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Budget 2025 Tax Snapshots

Budget 2025 was announced today, 18 October 2024.

Budget 2025 is Malaysia's largest ever budget at RM421 billion, made up of RM335 billion for operating expenditure and RM86 billion for development. This is the third Budget formulated based on the MADANI economic framework. The Budget is focused on revitalizing the economy, catalyzing transformative change and improving the overall well-being of the people.

Key takeaways

- ▶ Dividend income of individuals exceeding RM100,000 per annum will be subject to tax at the rate of 2%, effective from the year of assessment (YA) 2025. Exemptions will be available, for instance on foreign-sourced dividend income and dividends paid by companies with certain tax incentives. This tax will not apply to distributions from the Employees Provident Fund (EPF), Amanah Saham Nasional Bumiputera (ASNB), Lembaga Tabung Angkatan Tentera (LTAT) or unit trusts.
- ▶ Resident individuals will be exempt from tax on foreign-sourced income received in Malaysia up to the year 2036, provided such income has been subjected to income tax in the country from which it was received.

- ▶ The Sales Tax and Service Tax (SST) regime will be implemented more progressively, in a manner that does not burden the *rakyat*. The progressive SST regime will be implemented effective 1 May 2025. The Government will conduct engagement sessions with relevant stakeholders and industries before finalizing the scope of expansion and the relevant tax rates.
- ▶ A New Investment Incentive Framework (NIIF) that focuses on high-value activities and economic spillover to the country will be introduced. The NIIF is expected to be implemented in the third quarter of 2025.
- ▶ Carbon tax will be introduced on the iron and steel, and energy industries by 2026, to encourage the adoption of low-carbon technologies. The proceeds will be used to fund green research and technology programs.
- ▶ To mitigate the impact of Global Minimum Tax (GMT), the Government is committed to streamlining existing incentives, introducing non-tax incentives and studying the feasibility of a “Strategic Investment Tax Credit”.
- ▶ A self-assessment system for stamp duty will be implemented in phases starting from 1 January 2026.

Personal income tax

- ▶ These reliefs will be increased to the following:
 - a) Up to RM4,000 on education insurance and medical insurance premium payments
 - b) Up to RM10,000 for medical expenses, which will include medical and health insurance and *takaful* products with co-payment features, as well as disease detection tests, disease detection test kits and the purchase of health screening equipment
 - c) Up to RM6,000 for treatment and rehabilitation expenses for children with autism

- ▶ To encourage home ownership, the following tax reliefs will be introduced on interest expenses incurred by first-time home buyers:
 - a) Up to RM7,000 for a home valued up to RM500,000; or
 - b) Up to RM5,000 for a home valued between RM500,001 and RM750,000

The above can be claimed for three consecutive YAs, for sales and purchase agreements completed between 1 January 2025 and 31 December 2027.

- ▶ The following reliefs will be extended or expanded:
 - a) Relief for the purchase of electric vehicle chargers expanded to cover the purchase of food waste composting machines for household use until YA 2027. This can be claimed once every three years.
 - b) Relief for full parental medical examination expenses expanded to cover the cost of vaccinations.
 - c) Relief on net savings in the National Education Savings Scheme (SSPN) extended for another three years.
 - d) Relief for sports equipment and activities expenses will be extended to such expenses incurred for parents.
 - e) Relief for medical care expenses for parents will be expanded to include grandparents.
 - f) Relief for contributions made by individuals to Private Retirement Schemes and Deferred Annuities extended up to YA 2030.

- ▶ Relief for persons with disabilities will be increased to the following:
 - a) Individual relief - RM7,000
 - b) Relief for disabled spouses - RM6,000
 - c) Relief for disabled unmarried children - RM8,000

- ▶ The individual income tax exemption on childcare allowance will be extended to cover allowances for the care of senior citizens, i.e. parents and grandparents.

Indirect tax

- ▶ The progressive SST will include the following:
 - a) Sales Tax will not be levied on basic food items but will be levied on non-essential goods such as imported premium goods. Examples provided were avocados and salmon.
 - b) The scope of Service Tax will be expanded to include new taxable services such as commercial service transactions between businesses (B2B).
- ▶ There will be a change in threshold for the windfall profit levy on crude palm oil. The windfall profit levy will now be imposed on the production of fresh fruit bunches of palm oil, when the market price of crude palm oil surpasses the new threshold of RM3,150 for Peninsular Malaysia and RM3,650 for Sabah and Sarawak (previously at RM3,000 and RM3,500 respectively) with effect from 1 January 2025. The market price range structure and export duty rates for crude palm oil will be revised from 1 November 2024, while the current treatment for crude palm oil exports from Sabah and Sarawak will be maintained.
- ▶ The excise duty rate for sugar-sweetened beverages will be increased in phases from 1 January 2025.

Tax incentives

- ▶ Under the NIF, the following are expected to be introduced:
 - a) Tax incentives for increased exports will be extended to integrated circuit (IC) design activities
 - b) Special tax deductions will be given to Higher Education Institutions that develop new courses such as digital technology, artificial intelligence (AI), robotics, internet of things (IoT), data science, FinTech and sustainable technologies
 - c) A Supply Chain Resilience Initiative will be introduced. More details are expected on this, with the Budget Speech outlining the following:
 - Double deduction for expenditure of multinational enterprises (MNEs) of up to RM2 million per annum for three consecutive years.
 - MNEs or their suppliers who participate in joint venture investments with Malaysian suppliers will be given a tax deduction on the investment made.
 - Local suppliers will be eligible for an outcome-based tax incentive package.

- ▶ Accelerated capital allowances, to be claimed over a two-year period, will be given on the purchase of information, communication and technology (ICT) equipment, computer software packages and consultancy fees for e-invoicing purposes.
- ▶ Economic clusters will be established, tailored to the distinct value propositions of each state. Examples provided were renewable energy in Perlis and Sabah and specialized chemical industries in Pahang and Terengganu.
- ▶ Tax incentives, based on economic spillover, will be introduced in 21 economic sectors in states such as Perlis, Kedah, Kelantan, Terengganu, Sabah and Sarawak.
- ▶ Special incentives will be announced towards the end of this year for the Johor-Singapore Special Economic Zone (JS-SEZ).
- ▶ Logistics companies that carry out qualifying Smart Logistics Complex (SLC) operations will be given an investment tax allowance of 60% for five years, to be utilized against up to 70% of statutory income.
- ▶ Double deduction for expenditure incurred in implementing the Structured Training Programme (MySIP) under Talent Corp will be extended to students who undertake structured training conducted by industry regulatory bodies. Further, this double deduction will be extended until YA 2030.
- ▶ Tax deduction on donations or sponsorships of *Smart Artificial Intelligence - Driven Reverse Vending Machine* will be extended until 31 December 2026.
- ▶ Additional 50% tax deduction will be available for:
 - a) remuneration paid to women returning to work, for a period of 12 months
 - b) cost of capacity-building and software procurement incurred by employers in implementing flexible working arrangements
 - c) employer-paid leave for up to 12 months for employees taking care of sick or disabled children or family members.
- ▶ Tax incentives such as investment tax allowances or income tax exemptions will be provided for Carbon Capture Utilisation and Storage (CCUS) activities.

Refer to *EY Take 5: Malaysia Budget 2025* for the detailed list of the tax proposals announced in Budget 2025.

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