



2026 Budget – Indirect Tax

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KPMG in Malaysia

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An abstract graphic composed of several thick, colorful lines in shades of yellow, orange, pink, and teal. These lines are connected by white circular nodes, forming a complex, interconnected network that resembles a stylized molecular structure or a digital circuit. The lines and nodes are set against a solid blue background.

Overview and Commentary



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Key Message

2026 Budget for indirect tax sees a targetted approach aligned to a few key National agendas, namely:-

- **Energy Transition Agenda** – Carbon Tax will be introduced in 2026, with an initial focus on the iron, steel and energy sectors. Details of the mechanism has not been released but it will be coordinated with the upcoming National Carbon Market Policy and the National Climate Change Bill.
- **Agenda Nasional Malaysia Sihat** (National Agenda for a Healthy Malaysia) – Proposed increase in Excise Duty on cigarette, cigars, cheroots, cigarillos, heated tobacco products and alcoholic beverages. The increase in duty is hoped to reduce the prevalence of smokers in Malaysia as well as access to alcoholic beverages, hence promoting a healthier lifestyle.

There are also other measures such as the introduction of digital tax stamp with enhanced security features and the tax exemption on motor vehicles in Langkawi and Labuan be limited to those valued not exceeding RM300,000. No major changes were noted in the Budget Speech for Sales Tax and Service Tax, as anticipated given the recent review of the goods subject to Sales Tax and expansion in the scope of Service Tax on 1 July 2025.

Carbon Tax

2026 Budget has reaffirmed Malaysia's intention to introduce carbon tax in 2026, with an initial focus on the iron, steel and energy sectors. The Government has also stated that the framework will be aligned with the upcoming National Carbon Market Policy (*Dasar Pasaran Karbon Kebangsaan*) and the National Climate Change Bill (*Rang Undang-Undang Perubahan Iklim Negara*).

The proposed implementation in 2026 reinforces Malaysia's commitment to its Net Zero 2050 campaign. With the petrol-subsidy rationalisation effected in September 2025, the introduction of carbon tax in 2026 appears to be timely and fitting, providing businesses with a reasonable window to adapt and align with new policies.

As the detailed mechanism is still being developed, clear guidance on, amongst others, the calculation, tax rates, sector coverage and offset options will be key to ensure a smooth transition for the affected industry players. In the meantime, businesses should take pro-active measures to prepare for the anticipated introduction of carbon tax in the near future, if not already done so.

Review of Excise Duty Rate on Cigarettes

At present, cigarettes classifiable under tariff codes 2402.20.2000, 2402.20.9000 and 2402.90.2000 are taxed as follows:-

Import Duty	Excise Duty	Sales Tax
RM0.20/ stick	RM0.40/ stick	10%

It is proposed that from **1 November 2025** onwards, the Excise Duty rate on cigarettes be increased in phases, starting with a rise of RM0.02 per stick (RM0.40 per 20 sticks pack).

Review of Excise Duty Rate on Cigars, Cheroots and Cigarillos

At present, cigars, cheroots dan cigarillos that are classifiable under tariff codes 2402.10.0000 and 2402.90.1000 are taxed as follows:-

Import Duty	Excise Duty	Sales Tax
RM200/ KG	RM400/ KG	10%

It is proposed that from **1 November 2025** onwards, the Excise Duty rate on cigars, cheroots and cigarillos be increased in phases, starting with a rise of RM40 per KG.

Review of Excise Duty Rate on Heated Tobacco Products

At present, heated tobacco products classifiable under tariff code 2404.11.0000 are taxed as follows:-

Import Duty	Excise Duty	Sales Tax
5% + RM50/ KG	RM778/ KG of tobacco content	10%

It is proposed that from **1 November 2025** onwards, the Excise Duty rate on heated tobacco products be increased in phases, starting with a rise of RM20 per KG of tobacco content.



Review of Import Duty and Sales Tax Exemption on Nicotine Replacement Therapy (“NRT”) Products

Nicotine gum and nicotine patch are exempted from Import Duty and Sales Tax effective from 1 April 2023 to 31 March 2026. Rates of Import Duty and Sales Tax for NRT products are as follows:-

	Tariff Code	Import Duty	Sales Tax
Nicotine Gum	2404.91.1000	15%	5%
Nicotine Patch	2404.92.1000	0%	10%
Nicotine Mist	2404.91.9000	15%	5%
Nicotine Lozenges	2404.91.9000	0%	10%

To further support the implementation of the mQuit programme and the Lung Health Initiative by the Ministry of Health as well as in line with Malaysia’s commitment as a party to World Health Organisation (“WHO”) Framework Convention on Tobacco Control (“FCTC”) to provide smoking cessation treatment, it is proposed that:-

- Import Duty and Sales Tax exemption on nicotine gum and nicotine patch be extended to **31 December 2027**; and
- the scope of exemption for NRT products be expanded to include nicotine mist and nicotine lozenges from **11 October 2025 to 31 December 2027**.

The proposal is effective for applications received by the Ministry of Finance (“MOF”) from **11 October 2025 to 31 December 2027**.

Review of Excise Duty Rate on Alcoholic Beverages

At present, alcoholic beverages are subject to Excise Duty at the following rates:-

Product Description	Tariff Code	Excise Duty (RM) (per 100% vol. per liter)
Beer	22.03	175.00
Sparkling wine	2204.10.000	450.00
<i>Other wine, grape must, other grape must, vermouth, brandy, whiskies, rum, gin and geneva, vodka</i>	2204.21, 2204.22, 2204.29, 2204.30, 22.05, 2208.20, 2208.30, 2208.40.0000, 2208.50.0000, 2208.60.0000	150.00
Cider and perry, sake, shandy, wine (vegetable & fruit juice), other rice wine, liqueurs and cordials, arrack or pineapple spirit	2206.00.1000, 2206.00.2000, 2206.00.4100, 2206.00.4900, 2206.00.6000, 2206.00.9100, 2208.70.1000, 2208.70.9000, 2208.90.5000, 2208.90.6000, 2208.90.9100, 2208.90.9900	60.00

Samsu (including medicated samsu)	2208.90.1000, 2208.90.2000, 2208.90.3000, 2208.90.4000	60.00
Coconut palm toddy, mead, bitters	2206.00.3100, 2206.00.3900, 2206.00.5000, 2206.00.9900, 2208.90.7000, 2208.90.8000	40.00
Undenatured ethyl alcohol	2207.10.0000	22.50 and 15%
Ethyl alcohol and other spirits	2207.20	1.10 and 15%



To reduce access to alcoholic beverages and promote a healthier lifestyle, it is proposed that Excise Duty rates on alcoholic beverage products be increased by 10% with effect from **1 November 2025**.

Digital Tax Stamp

The Malaysian Government is committed to good governance and accountability, with enforcement agencies [including the Royal Malaysian Customs Department (“RMCD”)] managing to seize assets and collected penalties amounting to approximately RM15.5 billion.

To promote better governance and enforcement, it is proposed that the RMCD will introduce a digital tax stamp with enhanced security features to curb counterfeits and manage leakages at the country’s entry point through a Centralised Screening Complex CCTV.



Limit on Vehicle Tax Exemption in Langkawi and Labuan



It has been proposed that tax exemption on motor vehicles in Langkawi and Labuan be limited to those valued not exceeding RM300,000 effective from **1 January 2026**.

This is the government's effort to stem the issue of luxury vehicle owners taking advantage of the existing tax exemption in these duty-free islands. One of the existing conditions for the tax exemption allows the motor vehicle to remain in the Principal Customs Area (i.e. outside Langkawi and Labuan) for a period not exceeding 90 days in any one year and this is susceptible to abuse. The RM300,000 ceiling price is aimed to prevent tax leakage on the

purchase of luxury vehicles whilst allowing vehicles below the threshold to continue enjoying the tax exemption.

There are currently Import / Excise Duty and Sales Tax exemptions on locally assembled and imported motor vehicles in Langkawi and Labuan, although it remains to be seen which of these taxes would be impacted by this proposal.

Full Excise Duty and Sales Tax Exemptions for Taxi and Private Hire Car Owners

The government has proposed a 100% exemption on Excise Duty and Sales Tax for the purchase of new national vehicles, specifically PROTON and PERODUA models, by taxi owners and private hire car owners.

At this stage, specific details regarding eligibility criteria, application procedures and the duration of the exemption have not been disclosed. Historically, similar exemptions have required compliance with conditions set by the MOF, with applications submitted directly to the MOF for approval.

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