



Global Minimum Tax in Malaysia

Balancing a global tax reform with domestic tax
landscape

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KPMG in Malaysia



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Overview and Commentary



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Key Message

“Budget 2026 “The Fourth Madani Budget: The People’s Budget” conveys a general theme - to build a nation of dignity and fairness. This ties in with the main agenda behind the Pillar 2 Rules to improve fairness of tax systems globally such that large MNEs pay their fair share of tax wherever they operate.

Considering the complexities faced by affected MNEs in the adoption of the Pillar 2 Rules, early preparation is key to ensure a smooth transition and compliance.”



Over the past two years, the Organisation for Economic Co-operation and Development (“OECD”)’s Base Erosion and Profit Shifting (“BEPS”) 2.0 Pillar 2 framework – commonly referred to as Global Minimum Tax – has gained significant traction globally. Among the recent developments in the Pillar 2 sphere is the G7’s June 2025 statement outlining a “side-by-side” approach by addressing potential overlaps between the OECD’s Pillar 2 Rules and existing United States (“U.S.”) tax regimes, most notably the Global Intangible Low-Taxed Income system.

Despite the U.S. stance on the Pillar 2 Rules, global momentum behind Pillar 2 remains intact.

Looking further afield, we have observed:

- the rollout of Income Inclusion Rule and Domestic Minimum Top-up Tax (“DMTT”) across many more jurisdictions;
- the development of Pillar 2 compliance mechanisms, including the release of a pro-forma DMTT return by Belgium and the United Kingdom (U.K.); and
- increasing alignment of tax incentives with OECD standards, notably Singapore’s Refundable Investment Credit (“RIC”) and Thailand’s National Competitiveness Enhancement for Targeted Industries Act.

In Malaysia, preparations for the implementation of Pillar 2 are well underway, with affected taxpayers having to keep pace with global developments whilst navigating the complexities of the domestic Pillar 2 Rules. Notwithstanding this, what remains clear is that the Malaysian framework aims to align internationally, yet stay grounded in domestic realities.

Pillar 2 in Malaysia, where compliance meets reality

The following intricacies have been observed, amongst others:

- While the Pillar 2 calculations generally apply the Ultimate Parent Entity (“UPE”)’s accounting standards, Malaysia, amongst others, mandate the use of financial accounts prepared using local accounting standards. Although appearing as a simplification measure, there are practical challenges to be considered. One of the prescribed conditions of the above requires all entities in Malaysia to have the same financial year end as the UPE. For example, it is not uncommon for Malaysian entities to have a different year end from its Japanese UPE which typically has a March year end. Hence, the mandate may not apply in such situation.
- Given that accounting standards form the foundation of Pillar 2 calculations, the impact of nuances in UPE Generally Accepted Accounting Principles (“GAAP”) and Local GAAP should be considered, e.g. whether a push-down of consolidation adjustments is required.
- The Malaysian Inland Revenue Board’s clarification that Capital Work-in-Progress is to be recognised as part of the Eligible Tangible Assets computation for Substance-based Income Exclusion purposes is a welcome development as it benefits capital intensive projects. However, this may vary from the position adopted by other jurisdictions.
- The implementation of Pillar 2 will change the way businesses operate – Pillar 2 calculations are prepared on a jurisdictional basis, but the reality is that many entities within an MNE Group may lack visibility and not have purview of other entities within the group. Cross-functional and intra-company collaboration is not optional and must begin now.
- Despite that Pillar 2 calculations are on jurisdictional basis, each Malaysian in-scope entity (including dormant ones) is required to submit separate DMTT returns, unlike certain jurisdictions that allow for group filing. This may encourage entity-level accountability but it comes with an increase in compliance obligations.
- In view that any Top-up Tax arising in Malaysia is allocated to the Malaysian entities based on a GloBE Income ratio, the recharging of such Top-up Tax remains a point of discussion for MNEs.

A comparison of key Pillar 2 compliance features of selected jurisdictions is tabled as follows:

Details	Malaysia	Singapore	Thailand	U.K.
Any registration requirements?	Not at this juncture	Yes	Yes	Yes
Local GAAP or UPE GAAP for DMTT purposes?	Local GAAP *	Local GAAP *	UPE GAAP	UPE GAAP
Group filing of Top-up Tax Returns on a jurisdictional basis	No	Yes	Yes	Yes

*Provided prescribed conditions are met

Given the complexities of the Pillar 2 Rules, in-scope MNEs should try to avail themselves for Transitional Country-by-Country Reporting (“CbCR”) Safe Harbour which deems a jurisdiction’s Top-up Tax to be nil where conditions are met. It should be noted that the application of the Transitional CbCR Safe Harbour requires use of a “qualified” data source. The availability of the Transitional Penalty Relief also means that Malaysian in-scope MNEs may not be penalised during the transitional period. However, an MNE Group should not take compliance lightly as it is required to demonstrate that “reasonable measures” (undefined at this juncture) have been taken in applying the Pillar 2 Rules correctly.

Moving from compliance, the next question is one that may matter most for Malaysia’s position as an investment destination – how will Pillar 2 reshape our tax incentives?



Pillar 2 and tax incentives

The Global Minimum Tax of 15% has challenged the effectiveness of traditional tax incentives in Malaysia, necessitating a reassessment of Malaysia’s incentive framework.

The introduction of Singapore’s RIC and Thailand’s National Competitiveness Enhancement for Targeted Industries Act puts focus on Malaysia to step up its profile of investment attractiveness on the map of ASEAN and beyond. Whilst it was mentioned during Budget 2025 that the Malaysian Government will assess the feasibility of Strategic Investment Tax Credit, we noted that there are no further developments on this in Budget 2026. Nonetheless, the Malaysian Government has taken proactive steps by introducing, amongst others, the following:

- Non-fiscal incentives such as the Investor Pass and the Residence Pass – Talent Fast Track scheme that streamlines the procedures for foreign investors; and
- The full implementation of the New Industrial Master Plan outcome-based tax incentives.

By relooking at both tax and non-tax incentives, this demonstrates the Malaysian Government’s commitment to preserving Malaysia’s attractiveness as an investment destination.

Final thoughts



Budget 2026 “The Fourth Madani Budget: The People’s Budget” conveys a general theme - to build a nation of dignity and fairness. This ties in with the main agenda behind the Pillar 2 Rules to improve fairness of tax systems globally such that large MNEs pay their fair share of tax wherever they operate.

Considering the complexities faced by affected MNEs in the adoption of the Pillar 2 Rules, these authors are of the opinion that:

1. **Early preparation is key.** In-scope MNEs should be ready for the implementation of the Pillar 2 Rules as the filing of the first Top-up Tax Returns in Malaysia will be in year 2027. Though the Transitional CbCR Safe Harbour and Transitional Penalty Relief are available as a “soft-landing” for in-scope MNEs, this does not mean that in-scope MNEs should have a relaxed view on compliance.
2. **Assessing the viability of existing tax incentives is important.** For in-scope MNEs enjoying tax incentives in Malaysia, it is important to relook at the efficacy of existing incentives in light of the Pillar 2 Rules, explore any alternatives and start negotiations with the relevant regulatory bodies.

The Malaysian Government faces the challenge of aligning the domestic Pillar 2 Rules with the OECD’s Model Rules while maintaining Malaysia’s attractiveness as an investment hub. We look forward to further guidance on Pillar 2 in the near future as well as Budget 2027 one year on.

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