ECOVIS® MALAYSIA

Budget 2026 Summary

Fourth Madani Budget:
Belanjawan Rakyat

October 2025

Ecovis Malaysia - Global expertise, Local faces

Foreword

Friday, 10 October 2025 marks the unveiling of Malaysia's Budget 2026 by the Prime Minister and Finance Minister, YAB Dato' Seri Anwar bin Ibrahim.

The 2026 Budget, themed "**The People's Budget**", reflects the Government's continued focus on inclusivity, resilience, and shared prosperity under the Ekonomi MADANI Framework. It emphasizes good governance, fiscal prudence, and strategic transformation — aimed at raising the ceiling of national growth while lifting the floor of living standards for all Malaysians.

A total allocation of **RM470 billion** has been announced, comprising **RM338.2 billion for operating expenditure**, **RM81 billion for development expenditure**, and **RM50.8 billion for investments by government-linked entities and public-private partnerships**. Despite global uncertainties, Malaysia remains on track to narrow its fiscal deficit to **3.5% of GDP**, supported by strong revenue performance.

Budget 2026 outlines key national priorities, reflecting the Government's focus on **upholding governance**, **supporting the rakyat's welfare**, **spurring high-value industries**, **strengthening national resilience**, and **fostering equitable opportunities** across all segments of society.

Rather than introducing new taxes, the Government has chosen to broaden the tax base progressively while ensuring fairness in the tax system. Key tax measures reflect a **strategic shift toward long-term sustainability**, **digitalization, and competitiveness.**

Notable Proposals:

- A **2% tax on profit distributions exceeding RM100,000 per annum** received by partners in **limited liability partnerships.**
- Tax incentives to promote **automation, artificial intelligence training, and sustainable investments.**
- Enhanced venture capital incentives, with a **10-year preferential tax rate** to stimulate start-up and innovation ecosystems.
- Expanded tourism-related incentives, including **tax deductions for renovation and refurbishment of tourism premises, and exemptions for international events and sports activities.**

The Budget also reinforces Malaysia's commitment to social equity, with measures targeting **childcare support, healthcare reforms, and labour market improvements**, alongside initiatives to bridge the urban-rural divide and empower vulnerable communities.

From our perspective, Budget 2026 demonstrates a prudent yet forward-looking fiscal approach. It strikes a balance between strengthening the nation's resilience and catalyzing growth in high-value sectors. The focus on sustainability, technological advancement, and inclusive development reflects a maturing economic strategy — one that positions Malaysia to navigate global challenges while ensuring that economic progress remains people-centric and equitable.

Overall, Budget 2026 represents a decisive step towards building a compassionate, competitive, and future-ready Malaysia. It reflects a Government that listens, empowers, and modernizes — driving sustainable progress while ensuring that no Malaysian is left behind.

Should you have any queries relating to this summary or any tax related matters, please contact your ECOVIS Malaysia consultants or send us an email at kuala-lumpur@ecovis.com.my

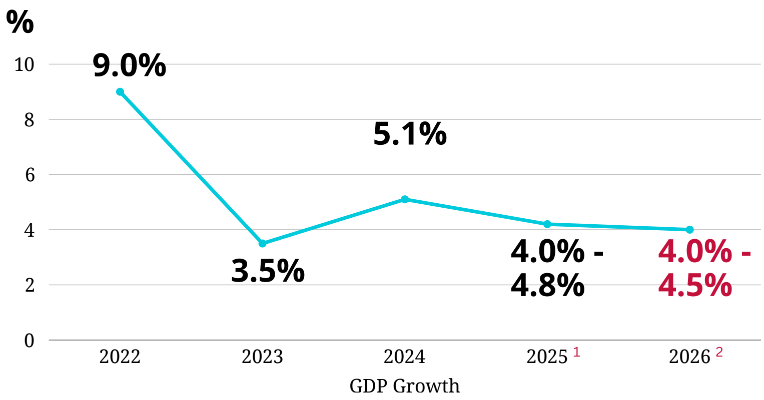
The ECOVIS Malaysia Tax Team
— from left, Director Chong Khar Weng,
Partner Ang Heng Ann, and Director Lim Wy-Jain

Current Economic Overview

GDP Growth

Malaysia's economy grew 4.4% year-on-year in the first half of 2025, driven by strong economic demand and steady performance in services and manufacturing. Full-year growth is projected at 4.0%-4.8%, reflecting resilience despite global trade uncertainties.

1 Revised estimates
2 Budget estimate, excluding Budget 2026 measurers

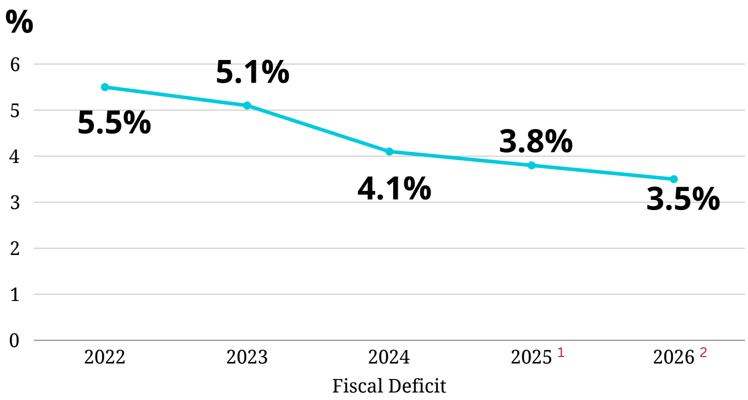


Sources: Ministry of Finance, Economic Outlook 2026

Fiscal Deficit

Malaysia's fiscal deficit had declined from 5.5% of GDP in 2022 to 4.1% in 2024. With a further reduction of 3% in the medium term targeted through ongoing fiscal reforms. A stronger fiscal position is expected to support the country's development objectives and improve resilience against uncertainties.

1 Revised estimates
2 Budget estimate, excluding Budget 2026 measurers

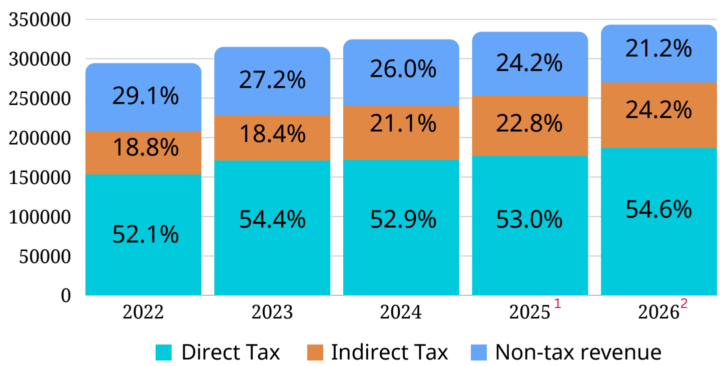


Sources: Ministry of Finance, Economic Outlook 2026

Federal Government Revenue

The federal government's revenue is primarily derived from direct and indirect taxes with income taxes forming the largest share. Ongoing measures, including SST optimization and improved tax administration, aim to strengthen revenue collection and support fiscal sustainability.

1 Revised estimates
2 Budget estimate, excluding Budget 2026 measurers

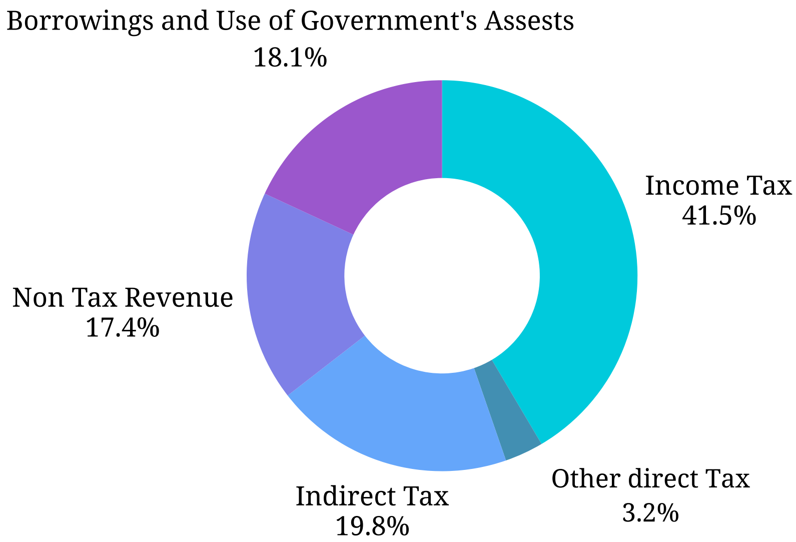


Sources: Ministry of Finance, Economic Outlook 2026

Year	Direct Tax	Indirect Tax	Non-tax revenue	Total revenue	Change (%)
2022	153,476	55,289	82,592	294,357	25.9
2023	171,336	57,849	85,774	314,959	7.0
2024	171,693	68,499	84,426	324,618	3.1
2025[1]	177,145	76,255	80,715	334,115	2.9
2026[2]	**187,357**	**83,026**	**72,741**	**343,124**	**2.7**

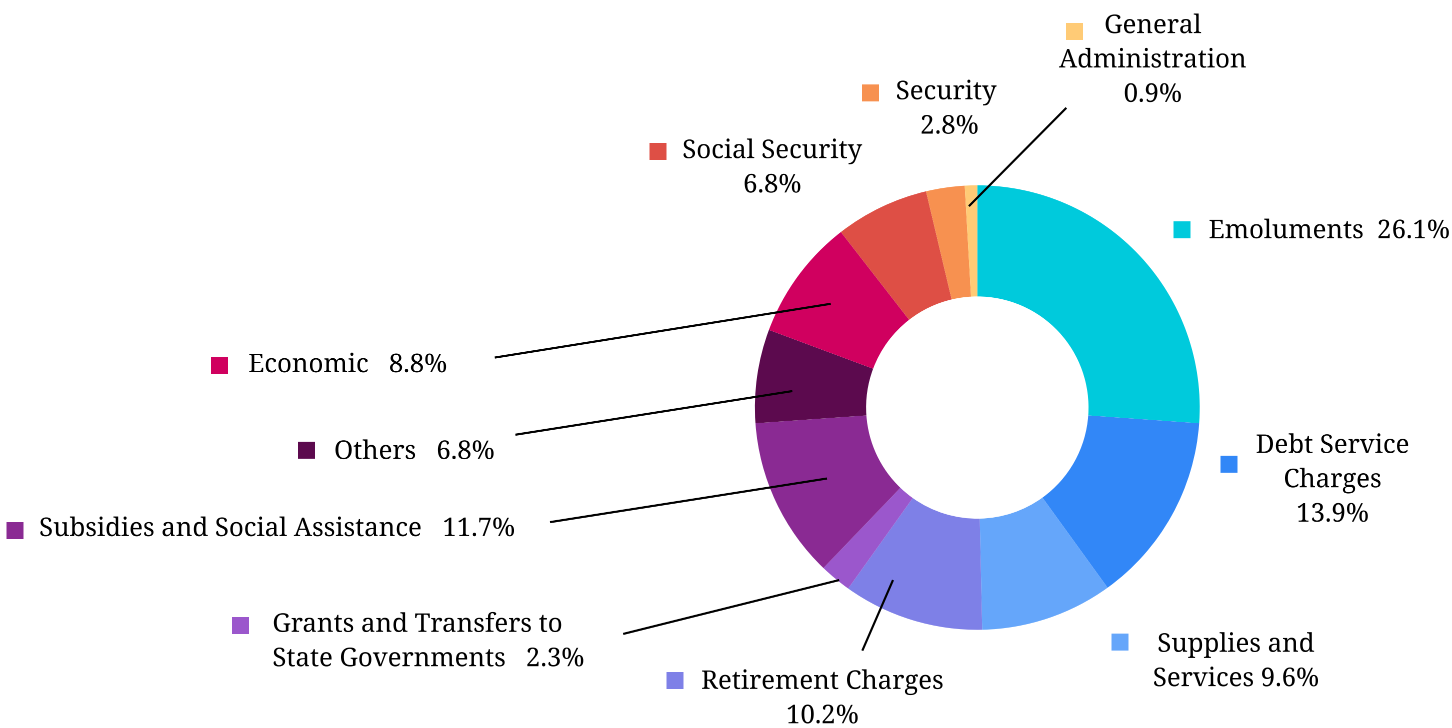
Federal Government Finance

Source of Funding RM419.2 billion



Federal Government revenue in 2026 is projected to increase by 2.7% to RM343.1 billion, driven mainly by tax revenue estimated at RM270.4 billion (78.8% of total revenue or 12.7% of GDP). Non-tax revenue is expected to reach RM72.7 billion (3.4% of GDP).

Expenditure RM419.2 billion



In RM million	2022	2023	2024	2025 [1]	2026 [2]
Federal government revenue	294,357	314,959	324,618	334,115	343,124
Operating expenditure	292,693	311,267	321,509	332,150	338,202
Net development expenditure	70,167	95,084	82,275	78,679	79,500

1 Revised estimates
2 Budget estimate, excluding Budget 2026 measurers

Sources: Ministry of Finance, Economic Outlook 2026

The MADANI Economy Framework Key Focus Area

01 Raise the ceiling of National Growth

Strategic levers driving Malaysia's Industrial transformation

- **Focus on High-Growth, High-Value areas**
- **Strategic investment incentives**
- **Unlocking economic cascade effects**

02 Raise the floor or living standards

Building a resilient and inclusive society

- **Labor market reforms**
- **Expanding socioeconomic assistance**
- **Advancing a sustainable healthcare system**
- **Transforming the education system to build a skilled, future-ready economy**
- **Empowering All Malaysians to participate meaningfully in a growing and dynamic economy**

03 Driving reforms

Towards a modern, transparent, and future-ready government

- **Modernising Public Finance to enhance efficiency and fiscal transparency**
- **Advancing GovTech and Citizen Services to improve delivery and accessibility through digital innovation**
- **Driving Civil Service Reforms to build a future-ready and performance-driven public sector**
- **Strengthening Institutional Integrity and Fiscal Governance to uphold accountability and public trust**

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2026 Budget Focus
Key Takeaways

Tax Incentives

Review of Tax exemption for foreign-sourced income (FSI)

- The current tax exemption on foreign sourced dividend income received by Malaysian resident companies and limited liability partnerships (LLP) and FSI for unit trusts is to be extended for 4 years from 1 January 2027 to 31 December 2030. The tax exemption has been expanded to include cooperative societies and trust bodies.
- The tax exemption on foreign-sourced capital gains received by Malaysian resident companies, LLPs, cooperative societies and trust bodies is to be extended for 4 years from 1 January 2027 to 31 December 2030.

Accelerated Capital Allowance (ACA) on capital expenditure for plant, machinery and ICT equipment

20%
Initial Allowance

40%
Annual Allowance

Qualifying capital expenditure incurred from 11 October 2025 to 31 December 2026 on procurement of heavy machinery, plant and general machinery, plant and general machinery acquired from local manufacturers, purchase of ICT equipment and computer software, consultation, licensing and incidental fees for the development of customised computer software to be granted ACA.

Accelerated Capital Allowance (ACA) on Speed limitation Devices (SLD) for heavy vehicles

20%
Initial Allowance

80%
Annual Allowance

Qualifying capital expenditure incurred from 1 January 2026 to 31 December 2026 on procurement of speed limitation devices (SLD) for heavy vehicles to be granted ACA.

Stamp duty exemption on employment contract

- Monthly Wage threshold for stamp duty exemption is increased from RM300 to RM3,000 for employment contracts which executed from 1 January 2026 onwards.

Profit Distributions to Limited Liability Partnerships (LLP) partners

2% Tax on profit distributions to resident and non-resident individual partners of LLPs exceeding RM100,000

- A 2% tax rate will be introduced on chargeable income attributable to annual profit distributions exceeding RM100,000 from Limited Liability Partnerships (LLPs)
- Partners receiving such profit distributions will be required to report the income in their respective Income Tax Return Forms (ITRF)
- Effective Year of Assessment (YA) 2026

Review of Tax deduction for public listing expenses

- The existing tax deductions on listing expenses of up to RM1.5 million for technology-based companies will be expanded to include Micro, Small and Medium Enterprises (MSMEs) in the energy and utilities sectors.
- The tax deduction is to be extended for 5 years from Year of Assessment (YA) 2026 to Year of Assessment (YA) 2030

Review of tax incentive for venture capital

5% Corporate income tax on venture capital company (VCC) income

- A 5% income tax rate will be imposed on all income derived by Venture Capital Companies (VCCs), excluding interest or profit income earned from savings, fixed deposits, or other deposit accounts.
- VCCs are required to invest a minimum of 20% of their total funds in local venture companies.
- The incentive will be expanded to cover Limited Liability Partnerships (LLPs), Labuan LPs/LLPs that elect to be taxed under Malaysian Income Tax Act, 1967
- The tax incentive period will apply for 10 years, or for the remaining life of the fund, commencing from the date the first certification by the Securities Commission (SC), which must be obtained no later than 31 December 2025

10% Corporate income tax on venture capital management company (VCMC)

- A 10% income tax rate will apply to income derived from profit sharing, management fees, and performance fees for the period from Year of Assessment (YA) 2025 to Year of Assessment (YA) 2035
- Dividends paid, credit, or distributed to individual shareholders of VCCs at the first-tier level will be exempted from income tax from Year of Assessment (YA) 2025 to Year of Assessment (YA) 2035

Tax exemption on sustainable and responsible investment (SRI) sukuk and bond grant scheme

100% Grant allocation for external review expenses

- The grant allocation for external review expenses will be increased from 90% to 100%, capped at RM300,000 per application
- The scope of eligible financial instruments will be expanded to included sukuk and bonds that align with ASEAN Taxonomy for Sustainable Finance
- Applicable for applications submitted to the Securities Commission (SC) from 1 January 2026 to 31 December 2028

Anti-Corruption and Social Enterprises

Tax deduction on contributions for integrity and anti-corruption programmes / activities

- Tax deductions of up to 10% of aggregate income on cash donations to approved anti-corruption education programmes organised by the Civil Society Organisations (CSOs).
- For applications received by the Ministry of Finance from 1 January 2026 to 31 December 2028

Review of tax exemption for social enterprises

- The application period for income tax exemption by social enterprises, received by the Minister of Finance (MOF), which was previously available until 31 December 2025, has been extended to 31 December 2028

Agriculture / Food Security

Tax incentive for automation in the agriculture sector

- Tax incentive of automation in the agriculture sector will be expanded to include chicken rearing activities using the closed-house system
- For applications received by the Ministry of Agriculture and Food Security (KPKM) from 1 January 2026 to 31 December 2027

Tax incentives for food security projects

Eligible companies	Tax incentives
Company undertaking new food production projects	100% income tax exemption on statutory income for 10 Years of Assessments (YA)
Existing company undertaking expansion on food production project	100% income tax exemption on statutory income for 5 Years of Assessments (YA)

**For applications received by the Ministry of Agriculture and Food Security (KPKM) from 1 January 2026 to 31 December 2030*

Tourism Industry

Tax Incentive for tour operators

- Tour operators to be given a 100% tax exemption on incremental income from inbound tourism packages, subject to the following conditions:
- The operator must bring in at least 1,000 foreign tourists annually
- Incremental income refers to the difference between the qualifying income derived from business of operating inbound tourism packages to Malaysia during the basis period and income from the preceding basis period
- Effective Year of Assessment (YA) 2026 and Year of Assessment (YA) 2027

Tax incentive for tourism project operators

- A tax deduction of up to RM500,000 will be granted on qualifying renovation and refurbishment expenditures, provided that the tourism project operators are registered with the Ministry of Tourism, Arts and Culture (MOTAC) and the works are undertaken for business purposes

Tax incentive for organisers of international incentive trips, conferences and trade exhibitions

- 100% income tax exemption of statutory income for organisers verified by the Ministry of Tourism, Arts and Culture (MOTAC), subject to the following conditions:
    - The organiser must bring in at least 1,500 foreign participants for incentive trips annually or
    - At least 2,000 foreign participants for conferences annually or
    - At least 3,000 foreign participants for trade exhibitions annually
- Effective Year of Assessment (YA) 2026

Tax incentive for organisers of arts, cultural, sports and recreational activities

- The existing 50% income tax exemption is expanded to include tourism activities approved by the Ministry of Tourism, Arts and Culture (MOTAC), excluding concert performances
- The definition of eligible venues for arts, cultural, and tourism activities is broadened to cover any location in Malaysia approved by the Ministry of Tourism, Arts and Culture (MOTAC)
- The incentive is also extended to international sports and recreational competitions approved by the Ministry of Youth and Sports (KBS)
- The exemption is extended for 2 years, applicable for Year of Assessment (YA) 2026 and Year of Assessment (YA) 2027

Environmental, Social and Governance

- 100% income tax exemption of companies that uses green technology products certified under the MyHIJAU Mark
- Applications for the Green Technology Financing Scheme, GTFS 5.0 is open until 31 December 2026 with a government incentive of up to 80% for green technologies in the waste sector and a guarantee of up to 60% for other sectors such as energy, water, transport and manufacturing with a financing value of RM1 billion.

Social Care

Public University teaching hospitals endowment funds

- Public university teaching hospitals to be allowed to establish endowment funds, where:
    - Donors will be eligible for a tax deduction equivalent to the amount of cash contributions made, subject to a maximum of 10% of their aggregate income
    - Contributions received, as well as income generated from the endowment fund, are exempt from income tax
- Effective from Year of Assessment (YA) 2026

Review on double tax deduction for scholarships

- Tax incentive for private companies providing scholarships to students pursuing Sijil Teknik Vokasional / Diploma / Bachelor's Degree
- The scope of double tax deduction is expanded to include qualified professional certification courses
- The threshold for household income for student's parents / guardians is increased to, not exceeding RM15,000/month
- Extended for 5 years, from Year of Assessment (YA) 2026 to Year of Assessment (YA) 2030

Tax incentive on training for persons with disabilities (OKU) and care workers

- The double tax deduction currently available for expenses incurred by companies sponsoring training for persons with disabilities (OKU) will be expanded to include the sponsorship of care workers to attend training programmes at institutions recognised by the Ministry of Women, Family and Community Development (KPWKM)
- Effective from Year of Assessment (YA) 2026 to Year of Assessment (YA) 2027

Tax incentive for the employment of senior citizens

- To be extended for another 5 years, from Year of Assessment (YA) 2026 to Year of Assessment (YA) 2030

Tax incentive for the employment of vulnerable persons

- Expanded to prisoners released on license under the Prisons Act 1995 as well as drug / substance dependants and misusers undergoing treatment and rehabilitation provided under the Drug and Substance Dependants and Misusers (Treatment and Rehabilitation) Act 1983
- The further tax deduction to be given for 5 years, from Year of Assessment (YA) 2026 to Year of Assessment (YA) 2030

Tax incentive for commercialisation of research and development (R&D) findings

- Tax deduction for companies investing in subsidiary companies that commercialise non-resource-based research and development findings by public research institutions, public institutes of higher learning and private higher education institutions to be extended from 1 January 2026 to 31 December 2030

Stamp Duty

Stamp duty on property ownership by foreigners

4% → 8%

- A flat stamp duty rate of 8% will be imposed on instruments of transfer for residential properties executed by non-citizen individuals (excluding Malaysian permanent residents) and foreign companies.
- For instrument of transfer of residential homes executed from 1 January 2026

Stamp duty on contract notes for buy-side transaction of structured warrants

- Stamp duty exemption on the contract notes for buy-side structured warrant transaction for 3 years
- For buy-side structured warrant transactions executed from 1 January 2026 to 31 December 2028

Stamp duty on contract notes for exchange traded funds (ETFs) listed on Bursa Malaysia

- The stamp duty exemption on contract notes for Exchange-Traded Fund (ETF) transactions will be extended from 1 January 2026 to 31 December 2028.

Stamp duty for Perlindungan Tenang products

- Stamp duty exemption on Perlindungan Tenang insurance policies and takaful certificates issued will be extended from 1 January 2026 to 31 December 2028

Stamp duty on insurance policies or takaful certificate with low annual premium / contribution

The stamp duty exemption on insurance policies or takaful certificates with low annual premiums or contributions will be extended for three years, from 1 January 2026 to 31 December 2028.

Stamp duty for first time homebuyers

- The stamp duty exemption on instruments of transfer and loan agreements for the purchase of a first residential home by Malaysian citizens, priced up to RM500,000, will be extended for two years.
- For sale and purchase agreements executed from 1 January 2026 to 31 December 2027

Individual Tax

Tax reliefs from Year of Assessment (YA) 2026

Childcare and kindergarten fees up to RM3,000

- The tax incentive for childcare and kindergarten fees will be expanded to include registered day care centres and after-school transit centres.
- The eligible age limit for this incentive has been raised from 6 years to 12 years.

Environmental sustainability and home safety-related expenses up to RM2,500

- The tax incentive for environmental sustainability and home safety-related expenses will be expanded to include household food waste grinders and/or Closed-Circuit Television (CCTV) for home use
- Claimable once within 2 years
- Applicable for Year of Assessment (YA) 2026 and Year of Assessment (YA) 2027

Life insurance premium or takaful contributions up to RM3,000

- Expanded to include eligible children as follows:
- Children aged below 18 and unmarried
- Children aged 18 and above, unmarried and pursuing tertiary education
- No age limit for unmarried disabled children (OKU)
- Application from Year of Assessment (YA) 2026

Education and medical insurance premiums up to RM4,000

- Conditions to be imposed on eligible children as follows:
  - Children aged below 18 and unmarried
  - Children aged 18 and above, unmarried and pursuing tertiary education
  - No age limit for unmarried disabled children (OKU)
- Application from Year of Assessment (YA) 2026

Medical expenses incurred for self, spouse or child up to RM10,000

- Covers assessments for the purpose of diagnosing learning disabilities, as well as early intervention programmes or rehabilitation treatments for individuals with learning disabilities.
  - Tax relief amount to be increased from RM6,000 to RM10,000
- Vaccination expenses up to RM1,000
  - Expanded to include all registered and approved vaccines

Tourism (Cuti-cuti Malaysia 2026)

- Payment of entrance fees of up to RM1,000 for tourist attractions, cultural, and art programmes will be eligible for tax relief for the Year of Assessment (YA) 2026

Indirect Tax

Review of excise duty on cigarette

+RM0.02 per stick

or

+RM0.40 per pack

One packet contains 20 cigarette sticks

- The excise duty rate on cigarette on specified tariff code be increased in phases, starting with a rise of 2 sen per stick or 40 sen per packet
- Tariff codes
    - 2402.20.2000
    - 2402.20.9000
    - 2402.90.2000
- Effective date: From 1 November 2025

Review of excise duty rate on cigars, cheroots and cigarillos

+RM20 per KG

- The excise duty rate on cigars, cheroots and cigarillos on specified tariff code be increase in phases, starting with a rise of RM40 per kilogramme
- Tariff codes
    - 2402.10.0000
    - 2402.90.1000
- Effective date: From 1 November 2025

Review of excise duty rate on alcoholic beverage products

+10%

- The proposed excise duty rate on alcoholic beverage products be increased by 10%.
- Effective date: From 1 November 2025

Digital tax stamps

- RMCD will introduce digital tax stamps with enhanced security features to curb counterfeiting through the implementation of a Centralised Screening Complex with integrated CCTV systems.

Review of import duty and sales tax exemption on nicotine replacement therapy products

1. Import duty and sales tax exemption on nicotine gum and nicotine patch be extended to 31 December 2027; and
2. The scope of exemption of NRT products be expanded to include nicotine mist and
3. nicotine lozenges from 11 October 2025 to 31 December 2027.

- Effective Date: For applications received by teh Ministry of Finance from 11 October 2025 to 31 December 2027.

Capped on Vehicle tax exemption in Langkawi and Labuan

- Motor vehicle tax exemptions in Langkawi and Labuan are capped for vehicles valued up to RM300,000
- Effective date: 1 January 2026

Excise duty and sales tax exemption for taxi owner and hired car owners

- Full exemption on excise duty and sales tax will continue on the purchase of new national PROTON and PERODUA cars by taxi and hired car owners.

Carbon Tax introduction

Carbon tax will be introduced starting in 2026 with an initial focus on the iron, steel and energy sectors.

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