

Budget 2026: Reforming with clarity, empowering with simplicity

By SOH LIAN SENG

AS Malaysia prepares to unveil Budget 2026 – the fourth installment under the Ekonomi Madani framework, it is timely to reflect on the progress made and the aspirations ahead.

The pre-budget statement released by the Finance Ministry Aug 8, 2025, outlines a comprehensive roadmap that builds on previous reforms while introducing new measures to strengthen fiscal resilience, economic competitiveness, and social equity.

Madani initiatives: A year of ground-ed progress

Since the beginning of the year, the government has demonstrated a strong commitment to the Madani principles – with

Run-up to



the focus on improving ceiling of national growth, raising the floor of living standards, and driving reform in governance. The results are evident:

- > Malaysia recorded RM384.4bil in approved investments in 2024, continuing its record-breaking streak and reinforcing investor confidence in the country's reform agenda.

- > The national unemployment rate dropped to 3% in May 2025, the lowest since April 2015, reflecting robust job creation and economic recovery.

- > Inflation eased to 1.1% in June 2025, despite the expansion of Sales and Service Tax (SST) and subsidy rationalisation, indicating effective policy calibration.

- > The Ringgit appreciated 5.8% against the US dollar, emerging as one of Asia's best-performing currencies.

These achievements underscore the effectiveness of the Madani approach in balancing short-term economic pressures with long-term structural reforms.

Tax law simplification: An administrative objective

While the pre-budget statement does not signal the introduction of new taxes, it is crucial that Budget 2026 addresses the long-standing complexities in existing tax laws.

Taxpayers and practitioners alike are

hopeful for meaningful simplification in the following areas:

- > Stamp Duty: The current stamp duty regime is often seen as opaque and administratively burdensome.

As the self-assessment regime takes effect on Jan 1 2026, taxpayers may encounter additional challenges in determining applicable rates, exemptions, and valuation thresholds.

So, implementing a clearer framework, possibly with tiered rates based on transaction value and streamlined exemption criteria, would reduce compliance costs and improve transparency.

For example, rationalising stamp duty on property transfers and loan agreements could significantly ease the burden on individuals and small and medium enterprises (SMEs).

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Businesses seeking clearer definitions of taxable services

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There is also a proposal to consider introducing a de-minimis threshold for stamp duty to reduce the cost of doing business for SMEs.

- > SST: The expansion of SST to five additional service categories in 2025, such as rental or leasing, construction, finance, private healthcare and education, has raised concerns about scope creep and inconsistent application.

Businesses are seeking clearer definitions of taxable services, harmonised treatment across sectors, and simplified filing procedures.

A consolidated SST guidebook, coupled with digital filing enhancements, could help reduce ambiguity and improve compliance.

Moreover, aligning SST with international best practices would enhance Malaysia's competitiveness in cross-border trade.

- > Capital Gains Tax (CGT) and Real Property Gains Tax (RPGT) or commonly known as Cukai Keuntungan Harta Tanah – CKHT.

While CGT remains in a nascent stage in Malaysia, CKHT is renowned for its complexity due to its tiered rates and exemptions.

Even with legislative enhancements, some practical challenges continue to add layers of compliance and valuation difficulties.

For instance, the complexity of determining whether a foreign company derives value from Malaysian real property based on a 75% threshold of total tangible assets.

Taxpayers hope for clearer guidelines on valuation methodologies, holding periods, and allowable deductions, especially in light of CGT's interaction with RPGT and income tax.

Simplifying CKHT computations and

aligning CGT policies with the Organisation for Economic Cooperation and Development standards would foster greater certainty and fairness in the tax system.

MSME empowerment: Some proposals and ground realities

Micro, small and medium enterprises (MSMEs) form the backbone of Malaysia's economy. Budget 2026 rightly places emphasis on supporting MSMEs through digital adoption, export facilitation, and financing access.

However, further measures are needed to ensure these businesses can thrive in a competitive landscape.

Drawing from the wish list I have, I hope for the Finance Ministry to consider:

- > Reduction of corporate income tax rate: The proposal suggests to reduce the MSME tax rate from 17% to 15% on the second tier of chargeable income to quickly ease financial pressure and improve cash flow for small businesses facing rising cost and shrinking margin.

The reduced tax rate is expected to incentivise formalisation, encourage reinvestment, and enhance cash flow for growth initiatives.

- > Preferential tax rates for MSMEs raising capital via listing: MSMEs that become ineligible for preferential tax rates under Schedule 1 Paragraph 2A of the Income Tax Act 1967 after listing are proposed to receive a concessionary tax rate of 20%.

This would encourage more MSMEs to pursue public listing, thereby improving transparency, governance, and access to capital markets.

- > Presumptive tax regime for micro enterprises: In line with the goal of simplifying compliance, introducing a presumptive tax regime could be transformative for micro enterprises and informal

sector players.

This approach allows eligible businesses to pay a fixed or estimated tax amount based on turnover or simplified metrics, rather than undergoing full tax computations.

Some countries have successfully implemented such models, and Malaysia could adopt a tailored framework to support sole proprietors, hawkers and gig economy participants

- > Double deduction for overseas expansion: To support MSMEs to invest and grow internationally, it is proposed that expenses incurred for overseas investment and market expansion be eligible for a double deduction.

This would make it easier for them to get involved in global supply chains.

- > Non-tax measures for ease of doing business: Beyond tax incentives, implementing streamlined regulatory processes, simplifying licensing requirements, and enhancing access to government services will significantly assist MSMEs to reduce their administrative burdens and foster a more conducive business environment.

- > Alignment of MSME definitions: Currently, the tax definition of MSMEs differs from that used by SME Corp.

Aligning these definitions would ensure that more businesses can benefit from tax concessions and support schemes.

These proposals demonstrate a comprehensive understanding of pain points faced by MSMEs and offer some practical solutions to enhance their resilience and competitiveness.

Acknowledging the significance of tax practitioners

Tax practitioners play a pivotal role in supporting the government achieve its compliance agenda.

Their knowledge has been invaluable

in assisting businesses with important developments like e-Invoicing and Tax Identification Numbers, as well as offering advisory services on SST and CGT, these have been instrumental in helping businesses navigate complex regulations.

Therefore, reviewing and potentially increasing the current cap on tax deductions for professional fees would further enable businesses to access expert guidance when needed most, making regulatory compliance more manageable and beneficial for all parties.

Supporting government initiatives: Clarity, simplicity, transparency

As always, the tax community stands firmly behind the government's reform agenda.

For these reforms to be effective and enduring, they must be anchored on the principles of clarity, simplicity, and transparency.

Whether in tax law, subsidy allocation, or digital governance, ultimately, they are the foundation upon which trust between government, businesses, and the rakyat is built.

Budget 2026 presents an opportunity to deepen these commitments.

By listening to ground-level feedback, simplifying complex regulations, and empowering all stakeholders – from MSMEs to practitioners – the government can ensure that the Madani vision translates into tangible benefits for the rakyat.

As a tax practitioner myself, I remain hopeful that this upcoming budget will deliver meaningful changes that simplify compliance, empower businesses, and fortify Malaysia's fiscal foundation.

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