

Budget 2026: Tax Implications on Businesses

The Prime Minister cum Finance Minister of Malaysia tabled the Budget 2026 yesterday.

The overall tax revenue is expected to increase by 6.7% from RM253 billion to RM270 billion. The Fiscal Outlook 2026 attributes this growth to:

- 🌐 The implementation of various measures such as SST expansion and e-Invoicing introduced in phases since 2024 that is expected to deliver full impact in 2026.
- 🌐 Sustained domestic economic activity and continued wage growth.
- 🌐 Increase in fiscal revenue from Real Property Gains Tax (RPGT) and Stamp Duty (alongside corporate and personal income tax).

This e-Alert summarises the key tax implications, comprising of both direct tax and indirect tax measures.

1. Accelerated Capital Allowance

In an attempt to boost domestic economic activity, qualifying capital expenditure incurred on plant and machinery is granted accelerated capital allowance if the plant or machinery is *procured from a local manufacturer*.

Instead of claiming the capital allowance (aka. tax depreciation) over 4-5 years, full allowance can be claimed within 2 years if the plant or machinery is procured from a local manufacturer. The *cash flow advantage* arising from accelerated capital allowance is anticipated to influence businesses decisions to procure from local manufacturers and hence *spur the domestic economy and employment opportunities*.

At this juncture, there is no local value adding or origin requirement specified but taxpayers should wait for the Ministerial Order to be

gazetted in order to assess eligibility for the proposed accelerated capital allowance.

The accelerated capital allowance is not available for other assets such as office equipment.

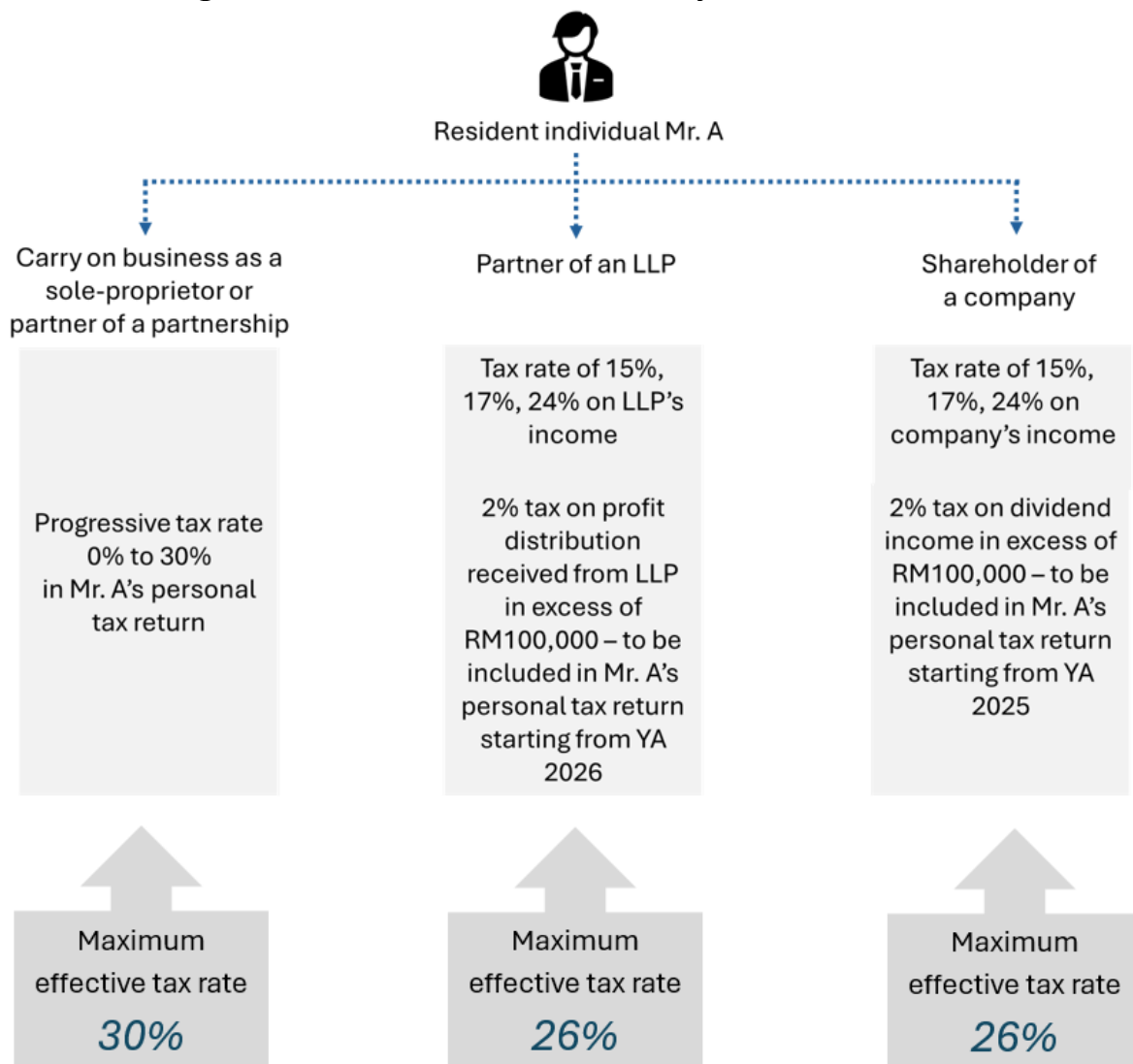
Accelerated capital allowance is also granted for ICT equipment and computer software (previously allowed to claim capital allowance over 3 years, now allowed to claim over just 2 years).

The table below summarises the accelerated capital allowance rates for capital expenditure incurred between 11th October 2025 and 31st December 2026. Note that as per existing provisions of Schedule 3 of Income Tax Act, capital expenditure is deemed to be incurred on the date an asset is capable of being used for the purposes of the taxpayer's business, which may be later than the date of invoice for purchase of the plant or machinery.

No	Qualifying Expenditure	Sourcing Requirement	Rate of Accelerated Capital Allowance
1	Heavy machinery	Procured from local manufacturers	Initial allowance: 20%
2	Plant & general machinery		
3	ICT equipment & computer software		
4	Consultation, licensing and incidental fees related to customised computer software	Not specified	Annual allowance: 40%

2. Distributions to partners of LLP

To be neutral with the 2% dividend tax imposed on distributions to individuals from Year of Assessment (YA) 2025, partners of a Limited Liability Partnership (LLP) are subject to 2% tax on profit distributions in excess of RM100,000 per year. This tax applies from YA 2026, i.e. from 1st January 2026 for individuals, and is applicable regardless of whether the partner is tax resident in Malaysia or otherwise.



Just like dividend tax, the 2% tax on profit distribution from an LLP does not involve any withholding tax mechanism. It is the responsibility of the partner receiving the distribution to declare the income in his or her annual income tax return.

3. Certainty for Foreign Source Income Exemption (FSIE) & CGT Exemption on Gains arising from disposal of foreign capital asset

Malaysia introduced taxation of Foreign Source Income (FSI) since 1st January 2022. Subsequently, when Capital Gains Tax (CGT) was introduced effective 1st January 2023, the scope of CGT also encompassed gains arising from disposal of foreign capital assets.

Both FSI and CGT on gains from disposal of foreign capital asset are regarded as income in the year in which the income or proceeds are received in Malaysia (i.e. at the time of remittance).

Incidentally, several exemptions were introduced but were set to expire on 31st December 2026. In the spirit of promoting certainty for taxpayers and to allow for longer term planning, the Government has announced an extension of these exemptions until 31st December 2030.

Below is a summary of the FSIE and CGT exemption on foreign gains:

<i>Taxpayer</i>	<i>Income Type</i>	<i>Exemption Criteria</i>	<i>Exemption Period</i>
Individual	All FSI (other than partnership business income)	The income was subject to tax in the country of origin or not subject to tax due to the origin country's tax system etc.	1 st Jan 2022 to 31 st Dec 2026 – <i>announced in Budget 2025 to be extended up to 2036.</i>
Company, LLP and individual carrying on a partnership business <i>Budget 2026: proposal to extend the exemption to trust bodies and co-operative societies</i>	Dividend income	<u>Option A:</u> > Subject to tax in the country of origin (or exempted due to the origin country's tax system etc.); and > The headline tax rate in the country of origin is $\geq 15\%$. <u>Option B:</u> The taxpayer in Malaysia meets the economic substance criteria.	1 st Jan 2022 to 31 st Dec 2026 – <i>announced in Budget 2026 to be extended up to 31st Dec 2030</i>

<i>Taxpayer</i>	<i>Income Type</i>	<i>Exemption Criteria</i>	<i>Exemption Period</i>
Company, LLP, trust body and co-operative society (Note: CGT is not applicable on gains derived by an individual)	CGT exemption on gains from disposal of foreign capital assets (other than shares of a foreign company which is covered in Section 15C of Income Tax Act).	The taxpayer in Malaysia meets the economic substance criteria	1 st Jan 2024 to 31 st Dec 2026 – <i>announced in Budget 2026 to be extended up to 31st Dec 2030</i>

Budget 2026 also proposes for the FSIE for unit trusts to be given for 4 years.

4. Tax Incentives

Below is an overview of key extensions and revisions in relation to tax incentives. Do note that each incentive is subject to its own set of conditions, which are not reproduced here in the interest of brevity.

🌐 Review of tax incentives for venture capital effective from YA 2025:

- Venture Capital Companies (VCC) are subject to corporate income tax at the rate of 5%, instead of the prevailing 100% exemption of statutory income
- Venture Capital Management Companies (VCMC) are subject to 10% tax rate on income from share of profits, management fees and performance fees (YA 2025 to YA 2035)
- Individual shareholders of VCC are to be granted an exemption from the 2% dividend tax for YAs 2025 to 2035.

🌐 Double deduction for *scholarship* is extended until YA 2030 with expansion of scope to include qualified professional certification courses and an increase in parents' monthly income threshold from RM10,000 to RM15,000.

🌐 Double deduction on cost of *sponsorship of care workers* (not an employee of the sponsoring company) who undergo training – applicable for YAs 2026 and 2027.

- 🌐 Further deduction for hiring of *senior citizens* aged 60 and above is extended until YA 2030.
- 🌐 Further deduction for remuneration of prisoners and persons undergoing rehabilitation/treatment is granted for the YAs 2026 to 2030.
- 🌐 Green Investment Tax Allowance for Own Consumption to be granted at the rate of 100% for companies that use green technology product in local supply chain that is accredited under the *MyHIJAU* Mark.
- 🌐 Tax Incentive for Food Production Projects rebranded as Tax Incentive for Food Security Projects, with an emphasis on sales to domestic markets for the purpose of the 100% tax exemption for 10 years (5 years in the case of existing companies undertaking expansion projects). The application is to be made to Ministry of Agriculture and Food Security between 1st January 2026 and 31st December 2030.
- 🌐 Continuation of tax incentive for *automation in agriculture sector* for applications submitted by 31st December 2027.
- 🌐 A further deduction of 50% on cost of AI training cost incurred by Micro, Small & Medium Enterprises (MSMEs). The deduction is given once in 2 years and its only for trainings recognised by *MyMahir* National AI Council for Industry. It appears that the taxpayer would have to make applications to TalentCorp between 1st January 2026 and 31st December 2027 in order to be eligible for this deduction.
- 🌐 Extension of tax deduction for companies investing in subsidiary companies that commercialise non-resource-based R&D findings by public research institutions and academia (public/private) for applications received by Malaysian Investment Development Authority (MIDA) by 31st December 2030.
- 🌐 Deduction up to RM500,000 on qualifying expenditure incurred by tourism project operators on renovation and refurbishment works of

business premises incurred from 11th October 2025 to 31st December 2027.

- 🌐 Tax incentive for tour operators who bring in at least 1,000 foreign tourists. The incentive is granted in the form of 100% exemption on incremental income (from preceding year) in relation to inbound packages. The exemption is applicable for YAs 2026 and 2027.
- 🌐 Tax incentive for organising conferences and trade exhibitions extended until YA 2027 with higher requirements on foreign participants. Scope of incentive is widened to include MOTAC-verified organisers who bring in at least 1,500 foreign participants for inbound incentive trips.
- 🌐 Review and extension of tax incentive for organising arts, cultural, sports and recreational activities until YA 2027.

5. Other Corporate Tax Proposals

- 🌐 Tax deduction up to RM1.5 million for costs incurred in listing on Bursa Malaysia is extended until YA 2030 with a revised scope.
- 🌐 The application period for SRI Sukuk and Bond Grant Scheme is extended until 31st December 2028 with revised terms.
- 🌐 Expenses incurred for the renovation and conversion of commercial buildings into residential premises will be granted a special tax deduction equivalent to 10% of the qualifying expenditure, with the deduction capped at RM10 million.
- 🌐 Accelerated capital allowance fully claimable within the first year for cost of Speed Limitation Devices (SLD) up to RM4,000 per unit for installation in heavy vehicles. The accelerated capital allowance applies to SLD installations carried out within calendar year 2026, regardless of the financial year of the entity.
- 🌐 Companies and individuals with business income who contribute to program of *Kampung Angkat & Sekolah Angkat MADANI*, *Sejahtera MADANI* are eligible for tax deduction on the contribution.

6. Not-for-profit activities: Exemption and deduction for donors

The following policies have been announced in relation to not-for-profit activities. For some of these proposals, provisions such as Section 44(11C) of Income Tax Act have been referred to in the Budget announcement. For other proposals, the enabling provision were not explicitly mentioned but it is presumable that these policies will be mostly administered within the existing legislative framework.

- 🌐 Private hospitals are allowed to establish a welfare fund managed by a Company Limited By Guarantee (CLBG) to assist underprivileged patients to obtain healthcare services.
- 🌐 Public university teaching hospitals are allowed to establish endowment funds. Where all criteria are met, donors would qualify for a tax deduction in respect of any cash contribution given.
- 🌐 Cash contributions made by individuals and companies to Malaysian Department of Museum's Trust Account would be eligible for tax deductions.
- 🌐 Anti-corruption education programmes organised by civil society groups would be approved as national interest projects under Section 44(11C).
- 🌐 The application period for social enterprises to apply for income tax exemption is extended until 31st December 2028.

7. Personal Relief

<i>Relief Type</i>	<i>Present Limit</i>	<i>Proposed Limit</i>	<i>Other Changes</i>	<i>Effective Date</i>
<i>Vaccination for self, spouse and child</i>	Shared limit of RM1,000 with medical examination (part of the overall RM10,000 limit for medical expenses)	Same as present limit	The scope of the RM1,000 relief for vaccination expenses is proposed to be expanded to cover <i>all vaccines</i> registered and approved for use by the National Pharmaceutical Regulatory Agency, Ministry of Health.	Effective from YA 2026

<i>Relief Type</i>	<i>Present Limit</i>	<i>Proposed Limit</i>	<i>Other Changes</i>	<i>Proposed</i>	<i>Effective Date</i>
<i>Expenses related to assessment, diagnosis, early intervention programmes, and rehabilitation treatment for child aged ≤ 18 years with conditions such as autism, ADHD, GDD, intellectual disability, down syndrome, and specific learning disabilities</i>	RM6,000 (YA 2025) (part of the overall RM10,000 limit for medical expenses)	RM10,000 (part of the overall RM10,000 limit for medical expenses)	None		Effective from YA 2026
<i>Nursery or kindergarten fees</i>	RM2,000 permanent + additional RM1,000 for YAs 2020 to 2027	RM3,000 (permanent)	Expanded scope to include children up to 12 years old (previously up to 6 years old only). Incidentally, daily care centres and after-school transit centres registered with the Department of Social Welfare are included in scope.		Effective from YA 2026
<i>Sustainability and home safety-related expenditure</i>	RM2,500 (only in respect of EV charging equipment & purchase of domestic food waste composting machine)	Same as present limit	The relief for sustainability equipment is expanded to include: i. Household food waste grinders and; ii. Closed-Circuit Television (CCTV) for home use Note: Claimable once within a period of 2 YAs.		Effective for YAs 2026 and 2027

Relief Type	Present Limit	Proposed Limit	Other Changes	Proposed	Effective Date
Life insurance	RM3,000	Same as present limit	The scope of tax relief for life insurance premiums or takaful contributions for self & spouse is expanded to include children. Eligibility criteria: i. aged below 18 and unmarried; ii. aged 18 and above, unmarried and pursuing tertiary education; or iii. no age limit for unmarried disabled children Note: This is independent of relief up to RM3,000 granted in relation to educational and medical insurance for self, spouse and children.		Effective from YA 2026
Entrance fee for tourist attractions and cultural programmes	N/A	RM1,000	Relief on entrance fee to local tourist attractions (museums, theme parks, national parks, marine parks, zoos and geoparks) as well as cultural and art programmes. Note: Unlike the relief during YAs 2020 to 2022, cost of tour & accommodation do not qualify for the proposed relief.		Effective for YA 2026 only

8. Stamp Duty

- 🌐 Amid implementation of stamp duty self-assessment system (SD-SAS) effective from 1st January 2026, there is no major change in the regime announced in the Budget speech or the accompanying Budget Appendices on Tax Measures. Taxpayers should monitor if there would be any revisions included in the Finance Bill tabled in the parliament at a later date.
- 🌐 *Employment contracts* generally require stamping, especially since 1st January 2025. For employment contracts executed from 1st January 2026, an *exemption applies if the monthly wage does not exceed RM3,000*. However, this does not necessarily preclude the employer from the requirement to submit the contract to Lembaga Hasil Dalam Negeri (LHDN) for adjudication and obtaining an exemption certificate. It is hoped the authorities will clarify this matter in due course.
- 🌐 Stamp duty rate on instruments of transfer of *residential homes* executed by *non-citizen individuals* (excluding Malaysian permanent residents) and *foreign companies* is increased from 4% to 8%. This applies to instruments of transfer executed from 1st January 2026.
- 🌐 Stamp duty on Sale and Purchase Agreement (SPA) and loan agreement for the purchase of *first residential home* is extended until 31st December 2027. This applies only to residential homes priced up to RM500,000.
- 🌐 Stamp duty exemption on issuance of insurance policies and takaful certificates for all *Perlindungan Tenang* products (covering family, life, and general insurance/takaful) with premiums or contributions not exceeding RM150 is extended to 31st December 2028.
- 🌐 Stamp duty exemption on issuance of insurance policies and takaful certificates covering risks such as fire, travel, and personal accidents with low annual premiums (up to RM150 for individuals and up to RM250 for MSMEs) is extended to 31st December 2028.



- 🌐 Buy-side structured warrant transactions executed between 1st January 2026 and 31st December 2028 are exempt from stamp duty.
- 🌐 The stamp duty exemption on contract notes for Exchange-Traded Fund (ETF) transactions is extended to cover transactions executed from 1st January 2026 to 31st December 2028.

9. Indirect Tax Measures

- 🌐 Reiteration of implementation of carbon tax for iron, steel and energy sectors in 2026.
- 🌐 *No extension on excise duty exemption for CBU Electric Vehicles (EVs)* upon expiry of the existing exemption on 31st December 2025 (Fiscal Outlook 2026 is silent with regards to the import duty exemption. It is likely that the same treatment as excise duty would apply). The Customs duties exemption for CKD EVs remains available until 31st December 2027.
- 🌐 Exemption on Customs' duties in relation to Langkawi and Labuan is limited to vehicles valued not more than RM300,000 effective 1st January 2026.
- 🌐 Taxi owner and private car hire continue to enjoy 100% excise duty and sales tax exemption on purchase of new PROTON and PERODUA cars.
- 🌐 Excise duty on cigarette products is increased by 2 cents per stick (being 40 cents for packet of 20 sticks), RM40 per kilogram for cigars, cheroots and cigarillos, and RM20 per kilogram of tobacco content in heated tobacco products, effective 1st November 2025.
- 🌐 Excise duty on alcoholic beverage products is increased by 10% effective 1st November 2025.
- 🌐 Import duty and sales tax exemption for Nicotine Replacement Therapy products (nicotine gum and patch) is extended to 31st December 2027, with the scope expanded to include Nicotine mist and lozenges effective 11th October 2025.
- 🌐 Introduction of digital stamp for Customs' duties to curb tax attrition, smuggling and fake products.

For more details:

**COMPLIMENTARY
WEBINAR ON
BUDGET 2026**

Wednesday
15 October 2025

Zoom

Time
2:00pm – 4:00pm

More Info
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Limited Seats

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LHDN

JOHN PATRICK ANTONYAM
TAX UNDERSECRETARY,
MINISTRY OF FINANCE

HASHI BINTI MUHAMMAD
EXECUTIVE DIRECTOR,
MIDA

Topic Spotlight:

- Budget 2026
- SST
- Stamp Duty
- Tax Incentives
- Tax Dispute Trends

Well-timed to incorporate technicalities from Finance Bill & Ministerial Orders published in the 2-3 months of post-Budget period

With Regards



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