Tax updates: What every business needs to know

With the right support, these reforms could present meaningful opportunities to enhance competitiveness, operational efficiency, and trust in Malaysia's business ecosystem.

By SOH LIAN SENG

AS Malaysia charts its path toward fiscal resilience, the Ministry of Finance (MOF) and Inland Revenue Board of Malaysia (IRB) has rolled out a series of regulatory updates that will shape how businesses manage compliance going forward.

The newest updates – sales and service tax (SST) expansion, exemptions on stamp duty for employment agreements, and revised timeline for e-invoicing rollout – signal the next step toward a more equitable, transparent and digitally enabled tax environment.

Importantly, these changes also reflect a growing commitment from the government to balance compliance expectations with stakeholder engagement, allowing businesses – especially small and medium enterprises (SMEs) – to better prepare, adapt, and thrive.

With the right support, these reforms could present meaningful opportunities to enhance competitiveness, operational efficiency, and trust in Malaysia's business ecosystem.

SST expansion

The SST expansion is part of the government's broader fiscal consolidation strategy under the Ekonomi Madani framework.

Key objectives include:

> Broadening the tax base: By including more discretionary and luxury services – such as private healthcare, beauty services, leasing, and financial services – the government aims to diversify revenue sources without widening the tax burden on the general population.

> Progressive taxation: Essential goods and services remain exempt, helping ensure that lower-income groups are not disproportionately affected

> Revenue enhancement: Additional funds are expected to support improvements in public services, infrastructure and targeted assistance

Businesses are at varying levels of preparedness. Those already within the scope – like food and beverage, logistics, and digital services – may experience minimal disruption.

Sectors newly brought into scope, such as private healthcare, education, beauty, and construction, may face short-term cost pressures due to compliance requirements and pricing adjustments.

To cushion the impact, a 12-month non-reviewable clause has been introduced to discourage immediate revision of prices post expansion.

This presents an opportunity for businesses to:

> Review existing contracts for tax clauses.

> Engage early with customers to manage expectations.

> Seek tax or legal advice on transitional arrangements.

For SMEs, understanding the nuances – what is taxable, what is exempt and which rates apply – is critical.

Sector-specific frequently asked questions (FAQs), along with clear transitional rules for contracts signed before July 1 2025, would be helpful in supporting compliance.

At the same time, proactive outreach – through townhall sessions, industry webinars and user-friendly digital tools – can help bridge information gaps.

For instance, businesses could use a self-assessment calculator on Royal Malaysian Customs Department's website to evaluate whether they qualify for SST registration based on their revenue.

This is a strategic and measured reform that calls for early adaptation but offers long-term value.

While short-term adjustments may pose operational challenges, businesses that respond proactively will be better positioned to benefit from a more consistent and transparent tax environment and secure sustainable growth.

Stamp duty exemptions

The Stamp Act 1949 governs the imposition of stamp duty on instruments such as agreements, contracts and deeds.

Historically, enforcement was limited, leading many businesses to assume that only court-admissible documents required stamping.

That has now changed.

From Jan 1 2025, IRB implemented the Stamp Duty Audit Framework, introducing more structured audits – including retrospective reviews dating back to Jan 1 2022.

Key changes include:

> Expanded audit scope: Includes employment contracts, service agreements and inter-company arrangements.

> Two audit types: Desk (General review) and field (comprehensive review).

> Audit period: Typically three years.

> Mandatory stamping: All dutiable instruments must be stamped, irrespective of whether they are used in court.

This shift raised concerns among businesses unaware that routine employment and service contracts were dutiable.

In response to the public concern, in its media statement issued on June 6, IRB clarified that employment contracts are dutiable under Item 4 of the First Schedule of the Stamp Act 1949, with a fixed duty of RM10 per instrument.

To support taxpayers, the following relief measures were announced:

> Contracts signed before Jan 1 2025: Exempt from stamping and penalties.

> Contracts executed from Jan 1 2025 to Dec 31 2025: Exempt from penalties if voluntarily stamped within the year.

> Contracts from Jan 1 2026 onward: Full enforcement under the new self-assessment system.

This grace period allows businesses to regularise past documents without punitive consequences – an approach that aligns with IRB's commitment to administrative fairness and the principle of legitimate expectation.

To further support compliance, the following are recommended:

> Clear, accessible guidelines on what is dutiable, especially for employment and professional service contracts.

> A voluntary disclosure programme (beyond employment contracts) with penalty waivers.

> Bulk stamping mechanisms catered toward high-volume submissions, such as employment contracts.

> Ongoing stakeholder engagement with industry groups to ensure reforms are practical and proportionate.

This shift toward a more active stamp duty regime is overdue and necessary – but its success hinges on clarity, fairness and collaboration.

Businesses must now take proactive steps to ensure compliance, including internal audits and professional advisory support.

e-Invoicing implementation

The revised e-Invoicing timeline, announced on June 5 this year, introduces a more phased and flexible rollout:

> Businesses with revenue between RM1mil to RM5mil: Compliance by Jan 1 2026.

> Revenue between RM500,000 and RM1mil: Compliance by July 1 2026.

> Revenue below RM500,000: Currently exempt.

This staggered implementation is a welcome relief for small businesses, but it also underscores the need to prepare early. Key focus areas include:

> Assessing system readiness and integration capabilities.

> Budgeting for potential ERP or API-based solutions.

> Training staff on MyInvois portal usage and compliance processes.

The availability of simplified options such as monthly consolidated invoices, and the relaxation of certain requirements in the early stages, are helpful.

However, businesses must still maintain accurate records, prepare for interoperability with other systems, and ensure they are ready for full compliance when their phase arrives.

What businesses need to do

These regulatory changes represent both a challenge and an opportunity.

The SST expansion and stamp duty enforcement will require tighter compliance and documentation practices.

Meanwhile, e-Invoicing paves the way for digital transformation, though it requires initial investment and process restructuring.

SMEs are encouraged to take proactive steps following these recent policy developments:

> Conduct a comprehensive tax impact assessment covering SST, stamp duty and upcoming e-Invoicing requirements.

> Engage qualified tax advisors to understand the specific implications for their industry and business model.

> Initiate system upgrades and staff training early to ensure smooth implementation and avoid last-minute disruptions.

To facilitate a successful transition and promote voluntary compliance, the government can consider the following:

> Issue clear and timely guidance, including FAQs, through official channels such as IRB and MOF.

> Offer financial incentives, such as grants or tax deductions, to help SMEs invest in the necessary digital infrastructure.

These tax changes are more than just compliance – they are about future-proofing businesses and reinforcing Malaysia's position as a competitive, transparent economy.

For businesses, early planning and professional engagement are key to unlocking the long-term benefits of these reforms.

For policymakers, continued clarity, consultation, and targeted support – particularly for SMEs – will be vital in ensuring a smooth and inclusive transition.

By working together, both businesses and policymakers alike, can co-create a tax environment that enables growth, drives innovation, and secures the nation's economic resilience for years to come.

Soh Lian Seng is Head of Tax, KPMG in Malaysia. The views expressed here are the writer's own.