A consolidation budget for smarter enforcement

TRUST IN Resilience

BY STEVE CHIA

Budget 2026 is notable not for sweeping new taxes but for what it deliberately avoids: there is no significant broadening of the tax base or introduction of major new levies despite fiscal pressures and an uncertain global environment.

Instead, the government has chosen to consolidate reforms undertaken over the last few years and pivot decisively toward enforcement, leakage prevention and administrative efficiency.

Voluntary compliance, mandatory enforcement

With a shadow economy estimated as 21% of gross domestic product, the nationwide implementation of e-invoicing, starting from 2026, remains the centrepiece of tax administration reform. Properly implemented, e-invoicing does much more than standardise documentation; it fundamentally changes the information architecture of the tax system.

Although most other jurisdictions implemented e-invoicing as a measure to enhance value-added tax (VAT) compliance, Malaysia adopted e-invoicing primarily for direct tax enforcement, with certain fields introduced with the view of enabling monitoring compliance for customs and indirect tax compliance. The benefits, nevertheless, are common across all taxes. We can see this from China and Mexico's experiences, where increases in tax revenues across direct and indirect taxes could be seen post-implementation.

Real-time or near real-time invoice data allows the authorities to use analytics to detect mismatches, map supply chains and identify under-reporting and unregistered activity. Revenue leakage can be curbed by drawing the shadow economy into the net through data-led risk scoring and targeted audits.

The policy intention is clear: the government is backing digitalisation not as a one-off tool but as an enforcement platform.

However, the full potential of e-invoicing is realised when it is effectively paired with robust enforcement policies. Although e-invoicing itself may not lead to automatic enhancement in compliance, its impact becomes significantly higher when combined with audits. The success of e-invoicing depends on its design within an ecosystem that records all business-to-business and business-to-consumer transactions, and its operational significance can diminish if not supported by appropriate additional enforcement policies. The shift towards real-time tax reporting means that tax authorities can access real-time data to identify gaps or anomalies, making digital audits a possibility.

Complementing e-invoicing, the Royal Malaysia Customs Department (RMCD) will introduce digital tax stamps with enhanced security features to combat counterfeiting and smuggling. This is especially pertinent for high-excise sectors such as tobacco and alcohol, where illicit trade erodes both fiscal revenue and legitimate market share. Secure stamps, supported by centralised screening and surveillance at entry points, can materially reduce product substitution and leakages. For the industry, the upside is a more level playing field and better protection of brand equity; for the public purse, it means strengthening the link between consumption and revenue collection.

These measures work best when tax authorities operate within a collaborative enforcement ecosystem. The budget's direction to strengthen capacities across enforcement agencies and to elevate cooperation between the Inland Revenue Board, RMCD and related agencies is therefore timely. In the e-invoicing era, income tax, indirect tax and customs data should not sit in silos. Cross-matching declarations, reconciling import/export data with domestic sales and harmonising audit triggers are essential steps to effective, proportionate enforcement. The practical priorities should include common identifiers across datasets, secure data-sharing protocols, joint risk models and coordinated field operations.

Where implementation of enforcement measures is effective, businesses can expect fewer broad-based audits but a higher probability that specific anomalies will be queried — raising the premium on accurate, consistent data and integrated tax controls across functions.

It is important to note that we should not expect immediate hikes in tax collections from e-invoicing but a gradual increase in tax revenue as enforcement activity tightens and picks up.

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Closing the gaps

Leakage and closure measures are equally direct. Long-standing abuse of vehicle tax exemptions in Langkawi and Labuan is addressed by limiting exemptions to vehicles not exceeding RM300,000 from Jan 1, 2026. On real property, the flat stamp duty rate for transfers by non-citizen individuals and foreign companies (excluding Malaysian permanent residents) rises from 4% to 8% — a targeted move that moderates speculative foreign participation without penalising domestic owner/occupiers or businesses.

Together with stepped-up inter-agency cooperation, these measures align revenue protection with fair competition and consumer safety.

Carbon tax in 2026: learning from global models, designing for Malaysia

Budget 2026 confirms the introduction of a carbon tax in 2026, with an initial focus on iron, steel and energy. The move is timely. Trading partners are tightening climate regimes and border mechanisms such as the European Union's (EU) Carbon Border Adjustment Mechanism (CBAM) are accelerating the need for credible domestic pricing.

Globally, carbon pricing regimes fall into three broad categories: carbon taxes with fixed prices per tonne of CO_2e (for example, Sweden, France and Singapore) that follow rising price paths and sectoral carve-outs; emissions trading systems (ETS) with cap-and-trade allowances (EU ETS being the most mature) that tighten caps and increase auctioning over time; and hybrid frameworks combining a tax floor with an ETS ceiling or layering border measures and offsets, as seen in the UK and several Asian pilots.

In line with global practices, Malaysia could adopt a tiered, phased approach in its first forays into a carbon tax regime, which is consistent with the budget announcement of starting with the iron, steel and energy industries. New entrants to carbon pricing typically start with modest rates and clear glidepaths, paired with transitional support. A tiered rate structure — by sector, scope and time — allows high-emitting, trade-exposed industries to adapt processes, invest in efficiency and decarbonisation technologies and upgrade measurement, reporting and verification (MRV) systems before higher prices take effect.

Designing Malaysia's carbon tax: key considerations for 2026

To balance environmental integrity, economic competitiveness and administrative feasibility, implementation should focus on the following:

- Scope and phasing. Begin with iron, steel and energy as signalled, then consider upstream points of taxation for administrative simplicity, with eventual expanded coverage to other material emitters aligned to the National Energy Transition Roadmap.
- Tiered rates and glidepath. Introduce a starter rate with pre-announced increments until 2030, while considering differentiated rates or rebates for trade-exposed sectors to mitigate carbon leakage risks, tapering as technologies and markets mature.
- MRV and data infrastructure. Establish consistent emissions factors, facility-level reporting standards and independent verification protocols.
- Revenue recycling. Earmark proceeds for industrial decarbonisation grants, grid upgrades, small and medium enterprise efficiency and targeted household support. Transparent recycling builds acceptance and accelerates emissions reduction per ringgit collected.
- Competitiveness and trade alignment. Map exposure to CBAM and other partner regimes. Tie transitional relief to verifiable abatement plans and ensure standards are interoperable with international disclosures to protect export market access.
- Offsets and carbon markets. Align tax design with the emerging National Carbon Market Policy. Consider limited use of high-integrity domestic offsets under strict quality criteria and quantity caps to preserve the price signal.
- Just transition. Support workforce reskilling in affected sectors and enable SMEs to access advisory, financing and technology so transition benefits are broadly shared.

A tax system that rewards compliance

Budget 2026 is not about taxing more; it's about leaking less and enforcing smarter. By establishing a data-driven enforcement ecosystem, there is an expectation that, eventually, the right amount of taxes would be collected and redirected to speedier tax refunds and initiatives aligned with the 13th Malaysia Plan to drive the nation's growth. Targeted fixes on exemptions and property duty reinforce fairness. A phased, tiered carbon tax, backed by MRV and revenue recycling, will safeguard competitiveness, credibility and a just transition. The message is simple: integrate data, tighten enforcement, recycle proceeds and let compliance, not complexity, do the heavy lifting for Malaysia's future. E

Steve Chia is tax leader at PwC Malaysia