COVER STORY 1: BUDGET 2026 PREVIEW

LOW YEN YEING/THE EDGE

# No new taxes anticipated, tax reliefs on the horizon

BY **CHERYL POO**

Budget 2026, set to be tabled on Oct 10, is not expected to introduce new taxes, following a series of recent measures — including the expanded Sales and Service Tax (SST), continued rollout of e-invoicing, a global minimum tax and dividend tax — as Putrajaya is expected to give businesses some breathing room.

Penalty waivers during the transition to new compliance regimes, coupled with a possible review of personal income tax rates for middle-income earners, could be among headline relief measures.

Accounting and tax advisory firms that *The Edge* spoke to last week concur that businesses and individuals are still digesting recent changes. As emphasised by Farah Rosley, Malaysia tax managing partner at Ernst & Young Tax Consultants Sdn Bhd, what is needed is clarity and stability at a time when people are grappling with geopolitical developments, changes brought on by the US' new tariff regime and global trade regulations.

Given the broadening of the tax base, what is on everyone's minds is whether Putrajaya will manage to achieve its record-breaking RM340 billion target in revenue collection for 2025, up from RM325 billion in 2024.

Notably, collections such as the SST are anticipated to boost revenue by RM5 billion in 2025 and RM10 billion in 2026, following its implementation on July 1, while the RON95 rationalisation plan — referred to as Budi95 — may yield RM2 billion to RM4 billion a year, economists project.

The experts believe the revenue target is achievable, provided certain conditions are met — chief among them, improved compliance. The real priority, according to PwC Malaysia tax leader Steve Chia, is plugging leakages. This is already taking shape, with the Inland Revenue Board (IRB) recovering RM82 million through enforcement efforts, after e-invoicing flagged around 5,800 non-filers.

Meanwhile, "pro-health" taxes are set to expand beyond sugary drinks to alcohol, tobacco and vape, though no immediate hikes are expected as Malaysia tightens controls on harmful products.

Based on *The Edge*'s conversations with tax experts last week, the following are key expectations for the upcoming budgetary reading.

### SST: Too soon for another expansion

With the sales tax rate revised and the service tax expanded to cover five new categories — construction, rentals, financial services, education and private healthcare — the tax base has already widened significantly. As such, the experts believe Budget 2026 is unlikely to include additional services.

Grant Thornton senior executive directors of tax advisory and compliance Alan Chung and Chow Chee Yen note that many new registrants began charging SST only in September, with first filings due at end-November — making it too early for policymakers to assess the full impact of the expanded tax.

Instead of further expansion, refinements are expected. Deloitte Malaysia's tax and legal leader Sim Kwang Gek suggests that broadening business-to-business (B2B) exemptions to prevent multiple layers of tax would be a welcome move.

EY's Farah notes that SST collections have shown a consistent upward trend over the years. According to the Ministry of Finance, Malaysia raised RM5.4 billion from SST collections from September to December 2018, following the abolishment of the Goods and Services Tax. In 2024, SST revenue reached RM44.7 billion, surpassing the initial target of RM41.3 billion.

### Details expected as Malaysia readies carbon play

The carbon tax, announced in Budget 2025 and set to take effect on Jan 1, 2026, initially targeted iron, steel and energy and is closely watched.

Beyond encouraging industries to help meet Malaysia's net zero target by 2050, the tax is designed to complement Bursa Malaysia's Voluntary Carbon Market (VCM), launched in December 2022, as a tool to mitigate the impact of the European Union's (EU) Carbon Border Adjustment Mechanism (CBAM) and achieve net zero greenhouse gas (GHG) emissions by 2050.

Bursa's VCM is a platform for companies to trade carbon credits to offset their emissions. Meanwhile, the EU's CBAM, which will impose carbon costs on imports from Jan 1, 2026, aims to level the playing field between EU producers and foreign exporters by pricing the carbon content of goods such as steel, cement and aluminium. For Malaysia, the domestic carbon tax aligns with the CBAM and helps shield local exporters from extra tariffs when accessing the EU market.

"Affected industries will face two choices on carbon pricing: Pay the carbon tax; or decarbonise by investing in greener technology. [But,] businesses may also lack the expertise to measure and track carbon emissions," says PWC's Chia.

Tax experts stress careful implementation, with Grant Thornton urging the reinstatement of tax incentives for carbon credit income, special deductions for emission-cutting efforts, and clear treatment of the carbon tax as an operating cost, similar to SST.

"Malaysia could take a leaf from Singapore's approach by providing a clear roadmap to businesses on how and when carbon tax will be implemented over a three- to five-year period," says Deloitte's Sim.

For context, Singapore — the first Southeast Asian country to introduce a carbon price — has operated a carbon tax since 2019 under its Carbon Pricing Act, which applies to large emitters of more than 25,000 tonnes of carbon dioxide equivalent ($tCO_2e$) a year. According to Singapore's National Climate Change Secretariat (NCCS), the initial rate was S$5 per $tCO_2e$ between 2019 and 2023 as a transitional period, before rising to S$25 from 2024 to 2025, S$45 from 2026 to 2027, and S$50 to S$80 by 2030. Liable facilities may offset up to 5% of taxable emissions using eligible international credits.

While Singapore's carbon tax is levied upstream on large emitters, its impact filters down to individuals through higher electricity tariffs as power companies pass on the cost. According to NCCS, every S$5 per $tCO_2e$ increase in the carbon tax could raise electricity tariffs by about 1%. The current S$25 per $tCO_2e$ rate translates into roughly S$4 more per month in utility bills for the average four-room Housing and Development Board (HDB) flat, NCCS says.

Indonesia has had a mandatory power-sector emissions trading scheme (ETS) in force since February 2023, while Vietnam also launched a pilot ETS in August this year covering steel, cement and thermal power, with the development of a fully functional carbon market by 2029. Meanwhile, in January 2025, the Thai Cabinet approved a carbon tax of THB200 per tonne to be integrated into the oil excise system, with implementation targeted within the year.

"[For Malaysia] to incentivise businesses to invest in low-carbon technologies, additional capital allowances for capital expenditure and tax deductions on carbon measurement costs would help ease cash flow pressures. While the carbon tax acts as a stick, there should be a continuation of the carrot approach through the Green Income Tax Exemption (GITE) and Green Investment Tax Allowance (GITA), both of which are set to expire at the end of next year," notes Chia.

### Personal income tax: Middle-class relief in focus

While broad tax cuts are unlikely, given the fiscal deficit, tax experts see room for targeted relief for the middle-income group, taking into account public sentiment, the cost of living and fiscal sustainability.

"We believe the government will continue to enhance personal reliefs and evaluate whether current tax brackets [remain] appropriate or whether they should be broadened to further support the lower- and middle-income groups — while ensuring sufficient revenue to fund essential areas such as healthcare and education," says EY's Farah.

In its pre-Budget 2026 statement, Putrajaya said fiscal space would be directed towards improving education — particularly for underserved and indigenous communities, and through STEM, TVET and lifelong learning pathways — as well as healthcare, with reforms focused on affordable medicines and hospital upgrades, such as Hospital Sultanah Aminah 2 in Johor.

Deloitte's Sim suggests revisiting the RM35,000-to-RM100,000 income bracket — where tax rates range from 6% to 19% — and believes a 1%-to-2% rate cut would offer welcome relief.

"It could drive domestic consumption. It will be a balancing act for the government, weighing the potential boost from middle-class spending against its budget deficit target under the Fiscal Responsibility Act," says PwC's Chia.

### Tariff shock mitigation, FDI tax incentives, semiconductor goodies

In response to US tariffs, many businesses have diversified their supply chains and export markets to reduce reliance on a single trade partner. As Deloitte's Sim notes, Malaysia has benefited from this trade diversion, attracting increased foreign direct investment (FDI).

Currently, companies that expand exports to new markets and are at least 60% Malaysian-owned — or owned by a corporate body managing a legally established fund — qualify for a 50% allowance for an increase in exports.

"The government could consider enhancing the said allowance to between 80% and 100%, and relax the shareholding condition," Sim says.

Malaysia has introduced a range of tax incentives to attract FDI, especially high-value ones. These incentives are provided under the Income Tax Act 1967 and the Promotion of Investment Act 1986, which grants income tax reliefs — such as Pioneer Status and Investment Tax Allowance — to companies in promoted industries such as agriculture, to encourage industrialisation, exports and development of strategic sectors.

"[As] it can be confusing for businesses, I support the initiative to revamp the PIA 1986 Promotion of Investments Act 1986. In addition, the list of Promoted Activities and Promoted Products can be further refined to keep up with latest trends and developments," Sim says. "Ultimately, we should have one comprehensive tax incentive framework aligned to Malaysia's strategies in promoting high-value, high-growth investments in specific sectors."

Grant Thornton says a proposed evaluation mechanism, the National Investment Aspiration Scorecard, may be introduced to assess investment quality, including economic spillover effects and the creation of high-value jobs.

"The New Investment Incentive Framework (NIIF), along with comprehensive financing initiatives, is expected to steer FDI towards knowledge-based private and ESG investments, ensuring better incentive rates for projects that can enhance economic complexity and expand domestic supply chains. This will elevate the capabilities of micro, small and medium enterprises to produce high-value, high-technology 'Made by Malaysia' products," says Grant Thornton.

Meanwhile, the government has assured that the semiconductor industry will receive increased attention in Budget 2026, given its significant contribution to the national economy — more than 40% of Malaysia's exports come from the electrical and electronics (E&E) and semiconductor sectors.

### Preparing for self-assessment for stamp duty

Deloitte's Sim says that with self-assessment for stamp duty taking effect on Jan 1, 2026, businesses need to take proactive steps to understand the law and ensure compliance, as penalties under the new system are harsher than the current official assessment. For instance, incorrect return submissions carry a penalty of 100% of the duty underpaid, whereas the present system imposes a RM100 or 20% penalty on late stamping, whichever is higher.

"I hope penalties under the self-assessment system can be waived for one year to give businesses time to adjust. In addition, the list of instruments subject to stamp duty should be simplified to ease implementation and avoid unnecessary disputes. A review of stamp duty rates would also help ensure costs do not overburden businesses," she adds. E