By SOH LIAN SENG

Shaping the future of Malaysian taxes

While sustaining the government's coffers through enhanced tax-revenue collection is crucial, it is equally important to consider the long-term impact of these reforms on the average taxpayer.

AS Malaysia closed the chapter on 2024, the tail end of the year brought the customary introduction of new tax-policy changes through Budget 2025, followed by their gazettement in relevant legislation, laying the groundwork for future reforms.

While sustaining the government's coffers through enhanced tax-revenue collection is crucial, it is equally important to consider the long-term impact of these reforms on the average taxpayer.

Tax-policy reform, in principle, should be implemented in a way that ensures taxpayers are adequately prepared for potential disruptions to their businesses, complemented by relevant guidance from the government to mitigate these effects.

Achieving this requires long-term and holistic tax-policy planning that clearly outlines reforms to be introduced gradually into the Malaysian economy.

Although there is currently no formal long-term tax policy beyond the measures outlined in Budget 2025, recent tax changes introduced by the government provide a foundation upon which such a policy could be built.

Towards self-assessment

Most of Malaysia's tax regimes have now shifted to a self-assessment system, requiring taxpayers to report and pay their own taxes to the relevant authorities.

The latest addition to this system is stamp duty, which will be implemented in phases beginning Jan 1, 2026.

A self-assessment tax system plays a vital role in modern tax administration by encouraging voluntary compliance among taxpayers in assessing their taxable income.

It also enhances the accuracy of tax reporting, as taxpayers are often better suited to evaluate their own finances and business transactions to determine reportable income.

From the perspective of tax authorities, the shift to self-assessment allows them to focus more on developing overarching tax strategies and enforcement systems to mitigate under-reporting, errors, or tax avoidance.

The recent introduction of self-assessment for stamp duty shows the government's recognition of the importance of a phased transition to the new administrative system.

Over the three-year transition period, this approach aims to minimise disruptions for businesses adapting to the new system. However, taxpayers may still have questions, including the enforcement efforts planned by the government and how the current STAMPS portal will be updated to reflect the shift towards self-assessment.

These examples underscore how long-term tax-policy planning can address practical challenges businesses may face due to the newly introduced self-assessment system.

While awaiting the implementation of the self-assessment, to address potential challenges during this transition, the government could prioritise enhancements to its IT infrastructure to facilitate stamp-duty calculation, offer consulting services to reduce ambiguities, and promote compliance through education programmes, including a tax-amnesty exercise.

This would help taxpayers better understand their obligations and ensure a smoother transition to the new system.

Expansion of service tax

The scope of service tax in Malaysia has expanded several times over the years, with recent changes in 2024 including the addition of taxable services such as logistic services and maintenance or repair services, alongside an increase in the service-tax rate from 6% to 8% for most taxable services.

The latest development involves the inclusion of new services such as commercial-service transactions between businesses, which will take effect from May 1, 2025.

A significant concern for businesses is whether the government will provide sufficient clarity to ensure a seamless transition towards charging service tax on the newly impacted taxable services, especially considering the effective deadline is just a few months away. While the government's gradual expansion of service tax is commendable as it eases the tax burden on taxpayers, forward-thinking that accounts for business timelines is also necessary.

This includes understanding which types of commercial services fall within the expanded scope, assessing their liability for service tax registration, and implementing the necessary administrative or system changes to facilitate this transition.

New taxes

In recent years, the government has introduced new taxes as part of the efforts to strengthen Malaysia's tax base – most notably, the capital gains tax, which took effect on Jan 1, 2024, and the dividend tax, set to be implemented for the year of assessment 2025.

The introduction of new taxes typically raises concerns among taxpayers and prospective investors, primarily due to the perception of additional costs.

Therefore, the government must carefully manage the rollout of these taxes to mitigate potential negative impacts on Malaysia's long-term economic growth.

The introduction of capital gains tax, for example, has been accompanied by new policies and guidelines addressing various scenarios related to the disposal of capital assets.

These include exemptions to minimise the tax's impact on certain transactions.

A key consideration, however, is whether these policies adequately preserve the attractiveness of Malaysia's tax environment and its ease of doing business.

In a similar vein, while the rationale behind the newly introduced dividend tax is understandable – aimed at taxing wealthier individuals with large dividend incomes and redistributing the funds through government assistance programmes for the rakyat – it raises a critical question: Will the expected dividend tax collections offset the potential deterrent effect on investments into the country from these said wealthier individuals?

To address this, the government should consider mechanisms for more efficient and effective tax collection and redistribution while minimising unintended consequences on investor confidence.

If the government initiates a formal tax-policy planning exercise, the above considerations and implications must be evaluated as part of the process to determine whether the benefits of new tax policies outweigh the costs.

Long-term planning is crucial to future-proof Malaysia's tax policy environment

Tax policy reforms are inevitable and should be regularly reassessed as businesses continue to grow globally and require innovative, dynamic tax solutions.

It is clear that the government has laid a strong foundation for adapting to these changes in the Malaysian tax system. Nonetheless, sustaining Malaysia's economic momentum requires the establishment of a robust and holistic tax planning framework, which will involve continuous engagement between policymakers and taxpayers.

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