

Budget 2026 expectations



Our key tax experts

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01 What changes could be made to revamp current tax reliefs for individual taxpayers?

With about 20 types of overlapping individual tax reliefs in Malaysia, it would be apt to simplify these reliefs through a regroup based on its primary purpose, such as: basic personal and family reliefs; health and wellness reliefs; education and lifestyle enhancement; and financial contributions and insurance.

To ease taxpayers' challenges in determining eligibility, clear guidelines to specify claimable items without having to consult other legislations, and a maximum claim threshold for each category would be welcome.

02 What measures could be considered to ease household burdens for middle class (M40) individual taxpayers?

M40 taxpayers often prioritise measures addressing financial concerns and quality of life, and are particularly sensitive to rising costs as their income might not keep pace with inflation. An expansion in existing tax reliefs, i.e. medical expenses, lifestyle, education and insurance will increase their take-home pay, while targeted income tax reductions will immediately increase disposable income.

The M40 would also look for more clarity and assurance on the targeted subsidies to ensure they aren't unfairly excluded from benefits, especially essentials like petrol (RON95) and electricity. With a focus on building long-term financial security, incentives such as retirement saving schemes, savings plans, housing loan interest payment reliefs, etc. would be welcome.

03 What can taxpayers expect in terms of stamp duty reform in Malaysia?

With the new stamp duty self-assessment system starting 1 January 2026, we hope Budget 2026 will further simplify compliance and reduce administrative costs. Current stamp duty laws are complex and broadly applied, leading to uncertainty on which documents require stamping due to various requirements. Clearer guidelines and greater transparency on the scope of chargeable instruments are essential to help taxpayers and businesses adapt the new system smoothly.

We expect these amendments will clarify the definition and scope of chargeable instruments. Exemptions or reduced stamp duties for targeted sectors, i.e. first-time homebuyers, high-growth industries like renewable energy and AI, or high-volume, low-value instruments, would be welcome. This would stimulate key sectors driving Malaysia's economy and significantly ease the compliance burden, particularly for SMEs that may lack the resources to manage added complexities. Overall, this would improve efficiency and create a more predictable tax environment to maintain Malaysia's competitive edge in the region.

04 What should businesses expect in terms of tax enforcement?

While Malaysia's tax audit and investigation framework might not be entirely overhauled, Budget 2026 is expected to reinforce the government's commitment to strengthen tax compliance and broaden the tax base. With e-invoicing implemented, the Inland Revenue Board of Malaysia (IRBM) will likely focus more on risk-based audits using real-time transactional data. As tax compliance becomes increasingly automated, businesses are hopeful that enforcement will in turn become more progressive and reduce the overall compliance burden.

With the IRBM's increased visibility into taxpayer transactions, the government may reconsider the current five-year time bar for raising assessments or additional assessments. A shorter audit window could also offer greater certainty for businesses and foster stronger trust between taxpayers and the IRBM, especially when supported by a cooperative compliance environment and sound tax governance.

05 With the ongoing Pillar Two implementation in Malaysia, will there be a significant shift within the incentive landscape? Also, would the recent G7 statement on a 'side-by-side' system to exclude US-parented groups halt implementation?

The new floor of 15% in corporate income tax has challenged the efficacy of the traditional income tax exemptions and additional tax allowances. Apart from potentially engaging in one-on-one renegotiations with relevant authorities, Budget 2025 hinted the introduction of Strategic Investment Tax Credit. As Malaysia's equivalent of the OECD's Qualified Refundable Tax Credit ("QRTC"), a more 'Pillar Two friendly' tax incentive, its introduction could significantly impact both local and foreign headquartered MNE Groups in scope of Pillar Two. QRTC has certainly gained momentum in recent months; Singapore has gazetted its QRTC regulations whereas Thailand's Board of Investment has also announced preparations to implement it. Nonetheless, it remains to be seen whether Malaysia will be following suit with further commitments in the upcoming budget. While exact operational mechanisms for the 'side-by-side' system remain unclear, taxpayers are advised to pre-emptively prepare for both ongoing and upcoming compliance obligations, should Pillar Two remain unchanged.

06 With the recent Sales and Service Tax (SST) expansion in July, what can we expect on the indirect tax front?

The expansion resulted in more business-to-business (B2B) transactions being taxed, including sectors such as construction services, rental and leasing services, fee-based financial services, education and private healthcare services.

The broadened scope has raised concerns on the impact of embedded or multiple-stage SST on final prices of goods and services. With that, we hope the government will in turn broaden the exemption scope for B2B transactions, which is currently restricted to transactions involving the same type of service being acquired and provided. To reduce service tax incidence on provision of services within the same group of companies, we also hope that the government considers

broadening the intra-group relief to exempt more categories of taxable service from tax, such as logistics services, financial services and construction services.

As dialogues on sales tax between the government and affected parties continue, the list of exempted items and persons granted exemption may be further refined to address the resulting negative impacts of the expansion on businesses and individual consumers.

The recent 13th Malaysia Plan (13MP) proposed to expand the "pro-health tax" beyond sugary products to include alcohol, tobacco and vape products. We may see an increase in the excise duty applicable to these items.

07 With the scheduled New Investment Incentive Framework (NIIF) implementation in 3Q2025, what can be anticipated in Budget 2026 for tax incentives?

Budget 2026 will likely mark a shift from traditional, blanket tax holidays towards a more targeted, outcome-based incentive modelled under the NIIF. Incentives are expected to be granted on a project basis, focusing on tangible national priorities such as strengthening local vendor ecosystems, enhancing supply chain resilience, and embedding corporate sustainability practices. A key feature will be the emphasis on high-value job creation, with a significant proportion of these positions to be filled by Malaysians to ensure local talent benefits directly from foreign and domestic investments. Overall, businesses can anticipate incentives that reward not just capital inflow, but also the ability to generate long-term socio-economic impact for Malaysia.

08 With heightened scrutiny on intragroup financial assistance, do you anticipate any amendments to provide clarity on the definition of "financial assistance"?

Malaysia's transfer pricing rules have already defined "financial assistance" to include loans, advances, financial guarantees, and interest-bearing trade credits. However, practical uncertainties remain — especially in cases like payments made on behalf of related entities and overdue non-interest-bearing trade receivables, resulting in inconsistent interpretations and compliance challenges. As seen in countries such as Australia, India, Indonesia, and Singapore, implementing a safe harbour regime through the transfer pricing guidelines for financial assistance could reduce compliance burdens and provide certainty for taxpayers. For Malaysia, this could enhance transparency, lower disputes, and better align with global best practices.

09 E-invoicing has been implemented slightly more than a year now. Will we see more requirements or changes?

Budget 2026 will solidify the final phase of e-invoicing, making it mandatory for all with turnover above RM500,000. Expectations include further details on compliance reliefs and enforcement, a more comprehensive approach to digital tax reform and user friendly tools including the MyInvois Portal.

For taxpayers whose six-month grace/relaxation period has ended, note that previous concessions will no longer be part of the "business as usual" submission process. With these in mind, we would like to see a more inclusive and less burdensome approach towards compliance, assessments and audit.

