



# 2025 Budget – Indirect Tax Perspective

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KPMG in Malaysia



# Overview and commentary



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## Key Message

The 2025 Budget for indirect tax sees a number of important measures clearly aimed at increasing the Government's revenue. At the forefront are the proposed review of the rates of Sales Tax and the expansion of Service Tax scope, two bold but progressive measures to improve the nation's coffers effective 1 May 2025. The Excise Duty on sugar sweetened beverages will see an increase in rate in phases starting from 1 January 2025. A new Carbon Tax is also proposed to be introduced in year 2026 on the iron and steel industries as well as the energy sector in Malaysia.

The mechanism and finer details for the above measures have not been announced though it is anticipated that the Government will undertake consultations with the relevant industries to ensure the objective is achieved. As such, businesses should keep abreast of the latest developments and are encouraged to provide constructive feedback to aid the smooth implementation.

## Review of Sales Tax Rates



As announced in the 2025 Budget, the Government intends to increase tax collection by expanding the tax base. One of the measures is to implement Sales Tax and Service Tax on a more progressive basis so as to not burden the public.

Sales Tax is currently imposed on taxable goods manufactured in Malaysia as well as on imported taxable goods at the prescribed rates, generally at 5% or 10%. There is a list of exempted goods which are not subject to Sales Tax. Sales Tax exemptions are also available on the manufacturing inputs used by registered manufacturers to manufacture taxable goods.

In order to not burden the Rakyat with additional cost of living, it is proposed that basic food items consumed by the Rakyat will remain to be exempted from Sales Tax.

On the other hand, the rates of Sales Tax is proposed to be increased on non-essential items such as imported premium goods like avocado and salmon. Currently, avocado (under the Harmonised Tariff Code heading of 08.04) and salmon (for example, under the Harmonised Tariff Code heading of 03.02) are not subject to Sales Tax. As these premium goods are not viewed to be essential or common expenditure for the Rakyat, it is hoped that the review of the Sales Tax rates on these items will not have any adverse impact on the majority of the Rakyat.

In order not to disrupt business operations, the Government will undertake consultations with the industry players before finalising the scope and applicable Sales Tax rates. This is indeed a welcome message as any ill-conceived proposals on the scope and rate could result in a haphazard implementation and disruptions to businesses. Affected businesses should be prepared to have a forum with the Government or the Royal Malaysian Customs Department (“RMCD”) to raise any concerns and provide constructive recommendations.

The above is proposed to be effective from **1 May 2025**.

## Expansion of the Scope of Service Tax



The scope of Service Tax was recently expanded to include new taxable services such as logistics services and maintenance or repair services, whilst the Service Tax rate was also increased from 6% to 8% on most taxable services, except on essential services such as food and beverages.

It is proposed that the scope of Service Tax be expanded to include new services such as commercial service transactions between businesses. There are currently Service Tax exemptions available under the Service Tax legislations such as the intra-group relief facility as well certain business-to-business exemptions, where these exemptions help to mitigate tax cascading effects and reduce the cost of doing business.

With the proposed expansion of Service Tax on commercial service transactions between businesses, it needs to be considered the nature or types of commercial service transactions that will be caught under this proposed expansion (the Budget speech gave example of fee based financial services), the applicable rate, as well as whether Service Tax exemptions such as intra-group relief are available or applicable.

Prior to implementing this proposal, the Government will also undertake consultations with the industry to provide a balanced measure before finalising the scope and Service Tax rate. Impacted businesses should start preparing for discussions with the Government or the RMCD on this proposal.

The above is proposed to be effective from **1 May 2025**.

## Review of Excise Duty Rate on Sugar Sweetened Beverages (“SSB”)

Currently, Excise Duty of RM0.50 per litre (introductory rate at RM0.40 per litre in 2019) is imposed on SSB based on the threshold of sugar content. Below are the types of SSB that are subject to Excise Duty:

No	Tariff Code	Type of Beverages	Sugar Content Threshold
1	22.02	Beverages including carbonated drink containing added sugar or other sweetening matter or flavoured and other non-alcoholic beverages	>5g/100ml
		Flavoured milk-based beverages containing lactose	>7g/100ml
3	20.09	Fruit juices and vegetable juices whether or not containing added sugar or other sweetening matter	>12g/100ml

In line with the effort to improve the health and well-being of the rakyat, particularly the prevention of diabetes and obesity, it is proposed that the Excise Duty on SSB be increased in **phases** starting from **1 January 2025** at RM0.40 per litre.

As no further details were announced, it remains to be seen on how the incremental Excise Duty will be effected in due course. Affected businesses need to keep a close eye on the dates of change in rate to ensure no under-declaration of Excise Duty.

## Sales Tax Exemption on Mastectomy Bra for Breast Cancer Patients

Currently, whilst mastectomy bra is exempted from Import Duty, it is subject to 10% Sales Tax.

In line with the value of compassion and to ease the burden of breast cancer patients, it is proposed that Sales Tax exemption be given for mastectomy bra.

No	Product	Tariff code	Current		Proposed
			Import Duty	Sales Tax	Sales Tax
1	Mastectomy bra (made from cotton)	6212.10.1100	0%	10%	0%
2	Mastectomy bra (made from other textile materials)	6212.10.9100	0%	10%	0%

It is proposed that the above is applicable for applications received by the Ministry of Finance from **1 November 2024 until 31 December 2027**.

## Introduction of Carbon Tax



In line with the goal of achieving net zero carbon emission by 2050, carbon reduction measures such as carbon pricing and carbon tax were first mentioned during the tabling of the 12th Malaysia Plan in 2021. Malaysia's commitment is reaffirmed with the announcement made in the 2025 Budget where carbon tax is planned to be introduced on the iron and steel industries as well as the energy sector in **2026**.

The main objective is to encourage these businesses to lower their carbon emissions by adopting low carbon technologies or switching to alternative fuel sources. The long-term goal is to accelerate the use of green technology and

decrease reliance on non-renewable energy sources which are associated with global warming and adverse climate impacts.

It is worth noting that the Government's intention to introduce the carbon tax was first indicated in the 2023 Budget (October 2022) where it was mentioned that a feasibility study will be conducted prior to implementing the carbon pricing mechanism. It is therefore only a matter of time for carbon tax to be introduced in Malaysia. Also, rather than being construed as another source of government revenue, the Government has assured that the proceeds from such tax collection will be used to fund research and green technology programmes to spur decarbonisation efforts.

No further details are available yet with regard to the exact implementation date, mechanics as well as the Government agency to administer this carbon tax. While keeping a look out for further developments, impacted businesses should start reviewing their carbon footprint and identifying relevant measures to prepare for the impending implementation of carbon tax in time to come.

## Crude Palm Oil ("CPO") Windfall Profit Levy

Currently, the windfall profit levy is imposed at a rate of 3% for CPO prices exceeding RM3,000 per metric tonne ("MT") in Peninsular Malaysia and RM3,500 per MT in Sabah & Sarawak. It is proposed that the threshold be increased to RM3,150 and RM3,650 for Peninsular Malaysia and Sabah & Sarawak respectively.

	Rate	Current Threshold	Proposed Threshold
Peninsular Malaysia	3%	CPO price > RM3,000 per MT	CPO price > RM3,150 per MT
Sabah & Sarawak	3%	CPO price > RM3,500 per MT	CPO price > RM3,650 per MT

The above is proposed to be effective **1 January 2025**.

## Review of Export Duty Exemption on CPO

The export duty rates for CPO were last revised on 1 January 2020 through a partial exemption. In an effort to ensure the supply of CPO in the domestic market, it is proposed that the export duty rates after taking into account the partial exemption be revised as follows with effect from **1 November 2024**:

No.	CPO Market Price (RM/MT)	Current Rate	Proposed Rate
1.	<2,250	NIL	NIL
2.	2,250 – 2,400	3.0%	3.0%
3.	2,401 – 2,550	4.5%	4.5%
4.	2,551 – 2,700	5.0%	5.0%
5.	2,701 – 2,850	5.5%	5.5%
6.	2,851 – 3,000	6.0%	6.0%
7.	3,001 – 3,150	6.5%	6.5%
8.	3,151 – 3,300	7.0%	7.0%
9.	3,301 – 3,450	7.5%	7.5%
10.	3,451 – 3,600	8.0%	8.0%
11.	3,601 – 3,750	8.0%	8.5%
12.	3,751 – 3,900	8.0%	9.0%
13.	3,901 – 4,050	8.0%	9.5%
14.	>4,050	8.0%	10.0%



## Forest City as a Duty Free Island

The signing of the Johor-Singapore Special Economic Zone Memorandum of Understanding (“JSSEZ”) in January 2024 marks a major achievement of economic cooperation between Malaysia and Singapore.

In tandem, the Government has approved Forest City as a Duty Free Island to support tourism and local economic activities.

A Duty Free Island would typically be accorded special indirect tax incentives and exemptions. Recently, Pulau 1 Forest City has been gazetted as a designated area for Sales Tax and Service Tax.

Businesses looking to undertake operations in Forest City should take note of this development as it could impact the way businesses are conducted as well as competitiveness.



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