Amplifying growth through tax reform: Budget 2026 and the fund management industry

TRUST IN Resilience

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Malaysia is getting ready for Budget 2026, focusing on how tax policy can accelerate economic growth by attracting private capital to national priorities. Initiatives like the Government-linked Enterprises Activation and Reform Programme (GEAR-uP), which mobilised RM120 billion over five years, are expected to be a vehicle to promote inclusive development as part of the Ekonomi Madani agenda.

Fund managers and institutional investors play a vital role in channelling capital into strategic sectors that drive innovation and inclusive growth. Unlocking this potential requires a tax and regulatory environment that is predictable, competitive and aligned with national priorities. Beyond efforts like GEAR-uP, Budget 2026 presents an opportunity to enhance investor confidence, attract greater fund participation and open new avenues for economic expansion through private capital mobilisation.

Budget 2026: Priority tax reforms to boost competitiveness

Malaysia's aspirations to become a premier fund and asset management hub in the region can be further enhanced with several issues to be resolved.

(A) CLARIFYING CAPITAL GAINS TAX ON UNLISTED SHARES

Effective March 1, 2024, Malaysia introduced capital gains tax (CGT) on disposals of shares in unlisted Malaysian companies, which applies to disposals by companies, limited liability partnerships, cooperatives and trusts. Exemptions are provided for disposal gains from restructuring within the same group, approved initial public offerings (IPOs) on Bursa Malaysia and venture capital companies.

Relevant gazette orders detailing exemptions for gains related to approved IPOs and intra-group restructuring were gazetted on Oct 8, 2024. These orders specify conditions that taxpayers must meet for the CGT exemptions.

Under the current gazette provisions for IPO-related exemptions, taxpayers are required to submit a written application to the director-general of Inland Revenue within one year from the IPO approval date issued by the Securities Commission Malaysia (SC) or Bursa Malaysia. However, CGT returns are due within 60 days of the disposal date, defined as either the date of the agreement or — where no agreement exists — the disposal completion date. This timing mismatch creates uncertainty and complicates compliance.

Moreover, detailed guidelines are still pending, and some exemptions — like restructuring — only allow applications three years after disposal, requiring upfront CGT payment. This can deter corporates from restructuring due to high upfront costs and uncertainty.

In contrast, our regional peers offer more transparent frameworks. Hong Kong's Tax Certainty Enhancement Scheme treats capital gains as non-taxable, sidestepping ambiguous "badges of trade" tests which are used to determine whether gains are capital or revenue in nature. Singapore provides fund tax exemptions and zero CGT on unlisted shares, creating a conducive and stable environment for funds including private equity and venture capital.

Malaysia does not need to replicate these systems entirely. But adopting similar transparency and certainty would reduce transaction risks, simplify compliance and inspire investor confidence to channel capital into priority sectors.

(B) IMPACT OF SALES AND SERVICE TAX ON FUND MANAGEMENT

Before Oct 1, 2025, fund management companies licensed by the SC benefited from exemptions under Group G (Professional services) of the Service Tax Regulations. However, starting Oct 1, 2025, these companies will be reclassified under Group H (Financial services), resulting in previous exemptions being removed except for business-to-business (B2B) transactions. This means fund managers will face a service tax of 8% on fees charged to customers.

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Budget 2026 presents an opportunity to enhance investor confidence, attract greater fund participation and open new avenues for economic expansion through private capital mobilisation

Removing sales and service tax (SST) exemptions on fund management services raises operational costs when the fees are invoiced to customers and funds, which may impact Malaysia's attractiveness as a fund domicile. Higher tax burdens can reduce profit margins, discourage new fund launches and limit domestic fund management growth. This is particularly critical as regional competitors like Hong Kong and Singapore offer more favourable tax environments. Hong Kong imposes no goods and services tax (GST) or value added tax (VAT) on such fund services, while Singapore provides GST remission schemes that lower costs and incentivise fund domicile.

Malaysia could consider targeted SST exemptions for fund management services to promote the industry such as:

- SST exemption on management fees charged by fund managers actively managing funds in Malaysia.
- SST exemption tied to fund size or economic impact.

Aligning SST relief with economic priorities would cut fund managers' tax costs, foster fund domicile growth, attract capital inflows and position Malaysia as a regional hub while supporting certain promoted industries and activities.

(C) CGT EXEMPTION FOR UNIT TRUSTS

For many years, unit trusts were not taxed on investment gains until recently when CGT was introduced.

The Income Tax (Unit Trust) Exemption Order 2024 provides temporary relief from Jan 1, 2024, to Dec 31, 2028. Under this exemption, unit trust residents in Malaysia will not be subject to CGT on gains or profits arising from the disposal of shares in unlisted Malaysian companies.

Although this is certainly welcome, unit trusts are long-term investment vehicles, and a five-year exemption may expire before investments are sold. Having a time limit

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to exemptions would need to be continuously renewed, adding to uncertainty when it gets closer to the expiry date.

To remain competitive in relation to our regional peers who do not impose CGT on funds, and foster Malaysia's growth as a regional fund management hub, it is crucial that CGT exemptions for unit trusts be granted without a fixed time limit, providing the certainty that long-term investors require.

(D) FOREIGN-SOURCED INCOME EXEMPTION ON UNIT TRUSTS

Previously, foreign-sourced income (FSI) was not taxable, but this has changed since Jan 1, 2022.

The Income Tax (Unit Trust in Relation to Income Received in Malaysia from Outside Malaysia) (Exemption) Order 2024 provides exemption from income tax on FSI for qualifying unit trusts.

Effective from Jan 1, 2024, until Dec 31, 2026, this order exempts qualifying unit trusts from paying income tax on gross income from all sources of income received in Malaysia from outside Malaysia. The exemption covers all sources of income as defined under Section 4 of the Income Tax Act 1967, including dividends, interest and profits from the disposal of assets.

Similar to CGT, the FSI exemption is until Dec 31, 2026, and thereafter, the position for a unit trust's foreign income is less clear. To promote unit trusts as regional players, such an exemption should either not have a time limit or have a longer time limit.

In addition, the exemption order explicitly excludes real estate investment trusts (REITs) or property trust funds listed on Bursa Malaysia. This exclusion creates a significant disparity for REITs, especially if Malaysian REITs are to compete regionally. A regional REIT with investments overseas would require FSI to be exempted to ensure that distributions to investors would not be imposed additional taxes. This is especially since income earned overseas would normally have been taxed in a foreign jurisdiction.

With the exemption for unit trusts due to expire at the end of 2026, uncertainty over its renewal could undermine investor confidence. To remain competitive, encourage sustainable growth and position Malaysia as a more attractive regional investment hub, the country should consider removing the time limits and harmonising tax treatment across all unit trusts, including REITs.

Mobilising private capital for national development

Budget 2026 presents a timely opportunity to address tax issues or inefficiencies in Malaysia's fund management industry. Tax certainty and clarity would provide a boost to the fund management industry and strengthen investor confidence in Malaysia's tax system. By adopting investor-friendly tax reforms, we can enhance our competitiveness relative to other regional centres while providing effective vehicles for investor savings and investments. E

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