

Malaysia Budget 2025

Tax & Accounting Report



On Friday, 18 October 2024, the 2025 Malaysia Budget was delivered in Parliament.

Wolters Kluwer will be providing coverage of all the major economic, tax, accounting reforms and announcements impacting your clients and organisation.

The following report is a concise overview of the 2025 Budget based on the Budget Statement, written specifically for the tax & accounting sector.

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2025 Budget Highlights



Corporate income tax

- Providing accelerated capital allowance on information and communication technology (ICT) equipment, computer software packages and consulting fees for e-invoicing implementation
- Extending the tax deduction for sponsorship of Smart Artificial Intelligence (AI) Driven Reverse Vending Machines
- Expanding the income tax exemption for Islamic financial activities under the Labuan International Business and Financial Centre
- Expanding the tax deduction on childcare allowance
- Introducing tax incentives for Smart Logistics Complex (SLC)
- Introducing tax incentives for employers implementing flexible work arrangements
- Introducing tax incentives for employers providing caregiving leave benefits
- Introducing tax incentives for hiring women returning to work
- Expanding the scope of increased export incentives for the service sector to Integrated Circuit (IC) Design services
- Reviewing the tax deduction on costs of developing new courses at Private Higher Education Institutions (PHEIs)
- Introducing tax incentives for the Supply Chain Resilience Initiative (SCRI)
- Introducing tax incentives for investments in 21 economic sectors in certain states
- Reviewing the tax incentives for the National Structured Internship Programme (MySIP)
- Reviewing existing investment incentives and studying the feasibility of a Strategic Investment Tax Credit

2025 Budget Highlights



Individual tax

- Expanding the scope of tax relief for medical treatment expenses for self, spouse and child
- Increasing individual tax relief for disabled persons
- Expanding the scope of tax relief for expenses on sports activities and purchases of sports equipment
- Expanding the scope of tax relief for medical expenses, special needs and parental care expenses for parents
- Expanding the scope of tax exemption for childcare allowances received by employees
- Extending tax relief for contributions to private retirement schemes (PRS) and premiums paid for deferred annuities
- Increasing the tax relief limit for premiums paid for education and medical insurance for self, spouse and child
- Extending the tax relief for net annual savings in the *Skim Simpanan Pendidikan Nasional* (SSPN)
- Providing tax relief for housing loan interest payments for first-time homebuyers
- Extending the tax relief for fees paid to nurseries or kindergartens
- Introducing tax relief on purchase of domestic food waste composting machines
- Introducing dividend tax on dividends received by individual shareholders
- Providing tax exemption for cash prize rewards for sports victories

2025 Budget Highlights



Indirect tax

- Increasing excise duty rates on sugar-sweetened beverages
- Increasing export duty exemptions on crude palm oil (CPO)
- Increasing the threshold value for windfall profit levy
- Introducing sales tax exemption on mastectomy bras for breast cancer patients
- Introducing sales tax on imported premium items
- Expanding the scope of taxable services to include commercial services



Stamp duty

- Imposing stamp duty on the deeds of assignment for life insurance policies and family *takaful* certificates
- Imposing stamp duty on loan or financing agreements based on *Shariah* principles
- Introducing an exemption from stamp duty on loan or financing agreements through the Initial Exchange Offering (IEO) platform for micro, small and medium enterprises (MSMEs)
- Providing stamp duty exemption on loan or financing agreements for *Skim Pembiayaan Mikro (SPM)*
- Introducing the implementation of a self-assessment system for stamp duty



Carbon tax

- Introducing carbon tax on the iron and steel, and energy industries by 2026

Expert Coverage

Introduction

The Prime Minister and Finance Minister, YAB Dato' Seri Anwar bin Ibrahim, handed down the 2025 Budget speech on 18 October 2024.

With the theme *Ekonomi MADANI, Negara Makmur, Rakyat Sejahtera*, the focus is on improving the living standards of the people and on advancing the nation's development. The Budget proposals are targeted towards addressing the cost of living for Malaysians, particularly the lower income group, through numerous personal tax relief enhancements.

Measures aimed at increasing government tax revenues and attracting new investments are included in the tax proposals.

The full Budget Statement is available at <https://belanjawan.mof.gov.my/ms/>

The tax highlights are set out below.



Expert Coverage



Corporate income tax

- The purchase of ICT equipment, computer software packages and consulting fees will be eligible for accelerated capital allowance that can be fully claimed within a period of 2 years from year of assessment (YA) 2024 to YA 2025, to encourage taxpayers to implement e-invoicing. The initial allowance will be 20% and the annual allowance will be 40%.
- The current tax deductions for contributions or sponsorships of Smart AI Driven Reverse Vending Machines will be extended for 2 years from 1 January 2025 to 31 December 2026.
- Income tax exemption given to Labuan trading entities undertaking Islamic financial activities will be expanded to include qualifying Labuan *takaful* business activities and Labuan *takaful*-related activities from YA 2025 to YA 2028.
- The further tax deductions for childcare allowances paid by employers to employees will be expanded to include elderly care for parents and grandparents effective YA 2025.
- Eligible SLC companies will be granted 60% investment tax allowance on qualifying capital expenditure incurred over a period of 5 years, which can be set off against up to 70% of statutory income for each YA.

Eligible SLC companies include SLC Investors and Operators that invest in the construction of smart warehouses, as well as SLC Operators that lease smart warehouses under long-term leases of 10 years or more.

These companies must undertake eligible logistics services activities, such as operating regional distribution centres, providing integrated logistics services, storing hazardous goods and managing cold chain logistics.

Expert Coverage



Corporate income tax

- The smart warehouses must have a minimum built-up area of 30,000 square metres and incorporate at least 3 elements of the Fourth Industrial Revolution.

Applications must be received by the Malaysian Investment Development Authority from 1 January 2025 to 31 December 2027.

- Employers who incur expenses for capacity building and software acquisition in implementing flexible working arrangements will be granted a 50% further deduction. The eligible expenses will be capped at RM500,000. These expenses must be verified by Talent Corporation Malaysia Berhad (TCMB) and will be subject to a one-off claim.

Applications must be received by TCMB from 1 January 2025 to 31 December 2027.

- Employers who provide additional paid leave of up to 12 months for employees caring for children or ill or disabled family members will be granted a further 50% deduction.

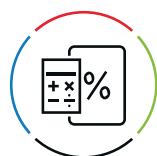
Applications must be received by TCMB from 1 January 2025 to 31 December 2027.

- Employers will be granted a further deduction of 50% on employment expenses paid for a period of 12 months when hiring women returning to work.

Applications must be received by TCMB from 1 January 2025 to 31 December 2027.

- The scope of the increased export incentives for the services sector will be expanded to include IC Design services. This expansion aims to establish Malaysia as a hub for Advanced IC Design Technology and Solutions under the New Industrial Master Plan 2030 and will be effective from YA 2025.

Expert Coverage



Corporate income tax

- PHEIs will be allowed to claim tax deductions on costs of developing new courses to foster a highly skilled and competitive workforce in the digital era, focusing on technology and innovation, including AI. These deductions will be available from YA 2025 to YA 2030 and can be fully claimed within the same YA. The scope of this deduction will be extended to include the development of Technical and Vocational Education and Training courses by private skills training institutions.
- Multinational enterprises (MNEs) will be granted double deductions on expenditure of up to RM2 million per annum for a period of 3 consecutive years under the SCRI. MNEs or their suppliers that enter joint ventures with Malaysian suppliers will be granted a tax deduction on the amount invested. Malaysian suppliers involved in the SCRI will be eligible for results-based tax incentive packages.
- Investments in 21 economic sectors in states such as Perlis, Kedah, Kelantan, Terengganu, Sabah and Sarawak will be eligible for tax incentive packages. These tax incentives will be granted based on economic spillover.
- The double deduction on expenditure incurred by companies implementing MySIP under TCMB will be extended to students participating in structured training conducted by industry regulatory bodies. This double deduction will be extended to YA 2030.
- The government will review existing investment incentives and study the feasibility of implementing a “Strategic Investment Tax Credit” to mitigate the impact of the Global Minimum Tax.

Expert Coverage



Individual tax

- The scope of the tax relief of up to RM10,000 for medical treatment expenses for self, spouse and child will be expanded to include:
 - purchases of self-testing medical devices and fees for disease detection examinations under the relief for medical examination expenses, limited to RM1,000
 - an increase in the limit for relief for intervention programs and rehabilitation treatments for children under 18 years with learning disabilities from RM4,000 to RM6,000.
- The individual income tax relief for disabled persons will be increased for:
 - disabled individual taxpayers from RM6,000 to RM7,000
 - individuals with a disabled spouse from RM5,000 to RM6,000, and
 - individuals with unmarried disabled children from RM6,000 to RM8,000.
- The scope of the tax relief of up to RM1,000 for expenses on sports activities and purchases of sports equipment will be expanded to include parents.
- The scope of the tax relief of up to RM8,000 for medical expenses, special needs and parental care expenses for parents will be expanded to include:
 - grandparents
 - expenses for vaccinations under the full medical check-up expenses, limited to RM1,000.
- The scope of the tax exemption of up to RM3,000 for childcare allowances received by employees or paid directly by employers will be expanded to include elderly care for parents and grandparents.
- The tax relief of up to RM3,000 for contributions to approved PRS and premiums paid for deferred annuities will be extended to YA 2030.
- The tax relief limit for premiums paid for education and medical insurance for self, spouse and child will be increased from RM3,000 to RM4,000.

Expert Coverage



Individual tax

- The tax relief of up to RM8,000 for net savings in the SSPN will be extended to YA 2027.
- A tax relief for housing loan interest payments incurred by first-time homebuyers will be provided for 3 consecutive YAs for sales and purchase agreements completed from 1 January 2025 to 31 December 2027 amounting to:
 - RM7,000 for house prices up to RM500,000
 - RM5,000 for house prices between RM500,000 and RM700,000.
- The tax relief of up to RM3,000 for fees paid to nurseries or kindergartens will be extended to YA 2027.
- The scope of tax relief for expenses on electric vehicle charging equipment will be expanded to include the purchase of food waste composting machines for household use. Taxpayers will be able to claim relief of up to RM2,500 once within 3 YAs. The relief will be effective from YA 2025 to YA 2027.
- Effective from YA 2025, a dividend tax of 2% will be imposed on chargeable dividend income after taking into account allowances and deductions received by individual shareholders for dividends paid, credited or distributed from company profits.

This will be applicable to resident individuals, non-residents and individuals holding shares through nominees where the annual dividend income exceeds RM100,000.

The amount of chargeable dividend income will be computed by multiplying the individual's chargeable income by the ratio of dividend statutory income to aggregate income.

To be continued..

Expert Coverage



Individual tax

- The following dividend income will be exempt from dividend tax:
 - dividend income from abroad
 - dividend income distributed from the profits of companies that have received pioneer status and reinvestment allowances
 - dividend income paid, credited or distributed from the profits of shipping companies that are exempted from tax
 - dividend income distributed by co-operatives
 - dividend income declared by closed-end funds
 - dividend income received by residents from Labuan entities
 - any exemption given on dividend income at the shareholder level.
- A tax exemption will be provided for cash prize rewards received by individual athletes and team winners through the *Skim Hadiah Kemenangan Sukan* by Majlis Sukan Negara.

Profit distributions made to contributors and depositors by the Employees Provident Fund, Lembaga Tabung Angkatan Tentera, Amanah Saham Nasional Bumiputera and unit trusts will not be subject to dividend tax.

Expert Coverage



Indirect tax

- The excise duty rate for sugary drinks will be increased in phases by 40 cents per litre effective 1 January 2025.
- The export duty for CPO will be revised effective 1 November 2024.
- The threshold value for the windfall profit levy will be revised to RM3,150 per tonne for Peninsular Malaysia and RM3,650 for Sabah and Sarawak, effective 1 January 2025.
- Sales tax exemption will be given on mastectomy bras for breast cancer patients for applications received by the Ministry of Finance from 1 November 2024 to 31 December 2027.
- Sales tax will be imposed on imported premium items effective 1 May 2025. Sales tax exemption will be maintained on basic food items consumed by the *rakyat*.
- The scope of taxable services will be expanded to include commercial service transactions between businesses effective 1 May 2025.



Stamp duty

- The deeds of assignment for life insurance policies and family takaful certificates, whether given by way of love and affection or through a trustee, will be subject to stamp duty at the following fixed rates:
 - the first RM100,000 at RM10
 - above the first RM100,000 to RM500,000 at RM100
 - above RM500,000 to RM1,000,000 at RM500
 - more than RM1,000,000 at RM1,000.

This will be applicable to deeds of assignment for life insurance policies and family *takaful* certificates executed from 1 January 2025.

- A fixed stamp duty of RM10 will be imposed on loan or financing agreements for the purchase of goods based on *Shariah* principles, excluding hire purchase. This will be applicable to loan or financing agreements executed from 1 January 2025.

Expert Coverage



Stamp duty

- A 100% stamp duty exemption will be given on loan or financing agreements executed by MSMEs and investors through IEO platforms registered with the Securities Commission Malaysia for 2 years. This will be applicable to loan or financing agreements executed from 1 January 2025 to 31 December 2026.
- A stamp duty exemption will be given for SPM loan or financing agreements for amounts up to RM100,000. This will be applicable to loan or financing agreements under the SPM executed from 1 January 2025.
- The self-assessment stamp duty system will be implemented in phases based on the types of instruments or agreements effective 1 January 2026.



Carbon tax

- Carbon tax will be introduced on the iron and steel, and energy industries by 2026 to encourage the adoption of low-carbon technologies. The proceeds will be used to fund green research and technology programs.

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