



Tax Incentives: Embracing digital technology

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Overview and commentary



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Key Message

“With Budget 2025, we observe that the government is introducing several tax incentives centred around technological development and digitalisation. These incentives are being proposed to further propel the Malaysian economy towards embracing global trends.

While Malaysia’s journey towards becoming a high-technology nation is far from over, the initiatives introduced are a solid step forward towards the desired Malaysian economy of the future.”

The Government’s unwavering commitment to digital economy



In his presentation of Budget 2025, our honorable Prime Minister and Finance Minister, YAB Dato’ Seri Anwar Ibrahim outlined Malaysia’s path forward in these challenging times. He emphasised the need for economic reform and restructuring to ensure Malaysia’s continued progress and greater prosperity for its Rakyat.

When it comes to tax incentives, the overarching goal remains to foster a favorable business environment, attract investments and stimulate sustainable economic growth. Last year, a significant step was taken by the Government towards a more outcome-based incentive

structure, resulting in the implementation of a tiered incentive system.

Another year has passed, and Budget 2025 has continued the trend of extending existing tax incentives and reviewing certain tax measures to boost national revenue while at the same time stimulate economic growth and investment.

We are pleased to note that Budget 2025 has unveiled a new Investment Incentive Framework designed to attract high-value activities. This framework, along with the outcome-based incentive approach announced last year, represents a shift from the existing product-specific incentives and is expected to be implemented in Q3 2025.

While the specific details and benefits of the new Investment Incentive Framework are yet to be realised, it is anticipated that it will enhance Malaysia’s competitiveness and appeal to foreign and domestic investors, particularly in high-technology sectors including manufacturing, services, innovation, and renewable energy.

This leads us to another initiative by the Government aimed at capitalising on emerging global trends: the New Industrial Master Plan 2030 (NIMP). NIMP is a comprehensive policy framework designed to transform the manufacturing sector and as part of its Mission-based approach, seeks to establish



Malaysia as a leading hub for Advanced Integrated Circuit (IC) Design Technology and Solutions. This ambitious goal is underpinned by strategic objectives such as talent development, research and development, and the creation of a conducive industry ecosystem to enhance Malaysia's global competitiveness in the global IC design landscape. The achievement of these objectives would transform Malaysia into a preferred destination for IC design companies, apart from contributing to the country's economic growth, technological advancement, and global competitiveness.

The tax measures outlined in Budget 2025 appears to demonstrate this trend. Currently, there is a tax exemption for increased exports of up to 70% of statutory income for companies involved in certain service. It was proposed that the sectors that can avail themselves to this incentive be expanded to include IC design services.

In addition, to foster the development of a highly skilled workforce in the digital age, the government has proposed allowing private higher education institutions and private skills training institutions to claim a full tax deduction within the same assessment year for the costs of developing new courses. This initiative aims to nurture a skilled workforce capable of meeting the demands of the digital revolution, including proficiency in digital technology and artificial intelligence.

Currently, tax exemptions are provided to Labuan Trading Entities that undertake Islamic finance activities such as Islamic digital banking, Islamic digital bourses, ummah-related companies and Islamic digital token issuers. To further stimulate investment in the Islamic finance sector, particularly in the digital technology-driven segment at the Labuan International Business and Financial Centre, the government has proposed that the existing Labuan financial sector incentives be expanded to include Labuan Trading Entities undertaking qualifying Labuan takaful business activities as well as Labuan takaful related activities.

It is important to note that the rise of the digital economy has also had a significant impact on the logistics sector. The sector, is currently operating at very high capacity and also faced heightened pressures during the pandemic as domestic and international demand for transportation and import-export services increased significantly. To enhance supply chain efficiency, an incentive has been proposed for Smart Logistics Complex (SLC) which adopts advanced technologies, including those associated with Industry 4.0.

Eligible SLC companies such as those who constructs or leases smart warehouses and undertake eligible logistics services activities may benefit from an income tax exemption equivalent to an Investment Tax Allowance of 60% on qualifying capital expenditure incurred over a 5-year period.

Overall, Budget 2025 underscores Malaysia's steadfast commitment to digital technology as a catalyst for economic growth, innovation, and social development. While the Government's embrace of technological growth is commendable, it is essential to acknowledge that a significant portion of the Malaysian economy is comprised of Micro, Small and Medium Enterprises (MSMEs). A greater emphasis should be placed on encouraging a wider adoption of such advanced technologies so that Malaysian MSMEs are able to maximise their competitiveness and potential.

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