Tax developments

15 May 2025

KPMG in Malaysia

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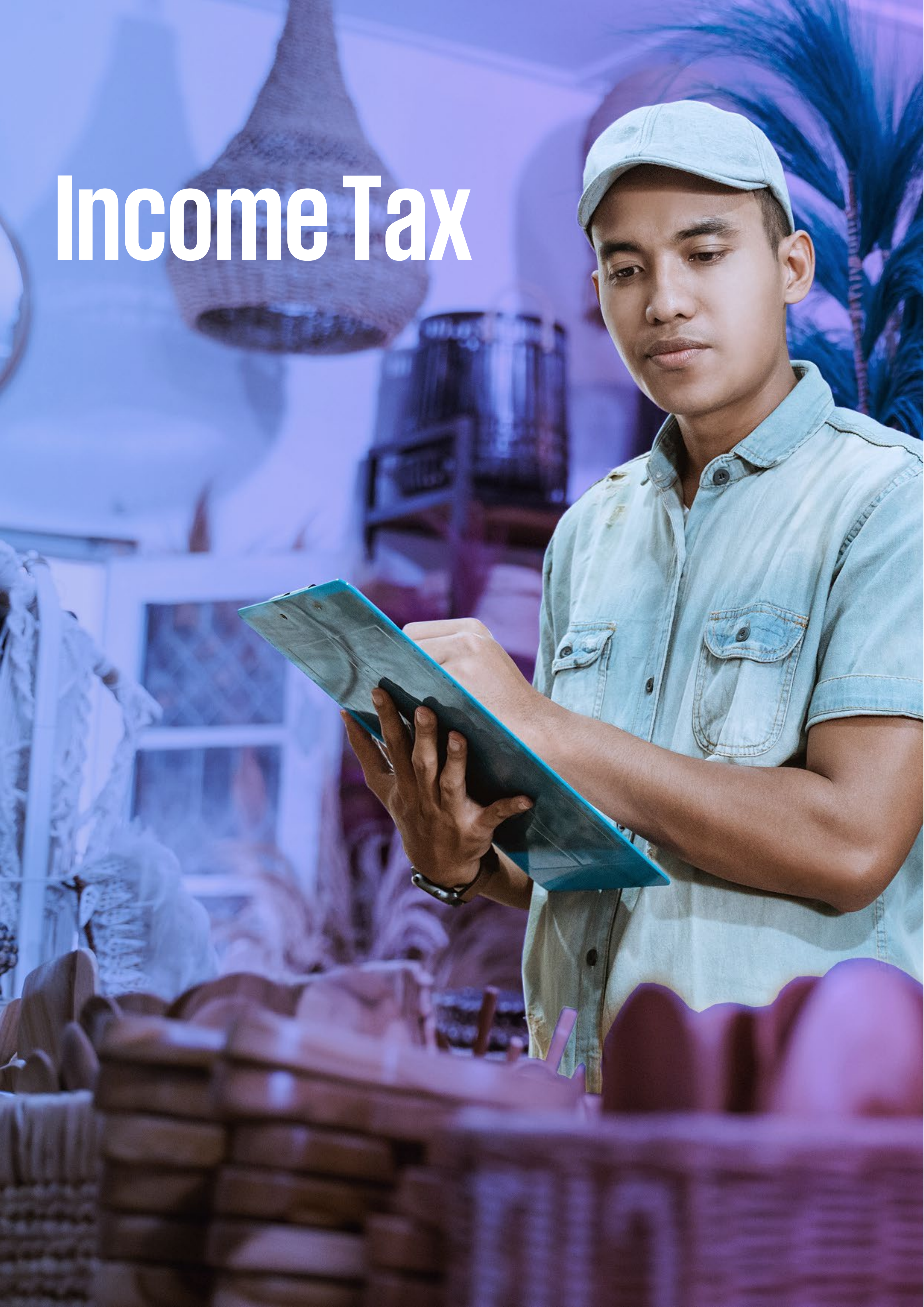
Income Tax



Income Tax

Expansion of qualifying services for increased exports

The Income Tax (Exemption) (No. 9) Order 2002 and subsequent Amendment Orders provide income tax exemption equivalent to 50% of the value of increased export of qualifying services as listed below, restricted to 70% of statutory income of a YA:

- Legal
- Accounting
- Architecture
- Marketing
- Business consultancy
- Office services
- Construction management
- Building management
- Plantation management
- Private health care *(being removed effective from YA 2021 and is covered under a separate exemption order)*
- Private education
- Publishing services
- Information technology and communication services
- Engineering services
- Printing services
- Local franchise services

The Income Tax (Exemption) (No. 9) Order 2002 (Amendment) Order 2025 was gazetted to expand the list of qualifying services to include integrated circuit design services, effective from YA 2025.

Source for the Order: Federal Legislation Portal of Malaysia

Amended legislation for income tax exemption for Labuan-related income

The Income Tax (Exemption) Order 2025 provides income tax exemption on specific income received from/by a specified Labuan entity. Amongst others, distribution of profit after tax from the foundation to a member of a Labuan foundation or Labuan Islamic foundation is exempted. You may refer to KPMG's Tax Developments dated 13 March 2025 (access from here) for more information.

However, the Labuan Foundations Act 2010 does not provide for the concept of "members". In view of this, the Income Tax (Exemption) Order 2025 (Amendment) Order 2025 was gazetted to rectify the exempted person to beneficiary of a Labuan foundation or Labuan Islamic foundation.

The Amendment Order is effective from YA 2023 to YA 2027.

Source for the Order: Federal Legislation Portal of Malaysia

MDEC's updated guidelines and FAQs for Malaysia Digital tax incentives

MDEC has released the above for Malaysia Digital new investment incentive and expansion incentive.

Amongst others, the notable updates are:

- Enhancement and/or upgrading of existing product or services is not a qualifying activity.
- Condition(s) related to economic development commitment by the company may be imposed to be eligible for the incentive.
- The claiming of ITA has been sub-divided into two phases:

	New investment incentive	Expansion incentive
First part of ITA period (from the commencement date until the date of submission of declaration on compliance of minimum conditions by the company)	Complies with the minimum conditions within 36 months from the date of approval in principle ITA of 30% of qualifying capital expenditure incurred in the first part of ITA period	
Second part of ITA period (from the day following the expiry of first part of ITA period until the expiry date of the 5-year ITA period)	Maintains compliance of minimum conditions ITA of remaining 30% of qualifying capital expenditure incurred in the first part of ITA period and ITA of 60% of qualifying capital expenditure incurred in the second part of ITA period Complies with additional conditions, on top of the minimum conditions ITA of remaining 70% of qualifying capital expenditure incurred in the first part of ITA period and ITA of 100% of qualifying capital expenditure incurred in the second part of ITA period	Maintains compliance of minimum conditions ITA of 30% of qualifying capital expenditure incurred in the second part of ITA period Complies with additional conditions, on top of the minimum conditions ITA of remaining 30% of qualifying capital expenditure incurred in the first part of ITA period and ITA of 60% of qualifying capital expenditure incurred in the second part of ITA period

Source for the Guidelines and FAQ: Official Portal of MDEC

Deduction for pre-petroleum agreement expenditure

The Petroleum (Income Tax) (Deduction for Pre-Petroleum Agreement Expenditure) Rules 2025 were gazetted to provide a tax deduction on qualifying expenditure incurred before the execution of petroleum agreements, in arriving at the adjusted income of a chargeable person from its petroleum operations for a YA. The qualifying expenditure refers to expenses for data acquisition and seismic studies incurred in an area which is commissioned and verified by PETRONAS.

We wish to highlight the following salient points:

- The deduction only applies for petroleum agreement executed on or after 1 January 2024.
- Qualifying expenditure must be incurred within 3 years immediately before the execution date of the petroleum agreement. The qualifying expenditure is deemed incurred on the date the petroleum agreement is executed and is deductible on a straight-line basis over 10 YAs, starting from the YA in which the chargeable person first sells or disposes of chargeable petroleum. Where the operations involve multiple contiguous petroleum agreements, the 10-YA deduction period begins from the YA in which chargeable petroleum is first sold or disposed of from the area where the pre-agreement expenditure was incurred.
- Unutilized deduction from one petroleum agreement is not transferrable to another petroleum agreement.
- The Rules do not apply to PETRONAS, the Malaysia–Thailand Joint Authority, or a chargeable person carrying on petroleum operations in the basis period for a YA in the Joint Development Area or in overlapping areas under a joint exploration and exploitation agreement between the Malaysian Government and a foreign government.

The Rules are deemed to have effect from YA 2024.

Source for the Rules: Federal Legislation Portal of Malaysia

Johor-Singapore SEZ

Johor-Singapore SEZ

MIDA's guidelines for Johor-Singapore SEZ tax incentive package

MIDA has issued the above detailed guideline to explain the criteria, qualifying activities and the application procedure for the tax incentives for projects carried out in the designated flagship zone(s) within the Johor-Singapore SEZ, which is summarized below:

- **Global Services Hub***
  - Flagship A (Johor Bahru Waterfront)
  - Flagship B (Iskandar Puteri)

5% special tax rate for 15 years on trading and services income, or services income

- **Smart Logistics Complex**
  - Flagship C (Tanjung Pelepas)

ITA

100% on qualifying capital expenditure incurred within 5 years to be set off against 100% of statutory income for each YA

- **Manufacturing – downstream specialty chemicals***
  - Flagship D (Tanjung Langsat – Kong Kong)

	Tier 1	Tier 2
Special tax rate	5%	10%
	for 5 + 5 years	
OR		
ITA	100%	60%
	on qualifying capital investment (excluding land) for qualifying activities up to 10 years (5 + 5 years) to be set off against 100% of statutory income for each YA	

➢ Manufacturing Business Incentive Scheme

- Flagship E: Senai – Skudai
  Aerospace manufacturing and maintenance, repair and operations services
- Flagship F: Kulai – Sedenak
  Artificial intelligence and/or quantum technology supply chain, medical devices and pharmaceutical

New company with new investment in the manufacturing sector with capital investment (excluding land) of:	**> RM1 billion**	**Between RM500 million and RM1 billion**
Special tax rate of 5%*	**15 years**	**10 years**

Existing company in Malaysia relocating overseas facilities (for a new business segment not expansion of existing products) into Malaysia which has new investment in the manufacturing sector with capital investment (excluding land) > RM500 million

ITA

100%

on qualifying capital investment (excluding land) incurred within 5 years to be set off against 100% of statutory income for each YA

➢ Integrated Tourism Project

- Flagship G (Desaru – Penawar)

ITA

100% on qualifying capital expenditure incurred within 5 years to be set off against 70% of statutory income for each YA

* *The relevant statutory orders are pending gazettement.*

Application for the tax incentives shall be made online to MIDA from 1 January 2025 to 31 December 2034.

Source for the Guidelines: Official Portal of MIDA

MIDA's guidelines for Forest City SFZ tax incentive package

MIDA has issued the above guideline to explain the criteria, qualifying activities and the application procedure for the tax incentives applicable to Forest City Mainland:

- **Smart Logistics Complex**

  ITA

  100% on qualifying capital expenditure (excluding land) for a period of 5 years to be set off against 100% of statutory income for each YA

- **Global Services Hub***

  5% special tax rate for up to 10 years and extension of additional 10 years on trading and services income, or services income

- **Relocation services***

  5% special tax rate for up to 10 years and extension of additional 10 years

* *The relevant statutory orders are pending gazettement.*

Application for the tax incentives shall be made online to MIDA from 1 September 2024 to 31 December 2034.

Source for the Guidelines: Official Portal of MIDA

MDEC's guidelines and FAQs on Forest City SFZ tax incentive for fintech related activities, financial global business services and foreign payment system operator

MDEC has issued the above guideline to explain the eligibility criteria, scope and conditions and the application procedure for the tax incentive applicable to Pulau 1 Forest City:

5% special tax rate on chargeable income* derived from approved qualifying activities carried out in Pulau 1 Forest City for 10 consecutive YAs and extension of additional 10 YAs

* *excluding any royalty or other income derived from an intellectual property right*

Application for the tax incentive shall be submitted to MDEC from 1 September 2024 to 31 December 2034. The relevant statutory order is pending gazettement.

Source for the Guidelines and FAQs: Official Portal of MDEC

Indirect Tax

Indirect Tax

Guidelines on applications for Sales Tax exemption and refund on mastectomy bras that are imported or purchased from registered manufacturers

Further to the announcement made during Budget 2025, the MOF has issued a guideline dated 1 January 2025 which sets out the requirements and application procedures for the Sales Tax exemption and refund on mastectomy bras that are imported or purchased from registered manufacturers. This exemption is effective from **1 November 2024 to 31 December 2027** ("Exemption period").

Currently, mastectomy bras under HS Code 6212.10.1100 and 6212.10.9100 are subject to Sales Tax at a rate of 10%. However, eligible individuals/ companies would be exempted from payment of Sales Tax or be eligible to claim a Sales Tax refund for mastectomy bras purchased during the Exemption period.

In view that the guideline was only issued on 1 January 2025 and the Sales Tax exemption was effective 1 November 2024, individuals/ companies who have paid Sales Tax on the importation/ local purchase of mastectomy bras may apply for a Sales Tax refund.

Set out below are the conditions to qualify for the Sales Tax exemption and Sales Tax refund:

Sales Tax exemption	Sales Tax refund
a. Applicants are Malaysian individuals or companies registered under CCM or the relevant local authorities of Sabah/ Sarawak;	a. Applicants are Malaysian individuals or companies registered under CCM or the relevant local authorities of Sabah/ Sarawak;
b. The application must be submitted to MOF's tax division along with the relevant supporting documents as follows: - cover letter; - copy of identification card (for individuals) or CCM certificate along with e-Info (for companies)/ business licence for Sabah/ Sarawak; - purchase order/ buyer's order (if applicable); - invoice; and - documents related to the importation/ purchase (e.g. Customs K1 form, delivery order, etc).	b. The Sales Tax on the importation or local purchase of the mastectomy bra was **paid between 1 November 2024 to 31 December 2024**. The application for refund must be submitted **latest by 30 September 2025**. c. The Sales Tax on Low Value Goods for the purchase of mastectomy bras online was **paid between 1 November 2024 to 31 December 2027**. The application for refund must be submitted **latest by 30 June 2028**. d. The application must be submitted to MOF's tax division along with the relevant supporting documents as follows: - cover letter; - copy of identification card (for individuals) or CCM certificate along with e-Info (for companies)/ business licence for Sabah/ Sarawak; - purchase order/ buyer's order (if applicable); - invoice; and

	- documents related to the importation/ purchase (e.g. Customs K1 form, delivery order, etc).

Upon approval, for Sales Tax exemption applications, MOF's tax division will issue a Sales Tax exemption approval letter to the individual/ company which is to be submitted to RMCD for Sales Tax to be exempted on mastectomy bras which are imported, or to the registered manufacturers in the case of local purchase. Whereas for Sales Tax refund applications, a Sales Tax refund approval letter will be issued to the individual/ company for onward submission to RMCD for the Sales Tax refund request.

Source for the guideline: MOF's Official Portal - Policy Updates

Indirect tax legislation updates

The following legislations have been gazetted:

I. Customs (Anti-Dumping Duties) Order 2025

The Customs (Anti-Dumping Duties) Order 2025 has been gazetted, and is effective from **7 May 2025 to 6 May 2030**. The Order sets out that in addition to the imposition and collection of import duties and Sales Tax, the importation of Polyethylene Terephthalate under HS Code 3907.61.00 00 from The People's Republic of China is subject to anti-dumping duties ranging from 2.29% to 11.74% depending on the producer/ exporter, as well as from The Republic of Indonesia whereby the rate of duty is 37.44% from all producers or exporters.

II. Customs (Prohibition of Imports) (Amendment) Order 2025

The Customs (Prohibition of Imports) (Amendment) Order 2025 has been gazetted, and comes into operation on **1 July 2025**. Amendments are made in the Second Schedule, in Part I, by deleting item 12 and the particulars relating to it.

The Fourth Schedule is also amended in Part I, to include an additional item, i.e. Item 6 – Waste, parings and scrap of plastics under Chapter and Heading 39.15 imported from all countries whereby the manner of import is accompanied by a Certificate of Approval by or on behalf of SIRIM Berhad as defined under the Guidelines for Importation and Inspection of Waste Plastic.

Source for the Orders: Federal Legislation Portal of Malaysia

Personal Tax

Personal Tax

Computation of chargeable dividend income for dividend tax

Effective from YA 2025, an individual who is a shareholder of a company (either through direct shareholding or a nominee) is subject to income tax on dividend paid, credited or distributed, whether in monetary form or otherwise, by the company which is deemed to be derived from Malaysia, provided that his annual taxable dividend income exceeds RM100,000 in a YA. The dividend tax applies to both resident and non-resident individuals.

The Income Tax (Determination of Chargeable Income of an Individual in respect of Dividend) Rules 2025 were gazetted to set out the formula to compute an individual's chargeable income in respect of the dividend, where they have received dividend income and other sources of income in a basis period for a YA:

$$\frac{A}{B} \times C$$

A – statutory dividend income

B – aggregate income*

C – chargeable income

* *Where the individual elects for joint assessment, the aggregate income includes the income from the wife or husband, as the case may be.*

The chargeable dividend income as ascertained above shall be charged to income tax at the rate of 2%, with the remaining chargeable income (if any) be assessed at the usual income tax rate for individual (i.e. schedular tax rate for resident and prevailing 30% tax rate for non-resident).

The Rules have effect for YA 2025 and subsequent YAs.

Source for the Rules: [Federal Legislation Portal of Malaysia]

Insights on Earlier Tax Whiz

Please refer below to our earlier Tax Whiz for more information.

No.	Subject	Date of issue
1	Malaysian Tax Corporate Governance Framework	22 April 2025
2	Proposed Expansion of Scope for Service Tax and Review of Sales Tax Rates - Deferred	30 April 2025

The table below sets out the various abbreviations and references used in this publication.

	Reference
CCM	Companies Commission of Malaysia
FAQ	Frequently Asked Question
ITA	Investment Tax Allowance
MDEC	Malaysia Digital Economy Corporation
MIDA	Malaysian Investment Development Authority
MOF	Ministry of Finance
PETRONAS	Petroliam Nasional Berhad
RM	Ringgit Malaysia
RMCD	Royal Malaysian Customs Department
SEZ	Special Economic Zone
SFZ	Special Financial Zone
YA	Year of assessment

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