

TAX ALERT ON BUDGET 2025

Volume 1

INTRODUCTION

Budget 2025 has been tabled by our Prime Minister and Minister of Finance, Datuk Seri Anwar Bin Ibrahim on 18 October 2024.

The 2025 Budget, themed "Membugar Ekonomi, Menjana Perubahan, Mensejahtera Rakyat," aims to reinvigorate the economy, driving reforms, and prospering the Rakyat. It focuses on strengthening governance and accountability to reduce wasteful spending, providing targeted subsidies and social aid to support vulnerable populations, and implementing broad fiscal reforms to ensure the long-term sustainability of public debt.

We have summarised the key tax proposals and measures in this tax alert for your easy reference.

This publication has been prepared based on the Budget 2025 speech and relevant appendices issued on 18 October 2024.



HIGHLIGHTS

a) Measures relating to Direct Taxes:

- Individual Tax
- Corporate Tax
- Tax Incentives

b) Stamp Duty

c) Labuan

d) Indirect Taxes



Tax Relief on Housing Loan Interest Payment for First Residential Home

Tax relief for 3 consecutive YAs be given on the interest payments on housing loan for the **first residential home** (individually or jointly owned) as follows:

House Price	Total Tax Relief Per Year
Up to RM500,000	RM7,000
Above RM500,000 up to RM750,000	RM5,000

The tax relief is subject to the following conditions:

- the residential home must **not be used to generate any income**;
- applicable for sale and purchase agreement **executed from 1 January 2025 until 31 December 2027**;
- two or more individuals can **claim tax relief** on housing loan interest for the same residential home **based on apportionment** of the interest payment.



Individual Income Tax Exemption

The individual income tax exemption up to RM3,000 per year for child care allowance received by employees or paid directly by employers to child care centers for children aged 12 years and below be expanded to include elderly care (parents / grandparents).



Individual Tax Relief

Description	Effective Date	Scope
Medical Expenses for Self, Spouses and Child	From YA2025	Expanded to include expenses for purchase of influenza test kit, purchase of self-testing devices such as glucometer, pulse oximeter, blood pressure monitor and thermometer; and fees for disease detection examination conducted at clinic or hospital such as blood test, ultrasound, mammogram and pap smear limited to RM1,000. The limit of tax relief for assessment for diagnosis, early intervention programme or rehabilitation treatment for children aged 18 years and below with learning disabilities be increased from RM4,000 to RM6,000 .
Disabled Individual	From YA2025	Tax relief for disabled person be reviewed as follows: • Disabled individual (from RM6,000 to RM7,000); • Disabled spouse (from RM5,000 to RM6,000); and • Unmarried disabled child (from RM6,000 to RM8,000).
Sport Activities, Health and Elderly Care	From YA2025	1. Tax relief limited to RM1,000 on expenses for sports equipment and activities for self, spouse and child be expanded to include those paid for parents. 2. Tax relief limited to RM1,000 for full medical check-up expenses for parents be expanded to include vaccination. 3. Tax relief for medical treatment, special needs and parental care expenses be expanded to include those paid for grandparents.
Private Retirement Scheme	Extended from YA 2026 to 2030	Tax relief on contribution to Private Retirement Scheme (PRS) and premiums paid for deferred annuities limited to RM3,000 be extended for another 5 years.
Education and Medical Insurance	From YA2025	Tax relief on premiums paid for education and medical insurance premiums for self, spouse, and child be increased from RM3,000 to RM4,000 .
Skim Simpanan Pendidikan Nasional	Extended from YA2025 to YA2027	Tax relief on net annual savings in the National Education Saving (SSPN) up to RM8,000 be extended for another 3 years, subject to the following additional conditions: - i. The tax relief can only be claimed by either parent, for SSPN savings, with maximum claim limited to RM8,000; and ii. Withdrawals from the SSPN fund intended to finance education costs for further studies will not be considered in the calculation of net savings for that particular year and will not affect the eligible amount for tax relief.
Fees paid to nursery or kindergarten	Extended from YA2025 to YA2027	Tax relief limited to RM3,000 for fees paid to child care centres registered with Department of Social Welfare or kindergartens registered with Ministry of Education be extended for another 3 years.
Domestic Food Waste Composting Machine	From YA2025 to YA2027	The scope of tax relief limited to RM2,500 on expenses for electric vehicle (EV) charging equipment be expanded to include expenses for purchase of household food waste composting machine. The tax relief for purchase of food waste composing machine is allowed to be claimed once within 3 YAs.

Dividend Tax on Individual Shareholders

Dividend tax be introduced as follows:

Item	Description
Scope of taxation	- dividend income received by individual shareholders for dividends paid, credited or distributed from company profits; and - individual shareholders consist of resident individuals, non-residents and individuals who hold shares through nominees.
Threshold	Annual dividend income exceeding RM100,000
Formula for determination of dividend chargeable income	$\frac{A \times C}{B} = D$ Where, A - Dividend statutory income B - Aggregate income C - Chargeable income D - Chargeable dividend income
Tax rate	2% on chargeable dividend income after taking into account allowances and deductions.
Exemption	- dividend income from abroad; - dividend income distributed from the profits of companies that received pioneer status and reinvestment allowances; - dividend income paid, credited or distributed from the profits of shipping companies that is exempted from tax; - dividend income distributed by co-operatives; - dividend income declared by closed-end funds; - dividend income received by residents from Labuan entities; and - any exemption given on dividend income at shareholder level.
Not applicable	Not applicable to profit distributions made to contributors and depositors by: i. Kumpulan Wang Simpanan Pekerja (KWSP); ii. Lembaga Tabung Angkatan Tentera (LTAT); iii. Amanah Saham Nasional Bumiputera (ASNB); or iv. Any unit trust



Accelerated Capital Allowance (ACA) on ICT

The claim of capital allowances (CA) for information and communication technology (ICT) equipment and computer software be shortened from 3 to 2 years and the CA rate be revised as follows:

			Current CA rate	Proposed CA rate
Purchase of ICT equipment and computer software package			IA : 40% AA : 20%	IA : 20% AA : 40%
Consultation, licensing and incidental fees related to customised computer software development			IA : 40% AA : 20%	IA : 20% AA : 40%

Effective from YA2024 until YA2025.

Further Tax Deduction for Employers

A. Further tax deduction of 50% be given to employers on the followings:

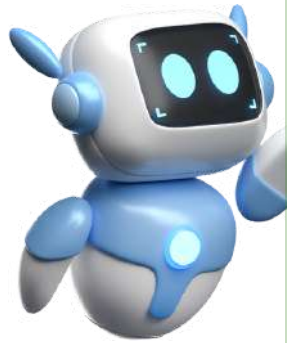
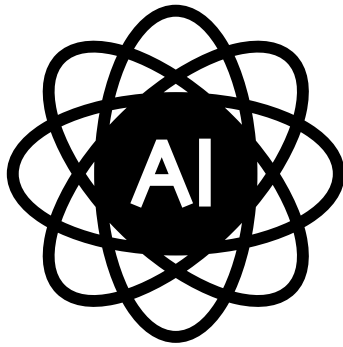
- a one-off claim capped at RM500,000 on **capacity building** and **software acquisition** incurred for implementing Flexible Work Arrangements (FWA), verified by Talent Corporation Malaysia Berhad;
- additional **paid leave** of up to 12 months for employees **caring for children or ill or disabled family members**;
- employment expenses paid for a period of 12 months for **hiring women returning to work**.

Effective: Application received by Talent Corporation Malaysia Berhad from 1 January 2025 until 31 December 2027.

B. Further tax deduction be given on **allowance** paid to employees for **elderly care** (parents/ grandparents).

Effective from YA2025.





Extension of Tax Deduction for Sponsorship of Smart Artificial Intelligence Driven Reverse Vending Machine (RVM)

Eligibility period for tax deduction given to contributions / sponsorships of Smart AI Driven RVM be extended for another 2 years.

Effective: Application received by Ministry of Finance from 1 January 2025 until 31 December 2026.

Review of Tax Incentive for Increased Exports

Tax incentive for increased exports in the form of tax exemption up to 70% of statutory income equivalent to 50% of value of increased export, for the services sector be expanded to include Integrated Circuit (IC) design services.

Effective from YA2025.



Review of Tax Deduction on the Cost of Developing New Courses at Private Higher Education Institutions (PHEIs)

Tax deduction on the expenses incurred to develop the new courses by private higher education institutions can be fully claimed within the same YA instead of over a period of 3 years. The tax deduction is also extended to include the development of Technical and Vocational Education and Training (TVET) courses provided by private skills training institutions.

Effective from YA2025 to YA2030.



Tax Incentive for Smart Logistics Complex (SLC)

Income tax exemption equivalent to an Investment Tax Allowance (ITA) of 60% on qualifying capital expenditure incurred for a period of 5 years be provided to Smart Logistics Complex (SLC).

The ITA can be set-off against up to 70% of statutory income for each year of assessment, subject to the following conditions:

A. Eligible SLC companies:

- SLC Investor and Operator that invest in the construction of smart warehouses and undertake eligible logistics services activities; or
- SLC Operator that leases a smart warehouse under a long-term lease of at least 10 years and undertakes eligible logistics services activities.

B. Eligible logistics services:

- i. regional distribution centres;
- ii. integrated logistics services;
- iii. storage of hazardous goods; or
- iv. cold chain logistics.



C. Warehouse with a minimum build-up area of 30,000 square metres;

D. Adaptation of at least three IR4.0 elements; and

E. Other conditions as prescribed.

Effective: Applications to Malaysian Investment Development Authority (MIDA) from 1 January 2025 to 31 December 2027.



Review of Stamp Duty on The Assignment of Life Insurance Policy and Family Takaful Certificate

The stamp duty charged on deed of assignment for life insurance policy and family takaful certificate given by way of love and affection or through a trustee, be revised as follows :-

Ownership Transfer Value	Current (Ad Valorem Rate)	Proposed (Fixed Rate)
The first RM100,000	1%	RM10
Above the first RM100,000 to RM500,000	2%	RM100
Above RM500,000 to RM1,000,000	3%	RM500
More than RM1,000,000	4%	RM1,000

Effective from YA2024 until YA2025.



Implementation of Self-assessment System for Stamp Duty (STSDS)

Self-assessment System for Stamp Duty (STSDS) be implemented in phases based on the types of instruments or agreements to ensure the stamping and self-payment system is more efficient.

STSDS requires duty payers or appointed agents to upload information in Stamp Assessment and Payment System (STAMPS) and undertake self-assessment of the value of stamp duties, and subsequently make payments within the specified timeframe as follows:-

No.	Phase	Effective Date	Type of Instruments
1.	Phase 1	From 1 January 2026	Instruments or agreements related to rental or lease, general stamping and securities
2.	Phase 2	From 1 January 2027	Instruments of transfer of property ownership
3.	Phase 3	From 1 January 2028	Instruments or agreements other than stated in Phase 1 and Phase 2

Review of Stamp Duty on Loan or Financing Agreements Based on Shariah Principles

A fixed stamp duty of RM10 be imposed on loan or financing agreements for the purchase of goods based on Shariah principles (excluding hire purchase).

Effective: For loan and financing agreements based on Shariah principles executed from 1 January 2025.



Exemption of Stamp Duty on Loan or Financing Agreements Through The Initial Exchange Offering (IEO) Platform For Micro, Small and Medium Enterprises (MSMEs)

A 100% stamp duty exemption be given on loan or financing agreements executed by Micro, Small and Medium Enterprises (MSMEs) and investors through the IEO platforms registered with the Securities Commission Malaysia for 2 years.

Effective: For loan and financing agreements executed from 1 January 2025 until 31 December 2026.



Stamp Duty Exemption on Loan or Financing Agreements For Skim Pembiayaan Mikro (SPM)

Stamp duty exemption be given for loan or financing agreements under Skim Pembiayaan Mikro (SPM), approved by the National Small and Medium Enterprises Development Council for loan amount up to RM100,000.

Effective: For loan and financing under SPM executed from 1 January 2025.



Review of Tax Exemption for Islamic Financial Activities Under Labuan International Business and Financial Centre

Current tax exemption for Labuan trading entities that undertake Islamic finance activities be expanded to include qualifying Labuan takaful business activities and Labuan takaful related activities as follows:

No.	Labuan Trading Entity	Qualifying Activities
1.	Labuan insurer; Labuan reinsurer; Labuan takaful operator; or Labuan re-takaful operator	Takaful and re-takaful businesses that comply with Shariah principles: i. risk management; or ii. product development
2.	Labuan captive insurer; or Labuan captive takaful.	Takaful and re-takaful businesses that comply with Shariah principles where takaful participants are related companies or associated companies or as approved by the Labuan Financial Services Authority: i. risk management; or ii. product development
3.	Labuan underwriting manager; or Labuan underwriting takaful manager	Provides underwriting services including administration related to Labuan takaful business
4.	Labuan insurance manager; or Labuan takaful manager	Provides management or administrative services related to Labuan takaful business
5.	Labuan insurance broker; or Labuan takaful broker	Provides services such as: i. arrange Labuan takaful and re-takaful business; or ii. financial analysis

Effective from YA2025 until YA2028.



Review of Excise Duty Rate on Sugar Sweetened Beverages

The excise duty on sugar sweetened beverages be increased in phases at 40 sen per litre for the beverages under the following tariff code:

Tariff Code	Type of beverages	Sugar content threshold
22.02	Beverages including carbonated drink containing added sugar or other sweetening matter or flavoured and other non-alcoholic beverages	>5g/100ml
22.02	Flavoured milk-based beverages containing lactose	>7g/100ml
20.09	Fruit juices and vegetable juices whether or not containing added sugar or other sweetening matter	>12g/100ml

Effective from 1 January 2025 (in phases)



Review of Export Duty Exemption on Crude Palm Oil (CPO)

Export duty rate on crude palm oil (CPO) be revised as follows:

CPO Market Price (RM / Metric Tonne)	Current Export Duty Rate	Proposed Export Duty Rate
< 2,250	Nil	Nil
2,250 – 2,400	3.0%	3.0%
2,401 – 2,550	4.5%	4.5%
2,551 – 2,700	5.0%	5.0%
2,701 – 2,850	5.5%	5.5%
2,851 – 3,000	6.0%	6.0%
3,001 – 3,150	6.5%	6.5%
3,151 – 3,300	7.0%	7.0%
3,301 – 3,450	7.5%	7.5%
3,451 – 3,600	8.0%	8.0%
3,601 – 3,750	8.0%	8.5%
3,751 – 3,900	8.0%	9.0%
3,901 – 4,050	8.0%	9.5%
> 4,050	8.0%	10.0%

Effective from 1 November 2024.



Review of Threshold Value for Windfall Profit Levy on CPO

The threshold of windfall profit levy on CPO be revised as follows:

Location	Current threshold of CPO prices (RM/metric tonne)	Proposed threshold of CPO Prices (RM/metric tonne)
Peninsular Malaysia	3,000	3,150
Sabah and Sarawak	3,500	3,650

No changes on the levy rate which is currently at 3%.

Effective from 1 January 2025.



Sales Tax Exemption on Mastectomy Bra for Breast Cancer Patients

Sales tax exemption be given on mastectomy bras (for cancer patients) as follows:-

- 1.6212.10.1100 – Mastectomy bra (made from cotton); and
- 2.6212.10.9100 – Mastectomy bra (made from other textile materials)



Effective: For applications received by the Ministry of Finance from 1 November 2024 to 31 December 2027.

Review of sales tax rates and expansion of scope in service tax

The rate of sales tax will be increased on non-essential items such as imported premium goods. Sales tax exemption will be maintained on basic goods items.

The scope of service tax will be expanded to include new taxable services such as commercial service transactions between businesses (B2B).

Effective from 1 May 2025.



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