



*TaxSphere*

# Budget 2026: Key Highlights

*October 11, 2025*



Our Prime Minister and Finance Minister unveiled the 2026 Budget to the Parliament on 10<sup>th</sup> October 2025. Budget 2026, the fourth in the *MADANI* Budget series and the first under the 13<sup>th</sup> Malaysia Plan (2026 – 2030), continues the *Ekonomi MADANI* vision of restoring fiscal resilience, strengthening economic foundations and improving rakyat well-being.

Building on previous budgets, it focuses on raising national growth, uplifting living standards and driving governance reforms. Amid global uncertainties, Budget 2026 aims to sustain growth momentum, advance long-term economic reforms and provide targeted, outcome-based support to enhance quality of life.

This TaxSphere highlights the key tax implications of the Budget.

## **PROMINENTS**

### **Individual Income Tax on Profit Distributions from Limited Liability Partnerships (LLPs)**

Introduction of **Profit Distribution Tax at 2%** on chargeable income (after allowable reliefs and deductions) for annual profit distributions from LLPs exceeding RM100,000 received by individual partners of LLPs with effect from Year of Assessment (YA) 2026.



### **Foreign Source Income**

The scope of tax exemption on foreign-sourced dividends from investments and foreign-sourced gains from the disposal of capital assets received in Malaysia by resident companies and LLPs is to be **expanded to include co-operative societies and trust bodies**.

In addition, it is proposed that the tax exemption period to be **extended for another 4 years**, from 01<sup>st</sup> January 2027 to 31<sup>st</sup> December 2030.





# CORPORATE TAX

## Accelerated Capital Allowance (ACA) for Plant, Machinery and ICT Equipment

To promote domestic investment and digital adoption, it is proposed that an ACA shall be granted to companies on Qualifying Capital Expenditure (QCE) incurred on plant, machinery and ICT equipment, such as heavy machinery, computer equipment and software related costs to be fully claimable within 2 years for the QCE incurred from 11<sup>th</sup> October 2025 to 31<sup>st</sup> December 2026 below:

Qualifying Expenditure	Capital Allowance Rate
Heavy machinery from local manufacturers	Initial Allowance (IA): 20%
Plant and general machinery acquired from local manufacturers	
Purchase of ICT equipment and computer software	Annual Allowance (AA): 40%
Consultation, licensing and incidental fees related to customized computer software development	

## Accelerated Capital Allowance (ACA) for Speed Limitation Devices for Heavy Vehicles

To enhance road safety and reduce accidents involving heavy vehicles, the Government has mandated the phased implementation of Speed Limitation Devices (SLD) on commercial vehicles. It is proposed that an ACA (20% IA; 80% AA), restricted to RM4,000 per eligible heavy vehicles shall be granted on the purchase of SLD devices incurred from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2026, subject to certification and vehicle criteria.

## Review of Tax Incentive for Venture Capital

To strengthen the venture capital ecosystem and promote greater investment in start-ups, effective YA 2025, the tax incentives for venture capital activities have been proposed as follows:

- **Venture Capital Company (VCC)**
- Income will be subject to a 5% corporate tax rate, except for interest or profit income from savings, fixed deposits or deposits.
- At least 20% fund investment in local venture companies.
- Tax incentive is given for 10 years or for remaining life of fund starting from the year the VCC obtained certification from Securities Commission Malaysia (SC).
- First certification by SC must be obtained on or before 31<sup>st</sup> December 2035.
- VCC includes companies, entities incorporated under the Limited Liability Partnerships Act 2012 and the Labuan Limited Partnerships and Limited Liability Partnerships Act 2010 that elect to be taxed under the Income Tax Act 1967 (ITA 1967).
- **Venture Capital Management Company (VCMC)**
- Proposed special income tax rate of 10% on income derived from share of profits, management fees and performance fees from YAs 2025 to 2035.
- **Individual Shareholders of VCC**
- It is proposed that dividend paid, credited or distributed to individual shareholders of a VCC at the first level be exempted from income tax from YAs 2025 to 2035.

## Tax Incentive for Automation in Agriculture Sector

Given that the application for tax incentive for chicken rearing in closed-house system shall be ending 31<sup>st</sup> December 2025, it is proposed to expand the qualifying livestock activities of the tax incentive for automation for agriculture sector to include rearing chicken in closed-house system.

Under the tax incentive for automation in the agriculture sector are as follows:

- 100% on the first RM10 million of the QCE; and
- 100% tax exemption on the QCE.

This incentive applies to applications received by the Ministry of Agriculture and Food Security (KPKM) from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2027.

## Tax Incentive for Training in Artificial Intelligence

To promote the adoption of Artificial Intelligence (AI) in business operations, it is proposed that Micro, Small and Medium Enterprises (MSMEs), including those contributing to the Human Resources Development Fund (HRDF), be granted a further tax deduction of 50% on expenses incurred for AI training programmes recognized by MyMahir National AI Council for Industry (NAICI).

This incentive is available once every 2 years and applies to applications received by TalentCorp from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2027.

## Green Investment Tax Allowance (GITA) for Own Consumption

Granted at 100% for companies utilizing green technology products certified under *MyHIJAU* Mark within the local supply chain.

## Tax Incentive for Tour Operators

To support the recovery and growth of the tourism industry in conjunction with Visit Malaysia Year 2026, it is proposed that tour operators be granted a 100% income tax exemption on the incremental income derived from inbound tourism packages, subject to bringing in at least 1,000 foreign tourists annually. This incentive is applicable for YAs 2026 and 2027.

## Tax Deduction for Renovation and Refurbishment of Tourism Projects

To encourage tourism project operators to upgrade and enhance their business premises in preparation for Visit Malaysia Year 2026, it is proposed that operators registered with Ministry of Tourism, Arts and Culture (MOTAC) undertaking renovation and refurbishment works for business purposes be allowed a tax deduction on qualifying expenditure, capped at RM500,000 for qualifying expenditure incurred from 11<sup>th</sup> October 2025 to 31<sup>st</sup> December 2027.

## Tax Incentive for Organizing International Incentive Trips, Conferences and Trade Exhibitions

To promote international incentive trips, conferences and trade exhibitions (MICE) in conjunction with Visit Malaysia Year 2026, it is proposed that MICE organizers verified by MOTAC be granted a 100% income tax exemption on statutory income, subject to bringing in 1,500 foreign participants for incentive trips, 2,000 for conferences, or 3,000 for trade exhibitions. The incentive is proposed to be extended for 2 years (YAs 2026 and 2027).



## Tax Incentive for Research and Development (R&D)

It is proposed that the tax deduction for companies investing in subsidiaries that commercialize non-resource-based R&D findings from public and private higher learning institutions and public research bodies to be extended for another 5 years.

Effective for applications submitted to Malaysian Investment Development Authority (MIDA) from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2030.

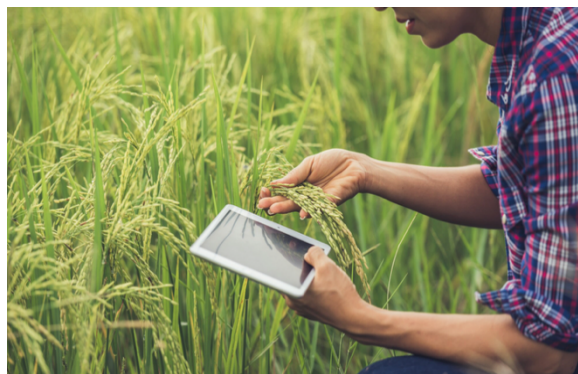
## Tax Incentive for Food Security Projects

To encourage greater industry participation in the agriculture sector, the existing tax incentive for food production projects will be rebranded as tax incentive for food security projects.

The following were proposed:

- > **New project**
- > 100% income tax exemption on statutory income for 10 YAs.
  
- > **Expansion project**
- > 100% income tax exemption on statutory income for 5 YAs.

Both exemptions apply to income derived from domestic sales, with the incentive open for applications received by *KPKM* from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2030.



## Income Tax Exemption for Social Enterprises (SEs)

To further promote the development of social entrepreneurship, employment creation and reduce dependency on government assistance, it is proposed that the application period for income tax exemption for SEs accredited by the Ministry of Entrepreneur Development and Cooperatives be extended for 3 years, from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2028.

For application received by Ministry of Finance (MOF) from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2028.

## Income Tax Deduction for Cost of Listing in Bursa Malaysia

To encourage greater participation of companies and MSMEs in the capital market and support the objectives of the National Energy Transition Roadmap and National Semiconductor Strategy, it is proposed that the income tax deduction of up to RM1.5 million for listing related expenses on Bursa Malaysia's Main, ACE or LEAP Markets by technology-based companies and MSMEs be expanded to include:

- > MSMEs in the energy and utilities sectors; and
- > Technology-based companies, as well as MSMEs in the technology, energy and utilities sectors.

The deduction will be available for 5 YAs (YAs 2026 to 2030).



## Income Tax Exemption on Sustainable and Responsible Investment Sukuk and Bond Grant Scheme

To further promote issuance of Sustainable and Responsible Investment (SRI) *sukuk* and bonds that adhere to green, social and sustainability standards, the following are proposed:

- Income tax exemption on the SRI Sukuk and Bond Grant Scheme received from SC to be extended for 3 years, covering applications received from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2028.
- Grant allocation for external review expenses will be increased from 90% to 100%, subject to a maximum of RM300,000.
- Scope of eligible financial instruments will be expanded to include *sukuk* and bonds conforming to the ASEAN Taxonomy for Sustainable Finance.

## Income Tax Deduction on Integrity and Anti-Corruption Programmes

To strengthen the culture of integrity and support the National Anti-Corruption Strategy (NACS) 2024 – 2028, it is proposed that anti-corruption education programmes organized by Civil Society Organizations (CSO) be approved as national interest projects under Section 44(11C) of the ITA 1967, subject to conditions.

Additionally, cash donations made to these approved CSO programmes will qualify for an income tax deduction equivalent to the contribution amount, up to 10% of aggregate income. The measure takes effect for applications received by MOF from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2028.

## Tax Incentive for Scholarships

To widen access to education and strengthen technical and professional talent development,

the tax incentive for private companies providing scholarships to be changed as follows:

- Companies offering scholarships to students pursuing *Sijil Teknik Vokasional*, Diploma or Bachelor's Degree programmes will continue to enjoy double tax deduction.
- Scope expanded to cover qualified professional certification courses.
- Household income limit for eligible students' parents or guardians will be raised from RM10,000 to RM15,000 per month.
- Incentive period extended for 5 years, effective from YA 2026 to 2030.

## Tax Incentive for Training of Care Worker

To improve qualified care services access for elderly, special needs children and persons with disabilities (*OKU*), the scope of double tax deduction expanded to include sponsorship of non-employee care workers for training at Ministry of Women, Family and Community Development (*KPWKM*) recognized institutions, effective YAs 2026 and 2027.

## Tax Incentive for Employing Vulnerable Persons

To promote inclusive employment under Sustainable Development Goals (SDG) 2030, the tax incentive for hiring vulnerable persons will be expanded to include prisoners released on license and individuals undergoing rehabilitation for drug or substance misuse, and extended for 5 years (YAs 2026 – 2030).

## Tax Incentive for Employing Senior Citizens

To encourage continued employment and financial independence among senior citizens, further tax deduction for employers hiring individuals aged 60 and above will be extended for 5 years, from YA 2026 to 2030.



# STAMP DUTY

## Stamp Duty on Property Ownership by Non-Citizens

Increase in fixed stamp duty rate for instruments of transfer of residential homes executed by non-citizen individuals (excluding Malaysian permanent residents) and foreign companies from 4% to 8%, effective for instruments of transfer executed from 01<sup>st</sup> January 2026.

## Stamp Duty Exemption for Purchase of First Residential Home

For first residential home buyers (Malaysian citizen), particularly low and middle-income group, it is proposed 100% stamp duty exemption on instruments of transfer and loan agreements for the purchase of first residential home priced up to RM500,000 be extended for 2 years for sale and purchase agreements executed from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2027.

## Stamp Duty Exemption for Perlindungan Tenang Products

To promote financial protection among low and middle-income groups, it is proposed 100% stamp duty exemption on insurance policies and takaful certificates for *Perlindungan Tenang* products be extended for 3 years from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2028.

## Stamp Duty Exemption on Contract Notes for Exchange Traded Funds (ETFs) Listed on Bursa Malaysia

To encourage cost-efficient and transparent alternative investments, the stamp duty exemption on contract notes for ETFs transactions be extended for 3 years, from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2028.

## Stamp Duty Exemption on Insurance Policies or Takaful Certificates with Low Annual Premium or Contribution

To encourage individuals and MSMEs to obtain basic protection against risks such as fire, travel and personal accidents, the 100% stamp duty exemption on insurance policies or takaful certificates with low annual premiums or contributions (not exceeding RM150 for individuals and RM250 for MSMEs) will be extended for 3 years from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2028.

## Exemption of Stamp Duty on Contract Notes for Buy-Side Transaction of Structured Warrants

To promote Malaysia's capital market growth and strengthen regional competitiveness, a 100% stamp duty exemption will be granted on contract notes for buy-side structured warrant transactions for a period of 3 years, from 01<sup>st</sup> January 2026 to 31<sup>st</sup> December 2028.

## Stamp Duty Exemption on Employment Contract

Presently, employment contract is subject to stamp duty at RM10, with an exemption granted for contracts involving employees earning monthly wages not exceeding RM300.

To reduce the cost of doing business, it is proposed that the wage threshold for stamp duty exemption be increased from RM300 to RM3,000 per month, effective for contracts executed on or after 01<sup>st</sup> January 2026.





## OTHER INITIATIVES

### Tax Incentive for Organizing Arts, Cultural, Sports and Recreational Activities

To further promote Malaysia as a vibrant destination for arts, culture, tourism, sports and recreation in conjunction with Visit Malaysia Year 2026, the existing 50% tax exemption on statutory income for organizers of approved activities will be enhanced as follows:

- The scope of qualifying activities will be expanded to include tourism-related activities or events approved by MOTAC (excluding concert performances);
- The venue for arts, cultural and tourism activities be broadened to include any location in Malaysia approved by MOTAC;
- International sports and recreational competitions approved by Ministry of Youth and Sports (*KBS*); and
- This incentive be extended for 2 years, covering YAs 2026 and 2027.



### Tax Treatment for Public University Teaching Hospitals Endowment Funds

To strengthen the financial sustainability of public university teaching hospitals and support their role in delivering quality healthcare services, it is proposed that these hospitals be allowed to establish their own endowment funds. Cash contributions made to such endowment funds will qualify for tax deduction under Section 44(11D) of the ITA 1967, provided the funds are governed and managed solely by the respective teaching hospitals in accordance with prescribed guidelines. This measure will take effect from YA 2026.



## Review of Excise Duty Rate on Cigarette

The Government proposes to increase the excise duty rate on cigarettes in phases, beginning with a rise of 2 cents per stick or 40 cents per packet. This will take effect from 01<sup>st</sup> November 2025.

## Review of Excise Duty Rate on Cigars, Cheroots and Cigarillos

It has been proposed to increase the excise duty rate on cigars, cheroots and cigarillos in phases, beginning with an increase of RM40 per kilogram, effective from 01<sup>st</sup> November 2025.

## Review of Excise Duty Rate on Heated Tobacco Products

The excise duty rate on heated tobacco products to be increased in phases, beginning with a rise of RM20 per kilogram of tobacco content. This is effective from 01<sup>st</sup> November 2025.

## Review of Import Duty and Sales Tax Exemption on Nicotine Replacement Therapy (NRT) Products

The Government proposes to extend import duty and sales tax exemptions on nicotine gum and nicotine patch until 31<sup>st</sup> December 2027.

Additionally, the exemption scope of NRT products will be expanded to include nicotine mist and nicotine lozenges from 11<sup>th</sup> October 2025 to 31<sup>st</sup> December 2027. This is effective for applications received by MOF from 11<sup>th</sup> October 2025 to 31<sup>st</sup> December 2027.



## Review of Excise Duty Rate on Alcoholic Beverage Products

The excise duty rate on alcoholic beverage products is proposed to be increased by 10%, effective from 01<sup>st</sup> November 2025.

## Customs Duty Exemption for Vehicles in Langkawi and Labuan

Effective 01<sup>st</sup> January 2026, the exemption on Customs duties in Langkawi and Labuan will be limited to vehicles with a value not exceeding RM300,000.

## Excise Duty and Sales Tax Exemption for Proton and Perodua Cars

100% excise duty and sales tax exemption for taxi and private hire car owners on the purchase of new national cars, Proton and Perodua models.

## Introduction of Digital Stamp for Customs Duties

The Royal Malaysian Customs Department (RMCD) will introduce digital stamp with enhanced security features starting in 2026 to curb counterfeiting and tax leakages.

## Carbon Tax

Carbon tax beginning in 2026, with initial focus on iron, steel and energy sectors.



# PERSONAL TAX

Tax Relief	Effective Date	Proposed Changes
Vaccination expenses for self, spouse or child	From YA 2026	Scope expanded to include all vaccines registered and approved for use by National Pharmaceutical Regulatory Agency, Ministry of Health.
Childcare or kindergarten fees for children aged up to 6 years old  <i>(RM2,000 – existing permanent relief + RM1,000 – existing further time-bound tax relief from YA 2020 to 2027)</i>	From YA 2026	The time-bound RM1,000 relief be made permanent and combined with the existing RM2,000 permanent relief, resulting in a total claimable tax relief at RM3,000.  Additionally, eligibility will be expanded to include daily care centres and after-school transit centres registered with Department of Social Welfare for children aged up to 12 years old.
Early intervention programmes or rehabilitation treatment for children with learning disabilities aged 18 years and below	From YA 2026	Limit to be increased from RM6,000 to RM10,000.  <i>Note: The total tax relief for medical expenses for self, spouse or children remains up to RM10,000.</i>
Life, education and medical insurances	From YA 2026	Scope of life insurance premium or takaful contributions expanded to include children.  Eligibility criteria for insured children for life insurance premium or takaful contributions, education and medical insurance premiums be determined as follows: <ul style="list-style-type: none"> <li>&gt; Aged below 18 and unmarried;</li> <li>&gt; Aged 18 and above, unmarried and pursuing tertiary education; or</li> <li>&gt; No age limit for unmarried disabled children.</li> </ul>
Environmental sustainability and home safety-related expenditure	YA 2026 & 2027	Scope of electric vehicle charging facilities and food composting machines be expanded to include: <ul style="list-style-type: none"> <li>&gt; Household food waste grinders; and</li> <li>&gt; Closed-Circuit Television (CCTV) for home use.</li> </ul> Claim can be made once within 2 YAs.
Entrance fees to tourist attractions and cultural programmes	YA 2026	Tax relief up to RM1,000 for expenses on entrance fees for: <ul style="list-style-type: none"> <li>&gt; Tourist attractions such as museums, theme parks, national parks, marine parks, zoos and geoparks; and</li> <li>&gt; Cultural and art programmes.</li> </ul>

**SENIOR ADVISOR**



**Thomas Teoh**

thomas@thinktx.my

**EXECUTIVE DIRECTOR, TAX**



**Pugaleshwaran Raja  
Kumaran**

pugal@thinktx.my

**DIRECTOR, TAX**



**Steffi Manisha Arokiam**

steffi@thinktx.my

**ASSOCIATE DIRECTOR**



**Surendren Supamaniam**

suren@thinktx.my



This TaxSphere is based on the 2026 Budget speech and appendices, which provides a general overview of the proposed tax policies. Specific details such as tax rates and compliance requirements will only be available once the Finance Bill is released, which will formalize and clarify the tax changes.

This document is based on information available as of 11<sup>th</sup> October 2025. The information contained herein are general in nature and does not constitute professional advice. No liability is assumed for reliance of information contained herein. Kindly seek case-specific professional advise prior to action. For more information, kindly reach out to us.



**ThinkTx Consultants Sdn Bhd is a professional consulting practise providing comprehensive and wide range of taxation services. We are a specialist practice offering personalized services for our clients. Our team comprises of experienced and certified professionals with extensive experience in the industry.**