



2027 Budget - Indirect Tax Perspective

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Overview and Commentary



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Key Message

No new taxes or substantial changes to the indirect tax regime have been proposed in the 2027 Budget. Instead, to support local businesses, the Government adopts a selective approach to provide exemptions and refunds, specifically:

- Sales Tax refund facility for traders
- Import Duty and Sales Tax exemptions for Langkawi and Labuan
- Entertainment Duty exemption in the Federal Territories.

Additionally, the Service Tax treatment for elderly care services is also improved, including a reduction in the Service Tax rate.

Overall, the indirect tax measures in 2027 Budget appear targeted rather than broad-based, with the Government seeking to ease specific cost pressures, support local supply chains and selected economic activities, while maintaining the overall direction of the existing indirect tax framework.

Reduced Service Tax Rate and Exemption on Elderly Care Services

Currently, the provision of elderly care services is taxable under Group C (Wellness Centres), First Schedule of the Service Tax Regulations 2018. While there are different types of elderly care facilities with varying levels of support and services depending on the needs and requirements of the elderly individuals, elderly care services are generally subject to Service Tax at 8%.

As part of their continued efforts to alleviate the financial and welfare burdens of senior citizens amidst the current socioeconomic conditions, the Government has proposed for the Service Tax rate on the provision of elderly care services to be reduced from 8% to 6%. Another measure proposed to further ease the cost of elderly care is the Service Tax exemption to be given to registered centres (under Care Centres Act 1993 or Private Aged Healthcare Facilities and Services Act 2018) charging annual care fees up to RM96,000 per person, although any amounts exceeding that shall be subject to Service Tax at 6%. Also, note that the provision of elderly care services is proposed to be removed from the aforementioned Group C and introduced as a new item under Group I (Other Service Providers) albeit with the same registration threshold of RM500,000.



From the tax compliance perspective of registered centres providing elderly care services, careful consideration should be given on the change in Group and the transitional rules surrounding the reduction of Service Tax rate from 8% to 6% once further details are announced.

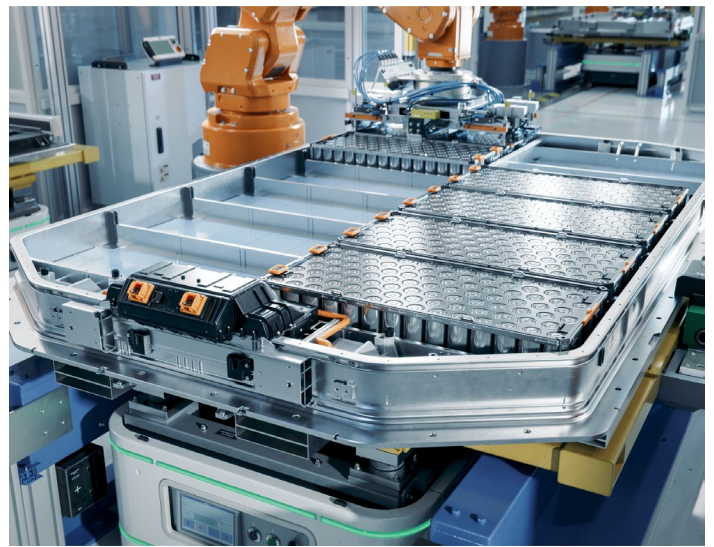
In particular, operators should review the treatment of existing contracts, advance payments, invoices and services that straddle the 1 January 2027 effective date. The RM96,000 annual care fee threshold will also require close attention once the detailed rules are released, particularly as to how the threshold is to be applied and monitored. Beyond tax compliance, the proposal is a welcome social measure as it recognises the increasing cost of elderly care while providing targeted relief to senior citizens and their families.

The above is proposed to be effective **1 January 2027**.

Sales Tax Refund Facility for Local Traders or Distributors on Supplies to Manufacturers

Under the 2027 Budget proposal, the Government intends to introduce a Sales Tax refund facility for traders or distributors on goods supplied to manufacturers, to reduce business costs and also strengthen local supply chains.

Currently, manufacturers may enjoy Sales Tax exemptions on qualifying machinery, spare parts and equipment under Item 55, Schedule A to the Sales Tax (Persons Exempted from Payment of Tax) Order 2018, as well as approved inputs used in the manufacture of pharmaceutical products, animal feed, fertilizers and pesticides under Schedule B of the same order. However, these exemptions generally only apply where the goods are imported directly by the manufacturer or purchased directly from a local registered manufacturer.



This proposal would allow Sales Tax refund for machinery, spare parts and equipment under Item 55 of Schedule A, as well as qualifying inputs under Schedule B, when it is supplied by local traders or distributors to manufacturers.

The proposed measure is expected to reduce the Sales Tax cost embedded in purchases made through local traders and distributors, thereby supporting manufacturers' cash flow and encouraging greater utilisation of local distribution channels. This is a positive development as the existing exemption mechanism can, in certain circumstances, influence how manufacturers structure their procurement arrangements. Extending relief to purchases through local traders or distributors should provide greater flexibility in sourcing and help reduce potential tax costs within the domestic supply chain. The effectiveness of the measure, however, will depend on how the refund mechanism is implemented in practice. Businesses should look out for the eligibility conditions, documentary requirements, refund process and expected processing timeframe once the detailed rules are issued.

The proposal is scheduled to take effect from **1 January 2027**.

Review of Import Duty and Sales Tax Exemption Treatment for Goods Transported Out of Duty-Free Islands

In line with Visit Malaysia 2027 and the Government's efforts to boost tourism in Langkawi and Labuan, the purchase limit for goods eligible for Import Duty and Sales Tax exemptions by visitors and tourists is proposed to be increased to RM10,000, subject to a minimum stay of 48 hours with effect from **1 January 2027** as follows:

Goods Category	Goods Value Limit	Duration of Visit
Langkawi and Labuan		
All goods (new), except: 1. Tyres and tubes 2. Alcoholic beverages 3. Cigarettes 4. Tobacco products 5. Smoking pipes 6. Electronic cigarettes and vapes, including liquids or gels	RM10,000	48 hours

The higher RM10,000 limit is a timely measure in conjunction with Visit Malaysia 2027 and should enhance the attractiveness of Langkawi and Labuan as tourism and shopping destinations.

The above proposal, however, excludes duty free islands of Tioman, Pangkor and Pulau 1, Forest City – where the existing treatment is maintained.



Review of Import Duty Exemption for Langkawi Origin Goods

With the aim of supporting local entrepreneurs, the Government proposes to revise and expand the Import Duty exemptions on products manufactured in Langkawi with effect from **1 January 2027** as follows:

Goods Category	List of Goods
Agriculture and Agro-food	1. Bird's eggs 2. Coconuts 3. Fruits 4. Sugarcanes 5. Vegetables 6. Poultry 7. Virgin coconut oil
Food and Beverage Products	1. Coffee products 2. Mineral water 3. Pineapple tarts 4. Coconut cookies 5. Chocolate made in Langkawi 6. Curry puff 7. Chips 8. Buffalo milk ice cream 9. Retort products
Fisheries and Marine Products	1. Anchovies 2. Anchovy based products 3. Dried stingray products 4. Downstream sea cucumber products
Minerals and Ornament	1. Handicraft products 2. Crystal products 3. Tiffin carrier
Consumer Goods and Home Appliances	1. Homemade soap 2. Virgin coconut oil soap 3. Whetstones
Forestry and Construction	1. Wood charcoal 2. Cement 3. Marble

Entertainment Duty Exemption in the Federal Territories

Currently, Entertainment Duty exemption is given to the following selected categories of entertainment held in the Federal Territories for the period from 1 January 2024 to 31 December 2028:

No	Categories of Entertainment	Entertainment Duty Rates After Exemption
1	Stage performances by international artists / light shows / circuses	10%
2	Film screenings (cinemas) / theatres	
3	Exhibitions / zoos / aquariums	
4	Sports events / e-sports / bowling / snooker / pool / billiards / karaoke	
5	Theme parks / family recreation centres / indoor amusement centres / simulators	5%
6	Stage performances by local artists	0%

To further invigorate the local creative arts industry and promote family-oriented entertainment activities, the Government has proposed that:

1. The Entertainment Duty exemption for the above selected categories of entertainment be extended until **31 December 2030**. This is applicable to applications received by the Ministry of Finance ("MOF") until 31 December 2030.
2. A 100% Entertainment Duty exemption be given on tickets for local film screenings at cinemas and local theatre performances held in the Federal Territories for four years. This is applicable to applications received by the MOF **from 1 January 2027 until 31 December 2030**.

The extension and expansion of Entertainment Duty relief should provide continued support to Malaysia's arts, entertainment, tourism and family recreation sectors. The full exemption for local films and theatre performances is particularly encouraging as it provides more direct support for Malaysia's domestic creative industry.

Entertainment Duty Exemption for Activities and Events Held at Stadium Merdeka and Stadium Negara

Currently, Entertainment Duty exemption is given on admission fees for activities and events held at selected facilities in the Federal Territory to encourage the organisation of arts and cultural events, entertainment and sports activities.

To optimise the use of conserved historical heritage sites, it is proposed that Entertainment Duty exemption also be given on arts and cultural events, entertainment and sports activities to be held at Stadium Merdeka and Stadium Negara. Extending the relief to Stadium Merdeka and Stadium Negara also complements efforts to revitalise these heritage venues and broaden their use for arts, cultural, entertainment and sporting activities.

This proposal is effective from **1 January 2027**.

Navigating the Indirect Tax Landscape Ahead

While 2027 Budget does not introduce major structural changes to Malaysia's indirect tax regime, businesses should not interpret this as a year of limited change. The indirect tax landscape continues to evolve, and the practical impact will increasingly be determined by how the existing Sales Tax and Service Tax framework, exemptions, refund mechanisms and administrative requirements operate in practice.

For businesses, attention should therefore turn from the Budget announcements to implementation. Ultimately, the 2027 Budget indirect tax measures are targeted and facilitative in nature. The real benefit to businesses will depend on the clarity and ease of implementation of the detailed rules. Businesses should therefore continue to monitor the Finance Bill, subsidiary legislation and implementation guidelines as they are released.

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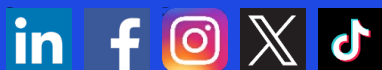
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