



The New Corporate Tax Equation: Competitiveness Meets Compliance

Improving tax transparency and efficiency for continued growth

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Overview and Commentary



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Key Message

“2027 Budget builds on existing tax regimes and initiatives, improving tax efficiency through digitalization while strengthening compliance across the corporate sector. Together, these measures signal a tax framework that seeks to balance competitiveness, revenue and accountability. As businesses navigate rapid technological and global change, the true measure of success will not be how much tax is saved, but whether the system can foster innovation, support transformation and enable businesses to remain competitive in the long term. Ultimately, a future-ready tax system should do more than provide relief. It should create the conditions for sustainable growth.”

Corporate Tax Reimagined: Incentives, Investment and Integrity



2027 Budget offers an interesting glimpse into the Government's vision for Malaysia's corporate tax system. While tax incentives and other headline measures may attract the most attention, the broader message appears to be one of balancing competitiveness and accountability.

The Government's objectives are clear. Against a backdrop of global economic uncertainty and rising living costs affecting both the *rakyat* and businesses, the Budget introduces a range of measures aimed at alleviating cost pressures, encouraging investment and supporting economic resilience.

One of the headline measures is the proposed reduction in corporate income tax rates for small and medium enterprises ("MSMEs"), lowering the tax rate on the first RM150,000 of chargeable income from 15% to 14%, and on the next RM450,000 from 17% to 16%, effective from YA 2027. Given that MSMEs accounts for the vast majority of business establishments in Malaysia, the measure is a welcome step towards supporting business growth and entrepreneurship.

However, the relief should be viewed in the broader business context. Operating costs remain elevated, driven by higher fuel prices, electricity tariffs and the newly announced increase in the minimum wage from RM1,700 to RM2,000. While MSMEs with annual revenue not exceeding RM50 million have been granted an exception from the minimum wage increase, questions remain as to whether the proposed tax savings will be sufficient to offset the wider cost pressures faced by businesses.

This raises a broader question: are the measures intended to provide temporary relief, or are they sufficiently transformative to enhance long-term business competitiveness? While tax rate reductions are

undoubtedly welcomed, businesses continue to face increasing operating costs and investment requirements. The challenge for policymakers is whether tax measures alone can meaningfully accelerate productivity improvements and help businesses move up the value chain.

Beyond tax rate reductions, the Government has also enhanced the capital allowance regime for small-value assets by increasing the qualifying asset threshold from RM2,000 to RM3,000 per asset, while raising the annual claim limit for non-MSMEs from RM20,000 to RM30,000. Although seemingly modest, these measures provide businesses with greater flexibility in claiming tax deductions on lower-value capital expenditures and may encourage continued reinvestment in business operations. For businesses, this is also a timely prompt to consider whether capital expenditure is being classified correctly, supported by complete records and fully reflected in capital allowance claims. Unclaimed or under-optimised allowances may represent tax value that has already been invested in but not yet realised.

Similarly, the extension of the accelerated capital allowance ("ACA") incentive for qualifying expenditure on plant, machinery, ICT equipment and customised software development until 31 December 2030 reinforces the Government's commitment to supporting digitalization, automation and business productivity. Significantly, the ACA remains available for machinery and equipment acquired from local manufacturers, underscoring a policy objective that extends beyond capital investment to stimulating domestic manufacturing activity and strengthening local supply chains. Businesses planning major technology or automation projects should therefore consider the tax treatment early, together with procurement, financing and implementation decisions, rather than only after the expenditure has been



incurred. The timing of contracts, the identity of the supplier, the nature of the asset and the supporting documentation may determine whether the intended tax benefit is available.

Consider, for example, a business embarking on a multi-year automation program. If the tax, finance, procurement and operations teams assess the project together at the planning stage, the business can identify potentially qualifying expenditure, evaluate local sourcing requirements and establish the documentation trail from the outset. If tax is considered only after commissioning, the business may find that contracts, invoices or asset descriptions do not clearly support the intended claim, even where the investment itself may have been commercially justified.

At the same time, 2027 Budget does not focus solely on delivering tax relief. A notable compliance-driven measure is the proposal to restrict the deductibility of salary expenses to payments made through financial institutions or prescribed cashless payment instruments, with the exception of MSMEs. Effective from YA 2028, affected employers should review their payroll arrangements before the requirement takes effect. This includes considering how salaries and other employee-related payments are made, whether exceptions are handled outside the central payroll process, and whether payment records can be readily reconciled to payroll and accounting data. The issue is therefore not only whether payments are cashless, but whether the relevant controls and evidence are sufficiently robust to support the deduction.

Viewed from a policy perspective, this measure appears to be about more than tax deductibility. It reflects a broader shift towards greater transparency, traceability and formalisation within the economy. As tax administrations increasingly leverage digital tools and data analytics, inconsistencies between tax filings, payroll records, financial accounts and transactional data may become more visible. Businesses should therefore ask whether their tax governance framework, systems and documentation are ready for a more connected compliance environment, and whether responsibility for the quality and integrity of tax-relevant data is clearly established across the relevant business functions.

While many of the measures are targeted towards corporations and MSMEs, their impact may extend beyond the business community. Lower tax costs, enhanced deductions and reduced financing frictions could potentially give rise to a wave of local entrepreneurship. In turn, this could contribute to greater job creation, business expansion and economic activity.

Taken together, 2027 Budget presents a coherent narrative. The Government appears to be using tax measures to stimulate business activity, encourage investment and support digital transformation, while simultaneously strengthening the integrity of the tax system through measures aimed at improving transparency and reducing leakages. For businesses, the message is equally clear: tax outcomes will increasingly depend not only on what is spent, but on how early tax is considered, how transactions are executed and how effectively the underlying data and documentation can withstand scrutiny.

That said, the Budget also highlights areas where further reforms could potentially be considered. As businesses increasingly focus on productivity, automation, artificial intelligence and workforce transformation, there may be scope for more targeted measures that directly support innovation and long-term competitiveness. In an increasingly competitive regional landscape, the conversation may gradually shift from whether Malaysia offers tax incentives, to whether it offers sufficient support for businesses to innovate, scale and compete globally.

Overall, 2027 Budget reflects a continuing policy focus on strengthening business competitiveness, supporting investment and digitalisation, facilitating entrepreneurship, and enhancing tax compliance across the corporate sector. The immediate task for businesses is to translate these measures into practical questions: Are planned investments structured to access the available incentives? Are capital allowances being fully optimised? Are payroll arrangements ready for the new deductibility requirements? And can existing systems and controls support an increasingly digital and data-driven compliance environment? Ultimately, the success of 2027 Budget will not be measured by how much tax is saved, but by whether it encourages businesses to invest more deliberately, operate more transparently and compete more effectively.

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