



2027 Budget: Sharpening Malaysia's Investment Proposition

**Strategic Activities, Stronger Clusters,
Better Investment Outcomes**

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Overview and Commentary



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Key Message

2027 Budget strengthens Malaysia's investment proposition by directing support towards strategic activities, priority locations and investments that deliver measurable economic outcomes.

The focus is increasingly on areas such as semiconductors, AI and digitalisation, green technologies and higher-value services, supported by established and emerging clusters including Penang-Kulim, Tanjong Malim and the Johor-Singapore Special Economic Zone ("JS-SEZ"). At the same time, the New Incentive Framework ("NIF") provides a clearer basis for assessing investment quality through outcomes such as high-value jobs, technology, local supply-chain development, cluster growth, inclusivity and sustainability.

For businesses, this creates a wider opportunity than tax incentives alone. The enhanced Global Services Hub ("GS-Hub") regime strengthens Malaysia's position for regional and global functions, while targeted sector and location-based measures provide new options for manufacturing, services and expansion projects. The key is to align the right activity, the right location and the right economic outcomes to build a stronger investment case and maximise the support available under 2027 Budget.

A stronger investment case in a more volatile world



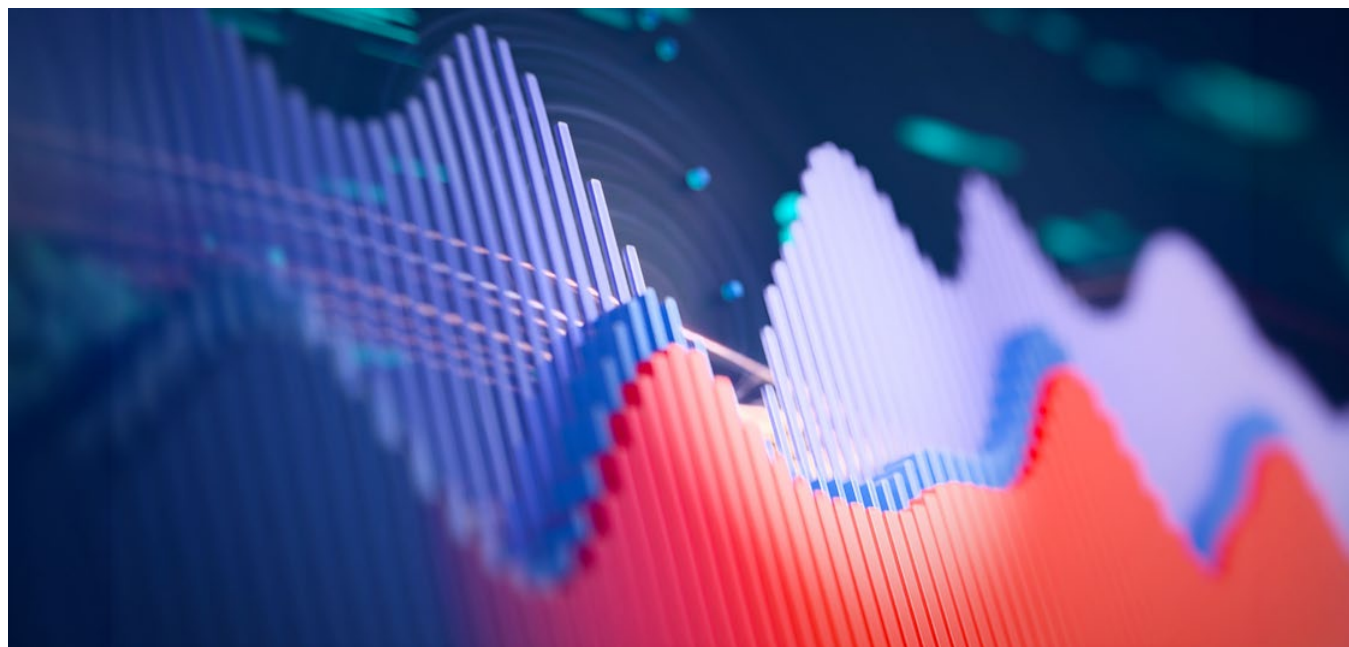
2027 Budget comes at a time when geopolitical tension is no longer a distant issue for Malaysian businesses. Ongoing instability in West Asia and wider conflicts have kept energy and freight costs elevated, disrupted shipping routes and added uncertainty to supply chains. At the same time, artificial intelligence, technology competition and the global energy transition are changing where companies invest and what capabilities they need. Malaysia's response in 2027 Budget is therefore not simply to offer more incentives, but to make the country's investment proposition more deliberate: attract activities that strengthen resilience, raise productivity and create deeper economic value.

Strategic activities move to the front of the investment story

The Budget places clear emphasis on activities that can move Malaysia further up the value chain. Semiconductors remain a central priority, with measures aimed at strengthening innovation, intellectual property, advanced manufacturing and higher-value parts of the semiconductor ecosystem. Artificial intelligence and digitalisation are increasingly treated as productivity and capability drivers rather than stand-alone technology themes. Green investment is also being refined, with support continuing for renewable energy and energy-efficiency projects while greater attention is directed towards emerging technologies such as green hydrogen, renewable energy integrated with storage and selected locally produced green assets. The common thread is clear: support is being directed towards activities that can build capabilities that Malaysia wants to retain over the long term.

Location is becoming part of the investment strategy

2027 Budget also makes the geography of investment more relevant. Rather than treating Malaysia as a single investment location, the Budget builds on the strengths of particular states and economic clusters. In the north, the Penang-Kulim ecosystem continues to anchor semiconductor and advanced manufacturing activities, with a RM100 million Strategic Investment Fund in Penang supporting companies at the early stages of growth. In Perak, the Automotive Hi-Tech Valley in Tanjong Malim is being strengthened as a regional automotive hub, including a tax deduction of up to RM5 million for qualifying relocation costs incurred by fully Malaysian-owned automotive vendors between 2027 and 2030. In the south, the JS-SEZ is being positioned as a major cross-border growth platform, with the “Queen Bee” approach and a dedicated task force intended to attract leading companies and the supplier ecosystems that follow them. For investors, this means the location decision increasingly forms part of the incentive strategy: the strongest proposition will be one that places the right activity in the cluster best equipped to support it.



NIF changes how the incentive case is built

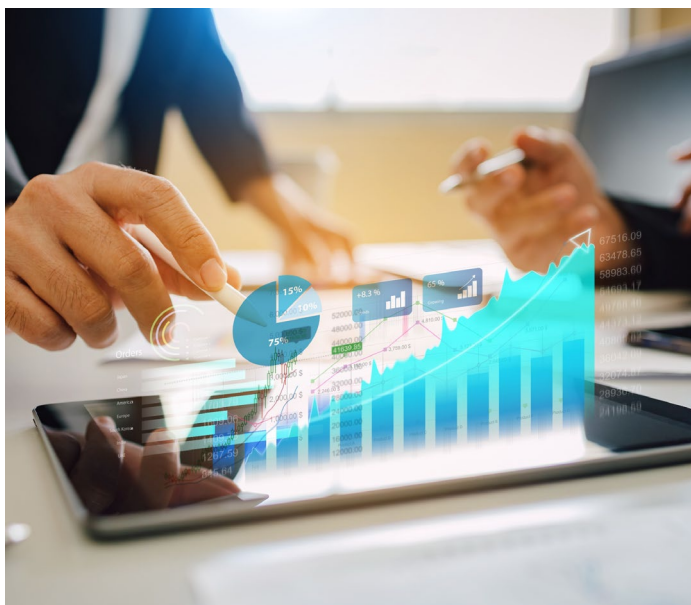
The NIF provides the structure for assessing whether an investment delivers the outcomes Malaysia is seeking. For manufacturing, NIF has been in force since 1 March 2026 and has moved the regime away from a product or activity-led approach towards a tiered, outcome-based assessment. The project is assessed against six pillars: increasing economic complexity, creating high-value employment, strengthening domestic supply-chain linkages, developing new and existing clusters, improving inclusivity and enhancing sustainability. This changes the incentive discussion materially. Capital expenditure remains relevant, but it is no longer the whole case. A stronger proposal will show how the project introduces technology, raises productivity, creates skilled Malaysian jobs, develops suppliers, deepens an industry cluster or improves sustainability. In practical terms, NIF makes the quality of the investment as important as its size.

GS-Hub strengthens Malaysia's pitch for regional functions

2027 Budget also sharpens Malaysia's proposition for global and regional services. The enhanced GS-Hub incentive strengthens Malaysia's competitiveness as a base for strategic services, business services — including Treasury Fund Management ("TFM") — and shared services. New companies undertaking GS-Hub activities will be eligible for a 5% preferential tax rate on qualifying GS-Hub income from 1 January 2027, while existing Principal Hub or GS-Hub companies can apply the preferential rate to income above the prescribed baseline, with the baseline determined by the average income of the preceding three years. Existing companies can also use the regime for additional new services under extension applications. For businesses, this creates a clearer route to place regional management, treasury, finance, digital, procurement, shared-service and other substantive functions in Malaysia rather than treating the country only as an operating or manufacturing base.

The investment pitch is now broader than the tax incentive

Taken together, the Budget measures point to a broader investment proposition. The tax incentive still matters, but so do location, talent, infrastructure, utilities, supplier depth and the speed at which a project can move from approval into operation. This is particularly important for technology-intensive and fast-moving investments, where delays in power, land, permits or talent can materially affect project economics. Malaysia's investment pitch is therefore increasingly built around a combination of targeted incentives, strong industrial clusters and better facilitation. For investors, the opportunity lies in designing the project around all three dimensions — the strategic activity, the right location and the outcomes the project can credibly deliver.



Turning 2027 Budget into a business opportunity

For business owners and investors, 2027 Budget should be treated as an opportunity to reassess projects that are being planned, expanded or regionalised. A company considering new manufacturing capacity may need to revisit the technology level, workforce profile, supplier strategy and sustainability commitments to strengthen its NIF position. A group evaluating regional functions may find that the enhanced GS-Hub framework creates a stronger case for locating treasury, business services or shared-service activities in Malaysia. Companies considering new locations may also benefit from matching the project with the strengths of the JS-SEZ, Penang-Kulim, Tanjung Malim or other emerging clusters. The key is to make the investment decision and the incentive strategy work together from the outset, rather than treating the incentive application as an exercise that begins after the commercial decision is already made.

How KPMG can support

KPMG's Investment and Tax Incentives Team can support businesses across the investment lifecycle, from identifying the most relevant 2027 Budget opportunity to structuring and presenting the investment case. This includes assessing NIF scorecard positioning, evaluating strategic activities and locations, quantifying the expected economic contribution, reviewing GS-Hub opportunities for regional functions, and developing the supporting business case for engagement with Malaysian Investment Development Authority ("MIDA"), Ministry of Finance ("MoF") and other relevant agencies. KPMG can also support the implementation phase by helping clients manage incentive conditions, government facilitation and post-approval commitments. The objective is not simply to secure an incentive, but to help clients build an investment proposition that is commercially sound, aligned with Malaysia's priorities and capable of moving efficiently from approval to operation.

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