TAX MEASURES UNDER THE 2026 MALAYSIAN BUDGET

17 October 2025

The Prime Minister and Minister of Finance of Malaysia, Dato' Seri Anwar bin Ibrahim, tabled the 2026 Malaysian Budget in the Malaysian Parliament on 10 October 2024.

Included in the 2026 Malaysian Budget are 40 proposed tax measures. In this article, we highlight some of the tax measures that may be of interest to stakeholders in various sectors of the business community.

1. Income tax on profits distributed by a limited liability partnership

The income tax treatment for a Limited Liability Partnership ("**LLP**") is presently as follows: (i) income received by an LLP is taxed at the corporate tax rate at 15%, 17% and 24%; and (ii) profit distributions from an LLP received by its partners are exempt from tax under Paragraph 12C, Schedule 6, Income Tax Act 1967 ("**ITA**").

In addition to the existing tax on an LLP's income, it is proposed that profit distributions by the LLP received by its partners, whether resident or non-resident individuals, be subject to income tax as follows:

a) tax rate: 2% on chargeable income from profit distribution after taking into account allowable relief and deduction

b) threshold amount and formula for determining chargeable income:

- income in the form of profit distributions exceeding RM100,000 per year will be subject to tax; and
- if partners have income in the form of profit distributions from the LLP and other types of income, the apportionment of the total chargeable income is determined based on the following formula:

$$\frac{A}{B} \times C = D$$

A = Profit distributions received from LLP (deemed as statutory income of the partners)

B = Aggregate income of the partners

C = Chargeable income of the partners

D = Chargeable income from profit distributions from LLP

Effective date: From Year of Assessment ("**YA**") 2026.

2. Income tax on profits distributed by a limited liability partnership

From 1 January 2022, Malaysian residents are subject to income tax on income derived from foreign sources which are received in Malaysia ("**Foreign Sourced Income**"). However, the following Foreign Sourced Income are exempted from tax:

a) dividends from investments and gains from the disposal of capital assets abroad received by resident companies and LLPs from 1 January 2022 to 31 December 2026;

b) income received by individual taxpayers excluding partnership businesses from 1 January 2022 to 31 December 2036; and

c) income received by individual taxpayers excluding partnership businesses from 1 January 2022 to 31 December 2036; and

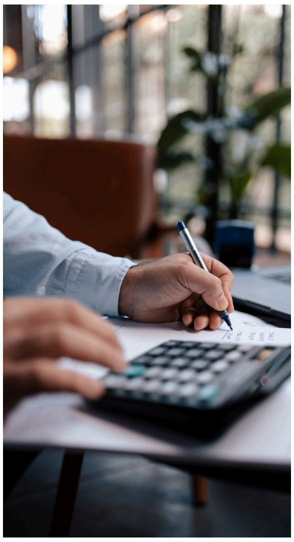
To encourage Malaysians to invest abroad and to promote the repatriation of funds into the country, it is proposed that:

a) the tax exemption on dividends from investments and gains from the disposal of capital assets abroad received by resident companies and LLPs be expanded to cooperative societies and trust bodies; and

b) a)the tax exemption on dividends from investments and gains from the disposal of capital assets abroad received by resident companies, LLPs, cooperative societies and trust bodies as well as Foreign Sourced Income for unit trusts, be given for four years.

Effective date: From 1 January 2027 to 31 December 2030.

3. Increase of wage threshold for stamp duty exemption on employment contracts



Employment contracts are subject to stamp duty of RM10 under Item 4, First Schedule, Stamp Act 1949 ("**SA**"). However, employment contracts involving monthly wage not exceeding RM300 per month are exempt from stamp duty.

It is proposed that the wage threshold for stamp duty exemption on employment contracts be increased from RM300 to RM3,000 per month.

Effective Date: For employment contracts executed from 1 January 2026.

4. Expansion of income tax deduction for listing expenses on Bursa Malaysia

Presently, a deduction from income tax of up to RM1.5 million is given for expenses incurred in listing on Bursa Malaysia's Main Market, ACE Market and LEAP Market by technology-based companies and Micro, Small and Medium Enterprises ("**MSMEs**") as follows:

a) fees to Bursa Malaysia and the Securities Commission Malaysia ("SC");

b) professional fees; and

c) underwriting, placement and brokerage fees.

The tax deduction is given from YA 2023 to YA 2025.

To further encourage more companies and MSMEs to raise additional capital through a listing on the Main Market, ACE Market or LEAP Market, it is proposed that the tax deduction of up to RM1.5 million on listing expenses for technology-based companies and MSMEs be expanded as follows:

a) the tax deduction be expanded to MSMEs in the energy and utilities sectors; and

b) a)the tax deduction for technology-based companies, as well as MSMEs in the technology, energy and utilities sectors be extended for a further five years.

Effective Date: From YA 2026 to YA 2030.

5. Increase in stamp duty on ownership of residential property by non-citizens

Presently, stamp duty on instruments of transfer of real property executed by non-citizen individuals (excluding permanent residents of Malaysia) and foreign companies is subject to a fixed rate of 4% under Item 32(aa), First Schedule, SA.

It is proposed that a fixed stamp duty rate on the instruments of transfer of residential homes executed by non-citizen individuals (except Malaysian permanent residents) and foreign companies be increased from 4% to 8%.

Effective Date: For instruments of transfer of residential homes executed from 1 January 2026.

6. Increase in stamp duty on ownership of residential property by non-citizens

Presently, full stamp duty exemption is given on insurance policies and takaful certificates for Perlindungan Tenang products which cover family, life and general insurance/ takaful with premiums or contributions not exceeding RM150. This exemption applies to insurance policies and takaful certificates issued until 31 December 2025.

It is proposed that this stamp duty exemption be extended for a further three years.

Effective Date: For Perlindungan Tenang insurance policies and takaful certificates issued from 1 January 2026 to 31 December 2028.

7. Extension of stamp duty exemption on insurance policies or takaful certificates with low annual premium/ contribution

Full stamp duty exemption is given until 31 December 2025 on insurance policies and takaful certificates with low annual premium or contribution for the purchase of insurance policy or takaful certificate with (i) an annual premium or contribution not exceeding RM150 by an individual; and (ii) an annual premium or contribution not exceeding RM250 by MSMEs.

The types of insurance policies or takaful certificates exempted from the above-referred stamp duty include insurance or takaful for liability, fire, travel, engineering, personal accident and business interruption due to fire.

It is proposed that the full stamp duty exemption on insurance policies or takaful certificates with low annual premium or contribution be extended for three years.

Effective Date: For insurance policies or takaful certificates issued from 1 January 2026 to 31 December 2028.

8. Exemption of stamp duty on contract notes for buy-side transaction of structured warrants

Presently, contract notes for the sale and purchase transactions of structured warrants[1] are subjected to stamp duty under Item 31(b), First Schedule, SA, at a rate of 0.1%, subject to a maximum duty of RM200 on each contract note.

It is proposed that stamp duty exemption on the contract notes for buy-side structured warrant transaction be given for three years.

Effective Date: For buy-side structured warrant transactions executed from 1 January 2026 to 31 December 2028.

9. Extension of stamp duty exemption on contract notes for Exchange Traded Funds listed on Bursa Malaysia

Contract notes for Exchange Traded Funds (ETFs) transactions executed from 1 January 2021 to 31 December 2025 are fully exempted from stamp duty.

It is proposed that the above stamp duty exemption be extended for three years.

Effective Date: For ETFs transactions from 1 January 2026 to 31 December 2028.

10. Enhancing accelerated capital allowance on capital expenditure for plant, machinery and information and communications technology ("ICT") equipment

Companies are presently allowed to claim capital allowance on qualifying capital expenditure incurred for business purposes under Schedule 3, ITA as follows:

Types of assets	Initial Allowance (%)	Annual Allowance (%)
Motor Vehicles and Heavy Machinery	20	20
Plant and General Machinery	20	14
Others	20	10
ICT Equipment and Computer Software	40	20

It is proposed that qualifying capital expenditures be given Accelerated Capital Allowance ("ACA") which can be fully claimed by companies within two years as follows:

No.	Qualifying Expenditure	Capital Allowance Rate
1.	Procurement of Heavy Machinery from local manufacturers	Initial Allowance 20% Annual Allowance 40%
2.	Procurement of plant and general machinery acquired from local manufacturers	
3.	Purchase of ICT equipment and computer software	
4.	Consultation, licensing and incidental fees related to customised computer software development	

Effective Date: For qualifying capital expenditure incurred from 11 October 2025 to 31 December 2026.

[1] *Structured warrants confer on its holder the rights to buy or sell the underlying assets at a predetermined price within a specified period.*

11. Tax incentive for food security projects

The tax incentives under the Tax Incentive for Food Production Projects are as follows:

Eligible Companies	Tax Incentive
Companies investing in subsidiary companies engaging in new food production projects.	Tax deduction equivalent to the investment amount in the basis year when the investment was made.
Companies engaging in food production projects.	i. New projects are given 100% income tax exemption on statutory income for 10 YAs; or ii. Expansion projects by existing companies are given 100% income tax exemption on statutory income for five YAs.

The tax incentive is effective for applications received by the Ministry of Agriculture and Food Security ("**KPKM"**) from 1 January 2023 to 31 December 2025.

The Tax Incentive for Food Production Projects is to be rebranded as the Tax Incentive for Food Security Projects. Further, it is proposed that companies implementing food security projects be given the following tax incentives:

Eligible Companies	Tax Incentive
Companies engaging in new projects.	i. 100% income tax exemption on statutory income for 10 YAs; and ii. The tax exemption be given on income generated from sales in domestic markets.
Existing companies undertaking expansion projects.	i. 100% income tax exemption on statutory income for five YAs; and ii. The tax exemption be given on income generated from sales in domestic markets.

Effective Date: For applications received by KPKM from 1 January 2026 to 31 December 2030.

12. Tax Incentive for Automation in the Agriculture Sector

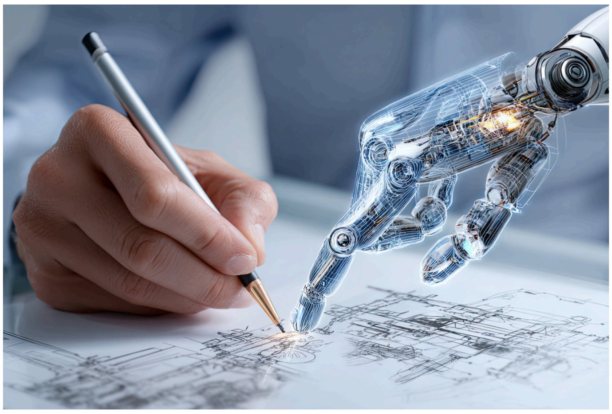
Tax incentives for livestock farming activities through the closed-house system are as follows:

a) tax Incentive for Chicken Rearing in Closed-House System: ACA of 100% on the qualifying capital expenditure and income tax exemption of 100% on the qualifying capital expenditure are given for closed-house chicken rearing system, for applications received by KPKM from 1 January 2023 to 31 December 2025; and

b) tax Incentive for Automation in the Agriculture Sector: ACA of 100% on the first RM10 million of the qualifying capital expenditure and income tax exemption equivalent to 100% on the qualifying capital expenditure are given for cropping, livestock farming, apiculture, aquaculture and captured fisheries activities, for applications received by KPKM from 1 January 2023 to 31 December 2027.

To ensure the continuity of tax incentive for rearing chicken using the closed-house system and to streamline tax incentives within the livestock farming sector, it is proposed that the Tax Incentive for Automation in the Agriculture Sector be expanded to include rearing chicken using the closed-house system.

Effective Date: For applications received by KPKM from 1 January 2026 to 31 December 2027.



13. Tax incentive for training in Artificial Intelligence

Expenses incurred for employees training related directly to the company's business activities are eligible for tax deduction under Section 33 ITA. Companies are also eligible to claim further tax deduction for the expenses incurred on approved training programmes in manufacturing and non-manufacturing activities including the hotel and tourism industries. However, companies contributing to the Human Resources Development Fund ("HRDF") are not eligible for the further tax deduction.

To encourage the adoption of artificial intelligence ("AI") in business operations, it proposed that the expenses incurred by MSMEs, including those contributing to HRDF, on AI training recognised by MyMahir National AI Council for Industry (NAICI), be given further tax deduction of 50% once in two years.

Effective Date: For applications received by TalentCorp from 1 January 2026 to 31 December 2027.

14. Tax incentive for training in Artificial Intelligence

To encourage tourism operators for Visit Malaysia Year 2026 ("VMY 2026"), it is proposed that tour operators be given 100% tax exemption on the incremental income[2] derived from inbound tourism packages subject to the operator bringing in at least 1,000 foreign tourists annually.

Effective Date: For YA 2026 and YA 2027.

15. Tax deduction on renovation and refurbishment costs for tourism projects

Renovation and refurbishment expenses incurred for business premises are not allowable for tax deductions under Section 33(1) ITA. As an exception to the foregoing and to encourage tourism project operators to upgrade and refurbish their business premises to enhance the quality of domestic tourism product in line with VMY 2026, it is proposed that tourism project operators registered with the Ministry of Tourism, Arts and Culture ("**MOTAC**") undertaking renovation and refurbishment works for business purposes be allowed a tax deduction on qualifying expenditure, up to a maximum of RM500,000.

Effective Date: For qualifying expenditure incurred from 11 October 2025 to 31 December 2027.

16. Tax incentive for organising international incentive trips, conferences and trade exhibitions

After a review of the existing incentives, it is proposed that in conjunction with VMY 2026, 100% income tax exemption on statutory income be given to organisers of international incentive trips, conferences and trade exhibitions verified by the MOTAC who bring in:

a) at least 1,500 foreign participants for incentive trips annually; or

b) at least 2,000 foreign participants for conferences annually; or

c) at least 3,000 foreign participants for trade exhibitions annually.

Effective Date: For YA 2026 and YA 2027.

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[2] *The expression "incremental income" refers to the difference between the qualifying income derived from the business of operating inbound tourism packages to Malaysia during the basis period and the income from the preceding basis period.*

17. Tax incentive for organising arts, cultural, sports and recreational activities

Presently, a 50% tax exemption on statutory income is given until YA 2025 to organisers of the following approved activities:

a) arts and cultural activities approved by the MOTAC and held at Istana Budaya, National Art Gallery or Dewan Filharmonik Petronas; and

b) international sports and recreational competitions approved by the Ministry of Youth and Sports (“**KBS**”).

To encourage the organising of arts, cultural, tourism, international sports and recreational activities in conjunction with VMY 2026, this tax incentive will be expanded for two years as follows:

a) the scope will be expanded to include tourism activities approved by the MOTAC (excluding concert performances);

b) the venue for arts, cultural and tourism activities be broadened to include any location in Malaysia approved by the MOTAC; and

c) international sports and recreational competitions approved by the KBS.

Effective Date: For YA 2026 and YA 2027.

18. Revamping tax incentive for venture capital

The existing tax incentives for venture capital are as follows:

a) Venture Capital Company (“**VCC”)**

- Exemption of income tax on statutory income derived from all sources of income except interest income from savings or fixed deposits and profits from Shariah-compliant deposits; and

- The exemption is given for five YAs from the date of the first certification by the SC for investments made in a venture company (“**VC”**). A VCC is required to invest at least 50% of funds in seed capital, start-up and early-stage financing. The VCC and VC must not be related companies at the time the investment is made.

- The VCC must be incorporated under the Companies Act 2016.

b) Venture Capital Management Company (“**VCMC**”)

- The VCC must be incorporated under the Companies Act 2016.

c) investment in VCC

- A company or an individual with business income that invests in a VCC fund is given a tax deduction equivalent to the amount of investment made in the VCC, subject to a maximum of RM20 million.

d) investment in VC

- A company or an individual with business income that invests in a VC is given a tax deduction equivalent to the amount of investment made in the VC.

The VCC must be registered with SC no later than 31 December 2023, while the first certification by SC must be obtained no later than 31 December 2026.

The revised tax incentives for venture capital are as follows:

a) VCC

- A corporate tax rate of 5% is imposed on all income of the VCC, except for interest/ profit income derived from savings, fixed deposits, or deposits. The VCC is required to invest a minimum of 20% of its funds in local venture companies; and

- The tax incentive is given for 10 years or for the remaining life of the fund starting from the year the VCC obtains its first certification from SC, which certification must be obtained no later than 31 December 2035.

This tax incentive is expanded to entities incorporated under the Limited Liability Partnerships Act 2012 and the Labuan Limited Partnerships and Limited Liability Partnerships Act 2010 which elect to be taxed under the ITA.

b) VCMC

- A tax rate of 10% is imposed on income derived from the share of profits, management fees and performance fees from YA 2025 to YA 2035.

c) Individual Shareholders of VCC

- Exemption of income tax on dividends paid, credited or distributed to individual shareholders at the first level from YA 2025 to YA 2035.

Effective Date: From YA 2025.

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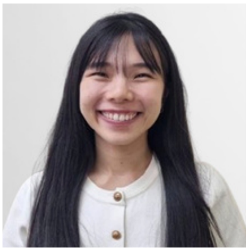

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