from 1st January 2025.
- Stamp duty on the deed of assignment of life insurance policy and family takaful certificate given by way of *love and affection* or *through a trustee* would only be subject to a fixed rate of RM10 to RM1,000 effective from 1st January 2025.
- Stamp duty on loan and financing arrangement is to be streamlined so that loan or financing arrangement based on Shariah Principles such as *Murabahah* and *Tawarruq* for purchase of motor vehicles and consumer goods is subject to a fixed stamp duty of RM10 effective from 1st January 2025.

9. Indirect Tax Measures

- It is proposed that the *excise duty on sugar-sweetened beverages* would be increased by 40 cents per litre in phases starting from 1st January 2025. The current rate of excise duty is 50 cents per litre for beverages with sugar content exceeding either 5 grams, 7 grams or 12 grams per 100 millilitres (depending on the type of beverage). There is no proposal to expand the scope of products subject to this duty.

- Tax incentive for *Electric Vehicles (“EVs”)* to be restructured to foster transition to local assembly. Details for this restructuring are yet to be announced.
- Sales tax exemption is granted for mastectomy bras to ease the burden on *breast cancer patients*. This exemption is subject to approval by Ministry of Finance, which is required to be made between 1st November 2024 and 31st December 2027.
- The cap for *export duty for Crude Palm Oil (“CPO”)* is increased from 8% to 10%. The effect is seen where the CPO market price is above RM3,450 per metric tonne. The proposal is effective from 1st November 2024.

- Starting from 1st January 2025, the *windfall profit levy threshold for CPO* is proposed to be revised to RM 3,150 per metric tonne for Peninsular Malaysia and RM 3,650 per metric tonne for Sabah and Sarawak. These thresholds are RM150 higher than the present thresholds. The levy rate is maintained at 3%.

IMPORTANT NOTE: *This e-Alert is prepared based on the Budget speech and appendices, which are generic. The technical details would only be known upon release of the Finance Bill.*

With Regards

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Complimentary Budget Webinar

To know more, register for our complimentary budget webinar on 21st October 2024 (Monday), 1.00pm to 3.00pm at https://us06web.zoom.us/webinar/register/WN_dJ-0Dg0aRTqErcd0t4BOFw