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International Tax
Malaysia Highlights 2025

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Recent developments

For the latest tax developments relating to Malaysia, see Deloitte tax@hand.

Investment basics

Currency: Malaysian Ringgit (MYR)

Foreign exchange control: Malaysia maintains a system of exchange controls that is subject to foreign exchange administration rules issued by its central bank. The repatriation of capital, profits, dividends, royalties, rents, and commissions is freely permitted.

Accounting principles/financial statements: Malaysian Financial Reporting Standards (MFRS) are mandatory for nonprivate entities.

Malaysian Private Entities Reporting Standards (MPERS) are mandatory for private entities, except for private entities that opt to adopt MFRS in their entirety.

Principal business entities: These are the public and private limited company, business trust, limited liability partnership, partnership, sole proprietorship, and branch of a foreign corporation.

Corporate taxation

Rates	
Corporate income tax rate	24% (in general)
Branch tax rate	24% (in general)
Capital gains tax rate	Varies

Residence: A company is resident in Malaysia if its management and control are exercised in Malaysia.

Basis: Resident companies and limited liability partnerships are taxed on income accruing in or derived from Malaysia and generally are taxed on income received in Malaysia from outside Malaysia. Foreign-source dividend income received by resident companies and limited liability partnerships from 1 January 2022 to 31 December 2026 is tax exempt if the conditions of “option A” or “option B” are fulfilled. Option A requires the foreign-source dividend income to have been subjected to tax in the jurisdiction of origin and the headline tax rate (the highest corporate tax rate in the jurisdiction of origin in the year the dividend is taxed) to be at least 15%, while option B requires the resident company or limited liability partnership to comply with the economic substance requirements. All nonresidents in Malaysia are exempt from the imposition of tax on all foreign-source income received.

Branches generally are taxed in the same way as subsidiaries. As branches of foreign corporations in Malaysia generally are treated as nonresidents unless it can be established that their management and control are exercised in Malaysia, tax on their income from payments under a project contract for work rendered in Malaysia may be withheld by the payer at a rate of 10% (on account of the tax payable by the nonresident contractor) plus 3% (on account of the tax payable by the nonresident contractor's employees), which is creditable against the income tax payable. Nonresidents also generally are not eligible for investment incentives and exemptions.

Taxable income: Taxable income comprises all earnings derived from Malaysia, including gains or profits from businesses, dividends, interest, rents, royalties, premiums, or other earnings. Income derived from outside Malaysia and received in Malaysia (i.e., foreign-source income) also is taxable, except for foreign-source dividend income received by resident companies and limited liability partnerships from 1 January 2022 to 31 December 2026, which is tax exempt, subject to certain other conditions being fulfilled (see "Basis," above).

Rate

General

The standard corporate tax rate is 24%. The rate for resident micro, small, and medium-sized enterprises (MSMEs) (i.e., companies incorporated in Malaysia with paid-up capital of MYR 2.5 million or less, that are not part of a group containing a company exceeding this capitalization threshold, and that have gross income from business sources of no more than MYR 50 million for the year of assessment (YA)) is 15% on the first MYR 150,000 of chargeable income and 17% on chargeable income from MYR 150,001 to MYR 600,000. Any amount in excess of MYR 600,000 is taxed at the prevailing standard tax rate of 24%. The preferential tax rates for MSMEs will be denied if more than 20% of the paid-up capital in respect of ordinary shares of the MSME at the beginning of the basis period for a YA is directly or indirectly owned by one or more companies incorporated outside Malaysia or by one or more individuals who are not citizens of Malaysia.

Surtax

There is no surtax.

Alternative minimum tax

A Labuan company carrying on a Labuan business activity that is a Labuan trading activity is taxed at 3% of the audited accounting profit, provided it fulfills the substance requirements specified in the relevant legislation. Otherwise, the standard corporate tax rate of 24% will apply.

Global minimum tax (Pillar Two)

Malaysia is in the process of implementing rules that generally are in line with the global anti-base erosion (GloBE) or "Pillar Two" model rules published by the OECD/G20 Inclusive Framework on BEPS that are designed to ensure a global minimum level of taxation of 15% for multinational enterprise groups with annual consolidated revenue of at least EUR 750 million. A multinational top-up tax (i.e., an income inclusion rule) is effective as from 1 January 2025. There has been no official indication thus far as to when an undertaxed profits rule would be implemented in Malaysia. Malaysia also has opted to adopt a domestic top-up tax (which is intended to be a qualified domestic minimum top-up tax) that is effective as from 1 January 2025.

Taxation of dividends: All companies in Malaysia are required to adopt the single-tier system (STS). Dividends paid by companies under the STS are not taxable (except for certain annual dividend income exceeding MYR 100,000 received by individual shareholders; see "Taxable income" under "Individual taxation," below).

Capital gains: Gains derived from the disposal of real property located in Malaysia may be subject to real property gains tax (RPGT) in Malaysia, unless the gains are subject to capital gains tax ((CGT), discussed further below). Where RPGT applies, for a company incorporated in Malaysia, the rate is 30% for disposals of real property made within three years after the date of acquisition. The rates are 20% and 15% for disposals in the fourth and fifth years after acquisition, respectively, and 10% for disposals in the sixth year after acquisition and thereafter. For a company incorporated outside Malaysia, the rate is 30% for disposals made within five years and 10% for disposals in the sixth year and thereafter. A Labuan entity carrying on a business activity, as defined in section 2B of the Labuan Business Activity Tax Act 1990 (LBATA), is subject to RPGT on the disposal of shares in a real property company.

CGT may apply on the disposal of capital assets by companies (and certain other legal entities), at a rate depending on when the capital assets were acquired by the company and whether the capital assets are located in Malaysia or abroad. With respect to capital assets located in Malaysia, only gains or profits from the disposal of unlisted shares of companies incorporated in Malaysia and shares of controlled companies incorporated outside Malaysia that hold real property located in Malaysia or shares of another controlled company are subject to CGT.

The CGT rates are as follows:

- Capital assets located in Malaysia that were acquired before 1 January 2024 are subject to tax at a rate of 10% on the chargeable income from the disposal or a rate of 2% on the gross disposal price, depending on the taxpayer's election;
- Capital assets located in Malaysia that are acquired on or after 1 January 2024 are subject to tax at a rate of 10% on the chargeable income from the disposal; and
- Capital assets other than those above (i.e., capital assets located outside Malaysia) are subject to tax at the prevailing income tax rate for the taxpayer (currently, 24% for companies) on the chargeable income from the disposal received in Malaysia from outside Malaysia.

However, an exemption order has been gazetted to provide that if certain economic substance requirements are fulfilled, gains or profits received in Malaysia during the period from 1 January 2024 to 31 December 2026 that are derived from the disposal of capital assets located outside Malaysia (except for intellectual property rights) by resident companies (except for companies carrying on the business of banking, insurance, sea transport, or air transport) may qualify for a CGT exemption.

Losses: Losses may be carried forward for 10 consecutive YAs (except where there is a substantial change in corporate ownership of a dormant company). The carryback of losses is not permitted.

Foreign tax relief: Foreign tax paid may be credited against Malaysian tax on the same profits (limited to 50% of foreign tax in the absence of a tax treaty), but the credit is limited to the amount of Malaysian tax payable on the foreign income.

Participation exemption: There is no participation exemption, but domestic dividends are tax exempt for legal entities.

Holding company regime: An investment holding company (IHC) is a company whose activities consist mainly of the holding of investments and that derives no less than 80% of its gross income (other than gross income from a source consisting of an investment holding business) from such investments. Generally, only expenses falling within the definition of "permitted expenses" in the tax legislation qualify for a tax deduction in respect of an IHC.

Incentives: A wide range of incentives are available for certain industries, such as manufacturing, hotels, healthcare services, information technology services, biotechnology, Islamic finance, venture capital, tourism, energy conservation, and environmental protection. Incentives include tax holidays of up to 10 years (pioneer status); investment tax allowances (i.e., a 60% to 100% allowance on capital investments made up to 10 years); accelerated capital allowances; double deductions; and reinvestment allowances (i.e., a 60% allowance on capital investments made in connection with qualifying projects). An incentive in the form of accelerated capital allowances and automation equipment allowances is available to encourage the transformation to "Industry 4.0," which involves the adoption of technology drivers such as "big data" analytics, autonomous robots, industrial internet of things, etc., by the manufacturing sector and its related services.

Compliance for corporations

Tax year: The tax year is the fiscal year (generally the accounting year).

Consolidated returns: Consolidation is not permitted; each company is required to file a separate tax return. However, subject to certain conditions, 70% of a company's adjusted loss may be used to offset profits of a related entity. The losses that may be surrendered generally are limited to those that relate to the first three YAs following a company's first 12-month fiscal year of operations.

Filing and payment: Malaysia operates a self-assessment regime. Advance corporate tax (estimated tax) is payable in 12 monthly installments. A tax return must be filed within seven months of the company's year end.

Penalties: Penalties apply for failure to comply with the tax law.

Rulings: Taxpayers may request an advance ruling on the tax treatment of a specific transaction. Public rulings also are issued by the authorities from time to time.

Individual taxation

Rates		
Individual income tax rate	**Taxable income (of residents, in MYR)**	**Rate**
	First 5,000	0%
	Next 15,000 (5,001–20,000)	1%
	Next 15,000 (20,001–35,000)	3%
	Next 15,000 (35,001–50,000)	6%
	Next 20,000 (50,001–70,000)	11%
	Next 30,000 (70,001–100,000)	19%
	Next 300,000 (100,001–400,000)	25%
	Next 200,000 (400,001–600,000)	26%
	Next 1,400,000 (600,001–2 million)	28%
	Over 2 million	30%
Capital gains tax rate (for citizens/permanent residents)		0%/15%/20%/30%

Dividend tax rate (for certain annual dividend income exceeding MYR 100,000)	2%

Residence: Individuals are considered tax residents if they are present in Malaysia for at least 182 days in a calendar year. Alternatively, residence may be established by physical presence in Malaysia for a single day if it can be linked to a period of residence of at least 182 consecutive days in an adjoining year.

Basis: Individuals are taxed on income derived from Malaysia. An exemption order published in the government gazette exempts from tax all types of foreign-source income received by resident individuals (except for resident individuals carrying on a partnership business in Malaysia) from 1 January 2022 to 31 December 2036, provided that the income has been subjected to tax in the jurisdiction of origin. Foreign-source dividend income received by resident individuals in relation to a partnership business in Malaysia from 1 January 2022 to 31 December 2026 is tax exempt if the conditions of "option A" or "option B" are fulfilled. Option A requires the foreign-source dividend income to have been subjected to tax in the jurisdiction of origin and the headline tax rate in the jurisdiction of origin to be at least 15%, while option B requires the resident individual partner to fulfill the economic substance requirements. All nonresidents in Malaysia are exempt from the imposition of tax on all foreign-source income received.

Taxable income: Taxable income comprises all earnings derived from Malaysia, including gains or profits from businesses, employment, dividends, interest, rents, royalties, premiums, or other earnings. Employment income includes most employment benefits, whether in cash or in kind. Income derived from outside Malaysia and received in Malaysia (i.e., foreign-source income) also is taxable for resident individuals carrying on a partnership business in Malaysia, except for foreign-source dividend income received by resident individuals in relation to a partnership business in Malaysia from 1 January 2022 to 31 December 2026, which is tax exempt, subject to certain other conditions being fulfilled (see "Basis," above). Effective as from YA 2025, a 2% tax rate is imposed on certain annual dividend income deemed to be derived from Malaysia that exceeds MYR 100,000 and that is received by individual shareholders (including resident individuals, nonresident individuals, and individuals who hold shares through nominees). The first MYR 100,000 of annual dividend income is exempt from tax.

Rates: Income tax is imposed at progressive rates up to 30% for resident individuals. Individuals who do not meet the residence requirements are taxed at a flat rate of 30%. Certain dividend income is taxed at a 2% rate (see "Taxable income," above).

Capital gains: Capital gains derived by individuals are not taxed in Malaysia, except for gains derived from the disposal of real property located in Malaysia or on the sale of shares in a real property company. The rate is 30% for such disposals of property made within three years after the date of acquisition. The rates are 20% and 15% for disposals in the fourth and fifth years after acquisition, respectively. The rate for disposals in the sixth year after the date of acquisition or thereafter is 0%. For disposals by an individual who is not a citizen and not a permanent resident, the rates are 30% and 10% for disposals within and after five years after acquisition, respectively. In general, a citizen or a permanent resident may elect to claim a tax exemption for capital gains on the disposal of one residential property during a lifetime.

Deductions and allowances: Various allowances and personal deductions are available.

Foreign tax relief: Foreign tax paid may be credited against Malaysian tax on the same income (limited to 50% of foreign tax in the absence of a tax treaty), but the credit is limited to the amount of Malaysian tax payable on the foreign income.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: A married couple living together may opt to file a joint or separate assessment.

Filing and payment: Tax on employment income is withheld by the employer under a pay-as-you-earn (PAYE) scheme and remitted to the tax authorities. Malaysia imposes a self-assessment regime. An individual deriving employment income or business income must file a tax return and settle any balance owed by 30 April or 30 June, respectively, in the following calendar year.

Penalties: Penalties apply for failure to comply with the tax law.

Rulings: Taxpayers may request an advance ruling on the tax treatment of a specific transaction. Public rulings also are issued by the authorities from time to time.

Withholding tax

Rates		
Type of payment	**Nonresidents***	
	Company	**Individual**
Dividends	0%	0%
Interest	0%/15%	0%/15%
Royalties	10%	10%

* Malaysia generally does not impose withholding tax on payments between residents except for payments made in monetary form to authorized agents, dealers, or distributors who are resident individuals (a 2% withholding tax on the gross amount of payments by a company applies where the total amount of the payments received by the agents, dealers, or distributors from the company, in monetary form or nonmonetary form, exceeds MYR 100,000 in the immediately preceding YA). The rates listed for nonresidents are applicable in situations in which the nonresident's income is not attributable to a business carried on in Malaysia and may be reduced under an applicable tax treaty, as noted below.

Dividends: Malaysia does not impose withholding tax on dividends.

Interest: A withholding tax of 15% generally applies to interest paid to a nonresident, unless the rate is reduced under an applicable tax treaty. However, if the nonresident's interest income is attributable to a business carried on in Malaysia, see "Business income (PE or place of business)" under "Other," below.

Interest paid to a nonresident by a bank operating in Malaysia is exempt from tax, except for interest accruing to the nonresident's place of business in Malaysia and interest paid on funds required to maintain "networking funds," as prescribed by the central bank. Certain other interest paid to a nonresident also may be exempt.

Royalties: A withholding tax of 10% generally applies to royalties paid to a nonresident, unless the rate is reduced under an applicable tax treaty. However, if the nonresident's royalty income is attributable to a business carried on in Malaysia, see "Business income (PE or place of business)" under "Other," below.

Fees for technical services: A 10% withholding tax generally applies to the rental of movable property and to service fees paid to a nonresident for services rendered onshore (with no distinction made between technical and non-technical services), unless the rate is reduced under an applicable tax treaty. However, if the nonresident's income from advice, assistance, or services is attributable to a business carried on in Malaysia, see “Business income (PE or place of business)” under “Other,” below.

Fees paid to a nonresident for services rendered offshore are exempt from withholding tax.

Branch remittance tax: There is no branch remittance tax.

Other

Business income (PE or place of business)

If a nonresident is deemed to have a permanent establishment (PE) in Malaysia (based on an applicable tax treaty), the nonresident will have to file a Malaysia income tax return (in which income will be taxed at the prevailing corporate tax rate of 24%), and service fee income that is attributable to the PE for onshore services will be subject to withholding tax at a total rate of 13% (i.e., 10% + 3%, as described in “Basis” under “Corporate taxation,” above). Withholding tax on interest or royalty income does not apply if the interest or royalty is attributable to a PE or a place of business in Malaysia.

If PEs are not dealt with in an applicable tax treaty or in the absence of an applicable tax treaty, business income of a nonresident that is attributable to a place of business in Malaysia is deemed to be the nonresident’s gross income derived from Malaysia from the business, irrespective of the duration of time that a project is carried on in Malaysia, and the nonresident will have to file a Malaysia income tax return (in which income will be taxed at the prevailing corporate tax rate of 24%). Service fee income that is attributable to the PE for onshore services will be subject to withholding tax at a total rate of 13% (i.e., 10% + 3%, as described above). Withholding tax on interest or royalty income does not apply if the interest or royalty is attributable to a PE or a place of business in Malaysia.

All taxes withheld are creditable against the income tax payable by the nonresident in its Malaysia income tax return.

Other gains or profits

A 10% withholding tax applies to certain one-time income paid to nonresidents, unless the rate is reduced under an applicable tax treaty.

Anti-avoidance rules

Transfer pricing: Transfer pricing rules apply. Taxpayers may request an advance pricing agreement. Country-by-country (CbC) reporting rules require a reporting entity (i.e., a Malaysian ultimate parent entity or surrogate parent entity of a multinational group with total consolidated group revenue of at least MYR 3 billion in the financial year preceding the reporting financial year) to file a CbC report for the entire financial year no later than 12 months from the close of the reporting entity’s financial year.

Interest deduction limitations: Earnings stripping rules apply, which are in line with the OECD recommendations under BEPS action 4 to address tax leakages due to excessive interest deductions on loans between related companies. Interest deductions on loans between companies in the same group (or between the company and a third party outside Malaysia whose financial assistance is guaranteed by a company in the same group) are limited to an amount equal to 20% of the tax earnings before interest, taxes, depreciation, and amortization (tax EBITDA).

Controlled foreign companies: There are no controlled foreign company rules.

Anti-hybrid rules: There are no anti-hybrid rules.

Economic substance requirements: Generally, for tax incentives to be granted, companies must meet a "substantial activity" requirement. To meet this requirement in the context of non-intellectual property regimes, a company must (i) have an adequate number of full-time employees in Malaysia to carry out a qualifying activity; and (ii) incur an adequate amount of annual operating expenditure to carry out a qualifying activity, or have an adequate investment in fixed assets in Malaysia to carry out the qualifying activity.

Disclosure requirements: Transactions with related companies within or outside of Malaysia must be disclosed in the annual income tax return, including purchases, loans, other expenses, and other income.

Exit tax: There are no exit tax rules.

General anti-avoidance rule: Tax schemes that are entered into with a primary or dominant purpose of obtaining a tax benefit may be disregarded under Malaysia's general anti-avoidance rule. There are also several specific anti-avoidance rules.

Sales tax and service tax

Rates	
Standard rate	8% (service tax, in general) 10% (sales tax)
Reduced rate	6% (service tax) 0%/5% (sales tax)

Taxable transactions: Malaysia imposes sales tax or service tax on certain goods and services. Sales tax is charged on taxable goods manufactured in, or imported into, Malaysia (subject to exceptions). Service tax is imposed on prescribed taxable services, including, among other things, digital services, domestic air passenger transport, telecommunication services, provision of accommodation, food and beverage services, services in health and wellness centers and golf clubs, certain professional services, and delivery services for goods, including delivery services provided by e-commerce platforms.

Imported taxable services acquired by a consumer in Malaysia from any person (vendor) outside Malaysia also are subject to service tax. Foreign providers of digital services that meet the registration threshold (MYR 500,000 per year of turnover from digital services provided to Malaysian consumers, including businesses and private consumers) generally are required to register and collect service tax from the service recipients. If the foreign digital service provider is not registered in Malaysia or does not account for the service tax, a Malaysian business receiving services is required to account for the service tax under a reverse-charge mechanism.

Rates: The standard sales tax rate is 10%; a 5% rate applies to prescribed taxable goods. Effective as from 1 May 2025, the sales tax rate will be increased for non-essential items such as imported premium goods (e.g., salmon and avocados). However, details of the increased sales tax rate have yet to be made available. The standard service tax rate increased from 6% to 8% as from 1 March 2024; however, certain services (i.e., food and beverage services, telecommunication services, provision of parking place services, and logistics services) remain subject to the 6% rate.

Goods that are exempt from sales tax generally include live animals, unprocessed food and vegetables, antibiotics, certain machinery, certain chemicals, and certain raw materials for the manufacture of goods.

Registration: The threshold for sales tax and service tax registration generally is MYR 500,000 per annum of taxable goods/taxable services, except for restaurants, where the threshold is MYR 1.5 million per annum of taxable services.

Filing and payment: Sales tax and service tax are to be paid to the authorities within one month after the end of a taxable period (which generally is two months). Where service tax on imported taxable services is to be paid to the authorities under the reverse-charge mechanism, it must be paid within one month after the month in which the Malaysian business recipient of the service (i) makes the payment to the overseas vendor, or (ii) receives the invoice from the overseas vendor, whichever is earlier.

Where there is a registered foreign digital service provider that is required to account for service tax, the service tax is to be paid to the customs authorities within one month after the end of a taxable period (which generally is three months).

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals.

Social security contributions: Both the employer and the employee are required to make contributions to the Social Security Organization (SOCSO). The employer generally contributes 1.75% of the remuneration for each employee registered with the SOCSO. The employer and the employee also contribute to the Employees Provident Fund (EPF); the employer contributes at a rate of 12% of the employee's remuneration (13% for employees with monthly remuneration up to MYR 5,000), while the employee contributes at a rate of 11%. Both the employee and the employer contribute 0.2% of the employee's remuneration (capped at MYR 4,000 a month) to the Employment Insurance System (EIS).

Payroll tax: There is no specific payroll tax, but tax on employment income is withheld by the employer under a PAYE scheme and remitted to the tax authorities.

Capital duty: No capital duty is payable, but a local company is subject to an incorporation fee of MYR 1,000 and a foreign company is subject to an incorporation fee ranging from MYR 5,000 to MYR 70,000.

Real property tax: Individual states in Malaysia impose "quit" rent and assessments at varying rates.

Transfer tax: There is no transfer tax, except for stamp duty.

Stamp duty: Stamp duty is imposed at rates between 1% and 4% of the value of property transfers, and at 0.3% on share transaction documents.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

Other: Luxury goods tax at rates ranging from 5% to 10%, with a minimum amount depending on the type of luxury goods (e.g., luxury-branded watches and branded fashion goods), is expected to be introduced (the implementation date is yet to be confirmed).

Tax treaties: Malaysia has concluded more than 70 income tax treaties. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS MLI) entered into force for Malaysia on 1 June 2021.

For information on Malaysia's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Inland Revenue Board of Malaysia; Royal Malaysian Customs Department

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