



Highlights of Malaysia Budget 2026 (Tax proposals from Budget Speech)

10 October 2025

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SUMMARY OF TOP 5 BUDGET 2026 TAX PROPOSALS

- 1** A Profit Distribution Tax of 2% on chargeable income from profit distributions received from Limited Liability Partnerships (LLPs) will be introduced for individuals effective from year of assessment (YA) 2026
- 2** Review and extension of individual tax reliefs such as vaccination expenses, entrance fee to domestic tourist attractions, life insurance, etc
- 3** Expansion of Accelerated Capital Allowance (ACA) on qualifying capital expenditure for selected plant, machinery and ICT equipment
- 4** Review of income tax exemption for foreign sourced dividend income and capital gains for resident companies, LLPs, cooperative societies and trust bodies
- 5** Introduction and enhancement of tax incentives for businesses





KEY CORPORATE TAX PROPOSALS IN BUDGET 2026 (commentaries)

Accelerated Capital Allowance (ACA) for plant, machinery and ICT equipment

The Government has proposed that ACA be given for the following qualifying capital expenditure acquired between 11 October 2025 and 31 December 2026:

Qualifying capital expenditure	Capital Allowance Rate
Heavy Machinery acquired from local manufacturers	Initial allowance: 20% Annual allowance: 40%
Plant and general machinery acquired from local manufacturers	
Purchase of ICT equipment and computer software	
Consultation, licensing and incidental fees related to customised computer software development	



KEY CORPORATE TAX PROPOSALS IN BUDGET 2026 (commentaries)

Following the proposal, the capital allowance claim for selected plant, machinery, ICT equipment and computer software will be within 2 years.

Companies, especially those under October to December financial year ends for YA 2025 should reassess and consider to bring forward the capital expenditure budget in year 2026 to maximise the claim of capital allowance for YA 2025.

Similarly, companies should also reassess and consider to bring forward any planned capital expenditure in year 2027 and onwards to maximise the ACA provided.



KEY CORPORATE TAX PROPOSALS IN BUDGET 2026 (commentaries)

Review of tax exemption for foreign-sourced dividend income and capital gains

The Government has proposed to expand the scope of the tax exemption on dividends from investments and gains from the disposal of capital assets abroad received by resident companies and LLPs to include cooperative societies and trust bodies. Additionally, the said tax exemption will be extended to 31 December 2030.

The conditions for tax exemption are likely to remain, which are as follows:

- A. Comply with the participation exemption requirements that is:
 - (a) The dividend income has been subjected to tax in the country of origin;
and
 - (b) The highest tax rate in the country of origin is not less than 15%:
- OR
- B. Comply with the economic substance requirements.

CORPORATE TAX PROPOSALS



Extension of income tax exemption on all income of Social Enterprises (SE) accredited by the Ministry of Entrepreneur Development and Cooperatives to 31 December 2028.



Extension of tax deduction on cost of listing expenses for technology-based companies and Micro, Small and Medium Enterprises (MSMEs) on Bursa Malaysia Main, ACE and LEAP Markets to YA 2030 and expansion of scope to include cost of listing expenses incurred by MSMEs in energy and utilities sectors on BURSA Malaysia Main, ACE and LEAP Markets.



Income tax deduction, limited to 10% of aggregate income, will be given on cash donations to the approved anti-corruption education programmes organised by Civil Society Organisations for applications received by the MOF from 1 January 2026 to 31 December 2028.

CORPORATE TAX PROPOSALS



Income tax exemption on the SRI Sukuk and Bond Grant Scheme received by sukuk and bond issuers from the Securities Commission (SC) will be reviewed as follows:

- i. the grant allocation for external review expenses will be increased from 90% to 100%, limited to a maximum grant amount of RM300,000;
- ii. financial instruments under the SRI Sukuk and Bond Grant Scheme will be expanded to include sukuk and bonds that conform to the ASEAN Taxonomy for Sustainable Finance; and
- iii. the income tax exemption period be extended by 3 years

The above is for applications received by the SC from 1 January 2026 to 31 December 2028.



Tax deduction, limited to 10% of aggregate income, will be given on cash contributions to endowment funds established by public university teaching hospitals from YA 2026. Income generated from the endowment fund for the contributions received will be given tax exemption.

CORPORATE TAX PROPOSALS



Special tax deduction will be given on contributions made to Kampung Angkat dan Sekolah Angkat MADANI, Sejahtera MADANI programs and Akaun Amanah Jabatan Muzium Malaysia



Special tax deduction equivalent to 10% of the qualifying expenditure incurred will be given for the renovation and conversion of commercial buildings into residential premises, limited to a maximum of RM10 million.



KEY INDIVIDUAL TAX PROPOSALS IN BUDGET 2026 (commentaries)

Profit Distribution Tax for partners of LLPs

Similar to the Dividend Tax introduced in YA 2025, the Government has now proposed to introduce a Profit Distribution Tax of 2% on chargeable income from profit distributions exceeding RM100,000 received by individual partners of LLPs (including non-resident individual partners) with effect from YA 2026.

Hence, individual partners of LLPs should draw up an up to-date management account and assess the viability to maximise profit distributions in YA 2025 to minimise future tax liabilities upon implementation of the Profit Distribution Tax.

Further clarification or guide must be given by the authorities on the mechanism of imposing the 2% Profit Distribution Tax on non-resident individual partners, whether similar mechanism under Dividend Tax will apply.



KEY INDIVIDUAL TAX PROPOSALS IN BUDGET 2026 (commentaries)

Personal tax reliefs

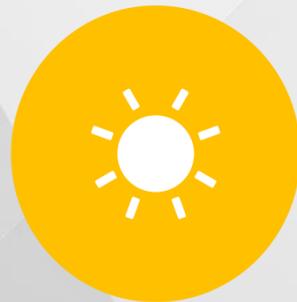
The Government has proposed several new and enhanced tax reliefs for individuals to increase disposal income of individuals effective from YA 2026.

In this regard, employers should take note of these tax proposals especially the new and enhanced tax reliefs as such proposals will directly impact the employees monthly tax deductions calculation. Employees should also ensure the Form TP1 for YA 2026 is properly filled up to optimise the monthly tax deduction payments.

INDIVIDUAL TAX PROPOSALS



Tax relief for vaccination expenses of RM1,000 will be expanded to include all vaccines registered and approved for use by the National Pharmaceutical Regulatory Agency, Ministry of Health.



Tax relief given for early intervention programme or rehabilitation treatment for children with learning disabilities will be increased from RM6,000 to RM10,000.



Tax relief for premiums paid for life insurance or takaful contributions of RM3,000 will be expanded to include children. The eligibility conditions are:

- a. aged below 18 and unmarried;
- b. aged 18 and above, unmarried and pursuing tertiary education; or
- c. no age limit for unmarried disabled children.

INDIVIDUAL TAX PROPOSALS



Reintroduction of tax relief on entrance fees to domestic tourist attractions and cultural and art programmes of RM1,000 for the YA 2026.



Tax relief for childcare or kindergarten fees of RM3,000 will be expanded to include include daily care centres or after-school transit centres registered with Department of Social Welfare for children aged up to 12 years old.



Tax relief for environmental sustainability related expenses of RM2,500 will be expanded to include purchase of household food waste grinders and closed-circuit television (CCTV) for home use for YA 2026 and YA 2027. The tax relief claim for the purchase of food waste grinders and / or CCTV is allowed once within a period of 2 YA.



INDIVIDUAL TAX PROPOSALS



Tax exemption will be given on dividends paid, credited or distributed to individual shareholders at the first level who invest in venture capital company (VCC) from YA 2025 to YA 2035.





KEY TAX INCENTIVES PROPOSALS IN BUDGET 2026 (commentaries)

The Government has announced several new and enhanced tax incentives under Budget 2026.

In conjunction with the Visit Malaysia Year 2026, the following tax incentives have been proposed:

- i. Tax incentive for tour operators operating in bound tourism packages;
- ii. Tax deduction on cost of renovation and refurbishment for tourism project;
- iii. Tax incentive for organizing international incentive trips, conferences and trade exhibitions; and
- iv. Tax incentive for organizing arts, cultural, sports and recreational activities.

Apart from tourism industry, the incentives are mainly targeted to certain sectors such as food and agricultural, and venture capital.

TAX INCENTIVES

Measures

01

100% income tax exemption will be given to companies engaging in new food production projects for 10 YAs on statutory income in relation to sales in domestic markets

02

100% income tax exemption will be given to existing companies undertaking expansion of food production projects for 5 YAs on statutory income in relation to sales in domestic markets

03

Tax incentive for automation in agriculture sector will be expanded to include chicken rearing in Closed-House System, which will be given in the form of 100% ACA and 100% income tax exemption on the first RM10million capital expenditure

Proposed incentive period



Applications received by Ministry of Agriculture and Food Security (KPKM) from 1 January 2026 to 31 December 2030



Applications received by KPKM from 1 January 2026 to 31 December 2030



Applications received by KPKM from 1 January 2026 to 31 December 2027

TAX INCENTIVES

Measures

04

50% further deduction will be given to MSMEs on expenses incurred on Artificial Intelligence (AI) training recognised by MyMahir National AI Council for Industry (NAICI) once in every 2 years

05

Extension of tax deduction given to companies investing in subsidiary companies that commercialise non-resource-based R&D findings by public research institutions, public institutes of higher learning and private higher education institutions to 31 December 2030

06

100% tax exemption on the incremental income derived from inbound tourism packages will be given to tour operators that bring in at least 1,000 foreign tourists annually

Proposed incentive period



Applications received by Talent Corporation Malaysia Berhad (TCMB) from 1 January 2026 to 31 December 2027



Applications received by Malaysian Investment Development Authority (MIDA) from 1 January 2026 to 31 December 2030



YA 2026 and YA 2027

TAX INCENTIVES

Measures

Proposed incentive period

07

Tax deduction will be given to tourism project operators registered with Ministry of Tourism, Arts and Culture (MOTAC) on qualifying expenditure incurred in relation to renovation and refurbishment of business premises, capped at RM500,000



Qualifying expenditure incurred from 11 October 2025 to 31 December 2027.

08

Tax incentive given to organisers for promoting and organizing incentive trips, conferences and trade exhibition will be extended for 2 years



YA 2026 and YA 2027

09

Scope of tax incentive for organising arts, cultural, sports and recreational activities will be expanded to include tourism activities organised at broader locations approved by MOTAC and period of incentive will be extended for 2 years



YA 2026 and YA 2027

TAX INCENTIVES

Measures

Proposed incentive period

10

Double tax deduction for companies providing scholarships will be expanded to include scholarships given to students pursuing qualified professional certification courses with household income not exceeding RM15,000 per month.



YA 2026 till YA 2030

11

Double tax deduction for companies sponsoring training for persons with disabilities (OKU) will be expanded to include sponsorship of care workers who undergo training programmes in institutions recognised by Ministry of Women, Family and Community Development.



YA 2026 and YA 2027

12

Further deduction for companies hiring ex-convicts will be expanded to include Prisoners Released on Licence under Prisons Act 1995, drug / substance dependants and misusers undergoing treatment and rehabilitation provided under the Drug and Substance Dependants and Misusers (Treatment and Rehabilitation) Act 1983



YA 2026 till YA 2030

TAX INCENTIVES

Measures

Proposed incentive period

13

Further deduction for companies hiring senior citizens aged 60 years old and above will be extended for 5 years



YA 2026 till YA 2030

14

ACA consisting of 20% initial allowance and 80% annual allowance will be given on the purchase of Speed Limitation Devices (SLD) installed in heavy commercial vehicles, capped at RM4,000 per unit.



Applicable to SLD installations carried out from 1 January 2026 to 31 December 2026

15

Corporate tax rate of 5% will be imposed on all income of Venture Capital Company (VCC), except for interest / profit income derived from savings, fixed deposits, or deposits. The incentive will be given for a period of 10 years or for the remaining life of the fund starting from the year the VCC obtains its first certification from SC.



First certification by SC must be obtained no later than 31 December 2035

TAX INCENTIVES

Measures

16

Corporate tax rate of 10% will be imposed on income derived from the share of profits, management fees and performance fees by Venture Capital Management Company (VCMC)

Proposed incentive period



YA 2025 till YA 2035



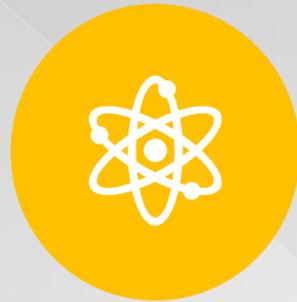
KEY STAMP DUTY PROPOSALS IN BUDGET 2026 (commentaries)

The Government has reiterated on the proposal to introduce the self-assessment system (SAS) for stamp duty starting from 1 January 2026. To recap, the SAS for stamp duty will be carried out over 3 phases with full SAS being in place come 1 January 2028. Following the implementation of SAS for stamp duty, it will be the responsibility of duty payers to assess and pay the stamp duty for executed instruments via STAMPS.

Besides that, the Government has proposed to increase the fixed stamp duty rate on the instruments of transfer of residential homes executed by non-citizen individuals (except Malaysian permanent resident) and foreign companies from 4% to 8% with effect from 1 January 2026.

The definition of foreign-owned companies follows the definition in Companies Act 2016. As such, stamp duty cost for acquisition of residential property made by a local company wholly owned by a foreign-owned company will increase by two-fold.

STAMP DUTY PROPOSALS



Extension of 100% stamp duty exemption on contract notes for Exchange Traded Funds transactions to 31 December 2028.



Extension of 100% stamp duty exemption on the instrument of transfer and loan agreements for the purchase of first residential property priced up to RM500,000 by Malaysian citizens to 31 December 2027.



Wage threshold for stamp duty exemption on employment contracts will be increased to RM3,000 for contracts executed from 1 January 2026.



Extension of 100% stamp duty exemption on insurance policies and takaful certificates for all Perlindungan Tenang products to 31 December 2028.



Extension of 100% stamp duty exemption on insurance policies or takaful certificates with low annual premium or contribution to 31 December 2028.



100% stamp duty exemption will be given on the contract notes for buy-side structured warrant transactions executed from 1 January 2026 to 31 December 2028.



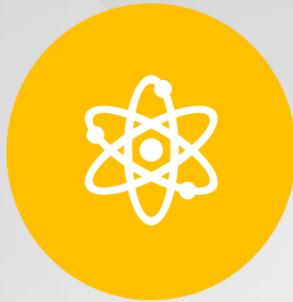
KEY INDIRECT TAXES PROPOSALS IN BUDGET 2026 (commentaries)

The Government announced several revisions to excise duties proposals under the Budget 2026. For instance, to promote healthier living, the Government has proposed to increase the excise duties on sin products effective 1 November 2025 as follows:

Product	Proposed increase in excise duty
Alcoholic beverages	10%
Cigarette stick	RM0.02 per stick / RM0.40 per packet
Cigars / Cheroots / Cigarillos	RM40 per kg
Heated tobacco products	RM20 per kg

Additionally, the Government has proposed to expand the scope of exemption for Nicotine Replacement Therapy Products (NRT) to include nicotine mist and nicotine lozenges and extend the import duty and sales tax exemption period for NRT to 31 December 2027.

INDIRECT TAXES PROPOSALS



Effective 1 January 2026, tax exemption for vehicles in Langkawi and Labuan will only be given to vehicles valued not more than RM300,000.



Excise duty and sales tax exemption for new national vehicles purchased by taxi owners and private hire operators.



Royal Malaysian Customs Department will introduce digital tax stamps with enhanced security features to curb counterfeiting and leakages

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