

Tax Reforms For SMEs In Malaysia: What You Need to Know



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Ng Sue Lynn, Partner and Head of Indirect Tax at KPMG in Malaysia and also a Fellow of ACCA (the Association of Chartered Certified Accountants) sheds some light on key elements that SMEs should take note of.

New tax reliefs

Ahead of the anticipated e-invoicing requirement, which is still pending gazettment, SMEs enjoy a special deduction of RM50,000 per year of assessment (YA) from YA 2024 to YA 2027 to support its implementation.

Also brand-new is the Investment Tax Allowance (ITA), to encourage SMEs to make strategic reinvestments in their business.

"The ITA encourages existing companies that have exhausted their Reinvestment Allowance eligibility period to increase capacity and investment in high-value activities under the New Industrial Master Plan 2030," explained Ng. While the full guidelines have yet to be issued, the eligible rate will be determined using an outcome-based approach. SMEs can apply to the Malaysian Investment Development Authority (MIDA) from 1 January 2024 to 31 December 2028.

Other rebates and reliefs

To help, Ng suggests attending regular training sessions, workshops and seminars that are organised by the tax authorities such as Lembaga Hasil Dalam Negeri (LHDN), the Royal Malaysian Customs Department (RMCD) and other government agencies, as well as organisations like ACCA that provide regular update alerts. In addition to staying informed with the latest news, these sessions also offer valuable opportunities for you to ask questions and clarify some of the more obscure points, such as different definitions of the term 'SME' that may impact your eligibility for certain incentives.

Broadly, SMEs are defined as:

- A resident company incorporated in Malaysia
- Paid-up capital of no more than RM2.5 million at the beginning of its basis period
- Gross income from business of not more than RM50 million for the YA (effective from YA 2020)
- Not connected to a non-SME
- No more than 20% of paid-up capital in ordinary shares or capital contribution at the beginning of YA that is directly/indirectly owned or contributed by one or more companies incorporated outside Malaysia or individuals who are non-Malaysian citizens (effective from YA 2024)

"On that note, I would say these are the three most important things that SMEs need to do when it comes to filing taxes. First, revisit the status of your company to ensure it remains compliant with various regulatory requirements. Second, before claiming any incentives, make sure that your company meets the eligibility criteria, as most incentives have conditions. Third, do not wait until the last minute to get your paperwork in order," advises Ng.

Keep calm and file your taxes

For many people and companies alike, the key to simplifying the tax filing journey lies in being organised and systematic.

"Establish strict, standard operating procedures (SOPs) for all business-related and financial documentation. Be rigorous about capturing as much detail as possible, updating them regularly, and maintaining them well. This foundation is essential for your entire business and will ensure you have all the necessary information on hand when tax season comes around," said Ng.

As companies prepare for the eventual transition to e-invoicing, Ng recommends business owners to visit the LHDN portal for a comprehensive look at e-invoicing, which will be

Some existing reliefs are still available, albeit with tightened eligibility. These include the start-up tax rebate, concessionary income tax rates and special capital allowance.

- The start-up tax rebate applies to newly incorporated companies that were incorporated on or after July 2020 and no later than 31 December 2022. If your company meets the conditions outlined in the Income Tax (Conditions for the Grant of Rebate under subsection 6D(4)) Order 2021, you are eligible for a tax rebate of RM20,000 per YA for three consecutive years.
- The concessionary income tax rate has been reduced since YA 2023 from 17% to 15% on the first RM150,000 of chargeable income. Subsequently, the 17% rate will be applied to chargeable income from RM150,001 to RM600,000, and thereafter the rate will be 24%, which is the rate for non-SMEs.
- The special capital allowance at a rate of 100% is applicable for small value assets of RM2,000 or less per item, such as furniture and digital equipment. For items that cost more than this amount, the normal rate still applies. The good news is that there is no cap for SMEs, whereas non-SMEs have a RM20,000 limit on the aggregate claim per YA.

Exemptions and grants

Ng also highlights that micro credit loans below RM50,000 are exempted from stamp duties.

Moreover, the Digitalisation Grant Scheme is a recent collaboration between the Malaysia Digital Economy Corporation (MDEC), Bank Simpanan Nasional (BSN) and the Malaysian Communications and Multimedia Commission (MCMC). It offers a 50% matching grant, capped at RM5,000 per entity, to help SMEs with digitalisation, she said.

Expert advice

Admittedly, it takes some effort to stay updated with the latest taxation requirements, let alone learn how to maximise the benefits that are there to help you.

come mandatory for all by 1 July 2025.

When equipped with the relevant knowledge, business owners can take the next steps such as educating their staff and key stakeholders on the new requirements, and conduct regular assessments on business operations to ensure compliance with the issuing and receipt of invoices. With the deadline set for 1 July 2025 for SMEs, she also advises looking into the company's enterprise resource planning (ERP) systems to check that it is compatible with LHDN and capable of issuing the e-invoices.

"While these changes can feel overwhelming, getting a head start can help pave the way for a smoother transition," said Ng. "Keep in mind that there are readily available resources and information to support SMEs. In the long run, digitalisation comes with cost-saving benefits, enhancing efficiency and reducing errors, while freeing up time for more strategic functions, allowing you to grow your business."

