

By TAI LAI KOK

AS Malaysia prepares to unveil Budget 2026 this October, and in line with the launch of the 13th Malaysia Plan (13MP), the upcoming budget will continue building on the three pillars of the Madani Economy: Raising the ceiling of national growth; raising living standards; and driving reforms, particularly in governance.

Tax policy as a catalyst for reform

Tax policy will be instrumental in achieving these goals – not merely as a tool for revenue collection, but as a strategic driver of national development.

A forward-looking tax system can foster investment, support businesses and empower the rakyat.

When designed effectively, tax measures contribute to equitable growth, enhance economic competitiveness and reinforce the principles of shared prosperity envisioned in the Madani agenda.

Supporting small businesses

SMEs represent approximately 96% of all business establishments in Malaysia, playing a vital role in job creation and contributing substantially to the national gross domestic product.

Despite their significance, many SMEs continue to face structural challenges, including limited access to financing, slow technology adoption, and shortage of skilled talent.

To empower SMEs as engines of inclusive and sustainable growth, Budget 2026 should introduce targeted tax measures that enable them to scale, innovate and compete globally.

Expand automation incentives

While the current Automation Capital Allowance framework is accessible to SMEs, it currently supports only automation assets directly used in manufacturing or service activities.

Extending the incentive to include automation equipment, software, or systems that enhance overall business efficiency,

Tax measures as a tool for growth in Malaysia

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such as data automation tools, analytics platforms, workflow digitalisation, inventory management systems and artificial intelligence-based customer service, would better reflect current business needs.

Simplify research and development (R&D) double-deduction claims by reducing documentation requirements or introducing a fast-track mechanism, making it easier for smaller entities to access innovation incentives.

Alternatively, automatic R&D double deductions could be granted to SMEs without requiring prior approval, subject to a cap to manage fiscal exposure.

Introduce presumptive tax schemes, which are simplified taxation methods designed primarily for micro-enterprises and informal-sector participants, who may not have the resources to maintain detailed financial records or comply with complex regulations.

For instance, India's Presumptive Taxation Scheme allows small businesses to declare 8% of turnover as taxable income, without the need to maintain full accounting documentation.

These measures align closely with the Madani pillars: raising the ceiling by nurturing globally competitive SMEs and raising the floor by supporting grassroots entrepreneurs.

Tax simplification

Malaysia must embrace tax simplification as a strategic priority, aimed at reducing compliance burdens and improving efficiency for both businesses and individual taxpayers.

Efforts should focus on two key areas: tax administration and tax rules.

On the administrative front, streamlin-

ing processes such as improving turnaround times, reducing red tape, consolidating reporting requirements, and enhancing digital platforms, can significantly improve the taxpayer experience while lowering administrative costs.

In particular, shortening the time between policy proposals and the issuance of gazette orders or guidelines would help avoid unnecessary burdens, such as requiring taxpayers to revise previously submitted tax returns.

Equally important is the simplification of tax rules. This could involve consolidating overlapping incentives, standardising definitions across tax legislation, and removing outdated provisions that no longer serve economic objectives.

In addition, simplifying tax calculations would reduce ambiguity and errors, leading to stronger compliance.

For example:

- > Genuine business expenses should be fully deductible without the imposition of increasingly restrictive conditions.

- > A standardised capital allowance regime could be introduced to reduce complexity.

- > Fixed-rate deductions for common business expenses, such as entertainment and travel, would ease documentation requirements and reduce technical disputes.

For businesses, paying tax is just one of many obligations. Simplifying tax administration and tax rules allows them to focus on what matters: growing their operations, serving customers, and creating value.

Time to breathe

Malaysia needs a fiscal pause to rethink and rebuild in rhythm with reform. There must also be moments of reflection.

Malaysia's tax and regulatory landscape

has seen sweeping changes in recent years – from the expansion of sales and service tax to the introduction of capital gains tax and global minimum tax, the phased roll-out of e-Invoicing, the upcoming self-assessment framework for stamp duty, and new environmental, social, and governance reporting obligations.

While each initiative may be justified on its own merits, their cumulative impact has created a cascade of compliance issues that risks overwhelming the very businesses driving growth and resilience.

As Budget 2026 approaches, it is timely to consider a strategic pause of two to three years, with minimal new tax changes.

This breathing space would allow businesses to adapt, rethink strategies, and rebuild with confidence. A fiscal pause would also send a strong signal of stability, reassuring investors, encouraging reinvestment, and restoring trust in Malaysia's regulatory environment. In times of global uncertainty, such clarity could be a powerful catalyst for sustainable growth.

Reform with Malaysians in mind

As Budget 2026 approaches, the question is no longer just how much the government will spend, but how wisely.

Whether it's enabling SMEs to scale, supporting families through targeted relief, or simplifying compliance, the right tax policies can transform fiscal instruments into engines of inclusive growth.

Equally important is the need for stability and predictability.

A measured pause in new tax changes would give businesses the clarity to plan, invest, and grow, fostering an environment of confidence and resilience.

As Malaysia enters a new phase of development under the 13MP, the challenge is clear: to shape a future that is inclusive, forward-looking, and truly built for Malaysians – by Malaysians.

Tai Lai Kok is partner at KPMG Tax Services Sdn Bhd and Malaysian Institute Of Certified Public Accountants' tax practice committee member. The views expressed here are the writer's own.