

Key Highlights of Malaysia's Budget 2026

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Introduction



MADANI Budget 2026, themed "The Rakyat's Budget," was tabled in Parliament on 10 October 2025, setting the course for the first chapter of the Thirteenth Malaysia Plan. With a total public expenditure of RM470 billion, the Budget reaffirms the Government's commitment to the pillars of *Ekonomi MADANI*: advancing structural reforms, improving governance, and enhancing the well-being of the *rakyat* (people).

This year's Budget is notably focused on fiscal discipline and strengthening tax enforcement rather than introducing broad new taxes. Key measures centre on accelerating Malaysia's shift toward an innovative and sustainable economy, including major drives in digitalisation (notably the full implementation of e-Invoicing starting 2026) and the Energy Transition Agenda (with the introduction of a Carbon Tax for certain sectors).

For you and your business, the proposals introduce significant changes in compliance, investment incentives, and human capital development. These measures underscore a renewed emphasis on transparency, high-value economic activities, and future-readiness. We have carefully analysed the key tax and non-tax updates and their potential impact on your business and personal finances.

Please find below our detailed summary and analysis of the proposals from the Fourth MADANI Budget 2026.

Personal Income Tax

1. Profit distributions received by individual partners of Limited Liability Partnership (“LLP”)

Effective from the Year of Assessment (“YA”) 2026, profit distributions from LLPs exceeding RM100,000 annually will be subject to a 2% tax on chargeable income, which partners must report in their annual income tax returns.

2. Expansion or review of individual income tax relief: -

- **for vaccination expenses**

The individual income tax relief of RM1,000 for vaccination expenses (currently applicable to self, spouse, or child) will be **expanded to encompass all vaccines** registered with and approved by the Ministry of Health (MOH) effective from YA 2026.

- **for childcare or kindergarten fees**

The existing RM3,000 individual income tax relief for fees paid to registered childcare centres or kindergartens (for children up to 6 years old) is being **expanded to include** fees for registered **daycare or transit centres** catering to children **up to 12 years of age** effective from YA 2026.

- **for early intervention programmes or rehabilitation treatment for children with learning disabilities**

The income tax relief for expenses related to assessment, diagnosis, early intervention programs, and rehabilitation treatment for children (aged 18 and below) with learning disabilities will be significantly **increased from RM6,000 to RM10,000**. This relief covers disabilities such as autism, attention deficit hyperactivity disorder (ADHD), Global Developmental Delay (GDD), intellectual disability, down syndrome, and specific learning disabilities effective from YA 2026.

- **for premium of life, education and medical insurances**

The income tax relief for life insurance premiums or takaful contributions (currently for self and spouse) will be **expanded to include children** effective from YA 2026.

- **for environmental sustainability and home safety related expenditure**

The existing RM2,500 individual income tax relief for expenses on electric vehicle charging facilities and food composting machines has been **expanded to cover** the **purchase of household food waste grinders** and **closed-circuit television (CCTV)** for home use. This relief can be claimed once in either the YA 2026 or YA 2027.

3. Individual income tax relief on entrance fees to tourist attractions and cultural programmes

To encourage domestic travel during Visit Malaysia 2026, the individual income tax relief of **up to RM1,000** for **entrance fees to tourist attractions and cultural and arts programmes** will take effect from the YA 2026.

Tax incentives

1. Review of tax exemption on income received from outside Malaysia

The existing tax exemption on foreign dividends and gains from the disposal of foreign capital assets is being [expanded to include cooperative societies and trust bodies](#). Furthermore, this exemption, along with the exemption on [foreign-sourced income for unit trusts](#), will be [extended for four years](#), covering the period from 1 January 2027 to 31 December 2030.

2. Accelerated Capital Allowance (“ACA”) on capital expenditure for plant, machinery and ICT equipment

An ACA ([Initial Allowance of 20% and Annual Allowance of 40%](#)) will be granted for [qualifying capital expenditure incurred from 11 October 2025 to 31 December 2026](#), on the following:

1. Procurement of [heavy machinery, plant, and general machinery acquired from local manufacturers](#).
2. Purchase of [ICT equipment and computer software](#).
3. [Consultation, licensing, and incidental fees for the development of customised computer software](#).

3. ACA on the cost of purchasing Speed Limitation Devices for heavy vehicles

Expenses incurred for [purchasing Speed Limiter Devices \(SLDs\)](#) will be eligible for an ACA. This allowance is [capped at RM4,000 per unit and can be fully claimed within one \(1\) year](#).

4. Tax deduction on costs of renovation and refurbishment of tourism projects

Tourism project operators registered with the Ministry of Tourism, Arts and Culture (MOTAC) will be [eligible for a tax deduction of up to RM500,000](#) on [qualifying expenditure incurred for the renovation and refurbishment of their business premises](#). This incentive is applicable for expenditures incurred from [11 October 2025 to 31 December 2027](#).

5. Tax incentive for training in Artificial Intelligence (AI)

Micro, Small, and Medium Enterprises (MSMEs) that incur expenses on AI training recognised by the MyMahir National AI Council for Industry (NAICI) will be eligible for a [further tax deduction of 50% once every two \(2\) years for applications received by Talent Corporation Malaysia Berhad from 1 January 2026 to 31 December 2027](#).

6. Review of tax incentives for scholarships

Double tax deduction for scholarships provided to students in higher education and those pursuing qualified professional certification courses, in addition to the existing deduction for technical and vocational training. This incentive is valid from [YA 2026 through YA 2030](#).

7. Tax incentive for food security projects

[100% income tax exemption](#) on statutory income from domestic sales for food security projects, provided [applications are received](#) by Ministry of Agriculture and Food Security (“MAFS”) between [1 January 2026 and 31 December 2030](#).

- [New Projects](#): Qualify for a 100% exemption for [10 YAs](#).
- [Expansion Projects \(Existing Companies\)](#): Qualify for a 100% exemption for [5 YAs](#).



8. Extension of tax incentive for employing senior citizens

The tax deduction available to employers for hiring senior citizens has been [extended](#) for a period of [five years](#), effective [up to the YA 2030](#).

9. Tax incentive for training of care workers

Effective for [YA 2026 and YA 2027](#), companies can claim a [double tax deduction](#) on expenditure incurred to [sponsor non-employee care workers](#) for recognised training programs. However, the sponsored care workers should not be the employees of the company. This measure is intended to enhance the quality-of-care services for the elderly, children with special needs, and persons with disabilities.

10. Review of tax incentive for employing vulnerable persons

In support of the Sustainable Development Goals (SDG) 2030 to ensure inclusivity, the tax incentive for employing ex-convicts will be [expanded](#) to cover [Prisoners Released on Licence and drug/substance dependents undergoing approved treatment and rehabilitation programs](#). This extension is [effective from the YA 2026 to YA 2030](#).

11. Extension of tax incentive for commercialisation of Research & Development (R&D) findings

The income tax deduction for companies investing in subsidiary companies that commercialise non-resource-based R&D findings from public and private research institutions [will be extended for five \(5\) years](#). This extension covers [applications received](#) by the Malaysia Investment Development Authority (MIDA) from [1 January 2026 to 31 December 2030](#).

12. Review of tax incentive for Venture Capital

To enhance the startup ecosystem and attract capital, the tax incentive for venture capital is being [expanded and extended](#) with a focus on streamlining corporate structures:

Venture Capital Company (VCC)

- **Expanded Scope:** Now includes entities incorporated under the LLP Act 2012 or the Labuan Limited Partnerships and LLP Act 2010 that elect to be taxed under the Malaysian Income Tax Act, 1967 (MITA).
- **Corporate Tax Rate:** A specialized 5% corporate tax rate is imposed on all income, excluding interest or profit income derived from savings, fixed deposits, or deposits.
- **Incentive Period:** The incentive is granted for ten (10) years or the remaining life of the fund, starting from the year the VCC obtains its first certification from the Securities Commission Malaysia (SC) (certification must be obtained by 31 December 2035).

Venture Capital Management Company (VCMC)

- **Tax Rate:** A reduced 10% tax rate is imposed on income derived from the share of profits, management fees, and performance fees, covering the YAs 2025 to 2035.

Individual Shareholders of VCC

- **Tax Exemption:** Dividends paid, credited, or distributed from the VCC to individual shareholders at the first level are exempted from income tax from YAs 2025 to 2035.

13. Tax incentive for automation in the agriculture sector

The scope of tax incentives for automation in the agriculture sector is being expanded to include chicken rearing using the closed-house system. This applies to applications received by the MAFS between 1 January 2026 and 31 December 2027.

14. Review of tax deduction for cost of listing on Bursa Malaysia

The tax deduction of up to RM1.5 million for expenses incurred by technology-based companies and MSMEs for listing on Bursa Malaysia (Main Market, ACE Market, and LEAP Market) will be expanded to specifically include MSMEs in the energy and utilities sectors. Furthermore, the incentive period will be extended for five years, from the YA 2026 to YA 2030.

15. Extension of income tax exemption for social enterprises

The income tax exemption for social enterprises (accredited by the Ministry of Entrepreneur Development and Cooperation) is extended for applications received by the Ministry of Finance until 31 December 2028.

Stamp duties

1. Review of wage threshold for stamp duty exemption on employment contract

The wage threshold for stamp duty exemption on employment contracts shall be increased from RM300 to RM3,000. This applies to employment contracts executed from 1 January 2026.

2. Review of stamp duty on property ownership by non-citizens

Effective 1 January 2026, the fixed stamp duty rate on instruments of transfer for residential properties executed by non-citizen individuals (excluding Malaysian Permanent Residents) and foreign companies will be increased from 4% to 8%.

3. Extension of stamp duty exemption for the purchase of first residential home

The 100% stamp duty exemption covering both the instrument of transfer and loan agreement for first residential homes (up to RM500,000) has been extended for a further two years. The above effective for Sales and Purchase Agreement executed from 1 January 2026 to 31 December 2027.

4. Extension of stamp duty exemption on insurance policies or takaful certificates with low annual premium or contribution

The existing stamp duty exemption given on insurance policies and takaful certificates with low annual premium or contribution not exceeding RM150 for individuals and RM250 for MSMEs is extended for 3 years, applicable to insurance policies or takaful certificates issued from 1 January 2026 to 31 December 2028.

Others

1. Introduction of carbon tax

A carbon tax will be introduced starting in 2026, with an initial focus on the iron, steel and energy sectors.

2. Introduction of digital tax stamp

The Royal Malaysia Customs Department (RMCD) is set to enhance border control and tax compliance by introducing digital tax stamps with enhanced security features to prevent counterfeiting. This measure, supported by a Centralised Screening Complex and its integrated CCTV system, aims to effectively reduce tax leakages at national entry points.

3. Continuation of excise duty and sales tax exemptions for taxi and hire car operators

The 100% excise duty and 100% sales tax exemptions will continue to apply on the purchase of new national cars (PROTON and PERODUA) by taxi drivers and individual hire car operators.

4. Vehicle tax exemption in Langkawi and Labuan limited to vehicles below RM300,000

It is proposed that effective 1 January 2026, vehicle tax exemption in Langkawi and Labuan be limited to cars valued at not more than RM300,000.

5. Review of excise duty rate on alcoholic beverage products

The excise duty rate on alcoholic beverage products will be increased by 10% effective 1 November 2025.

6. Review of excise duty rate on cigarettes

The excise duty rate on cigarettes will be increased in phases, starting with a rise of 2 cents per stick or 40 cents per packet effective 1 November 2025.

7. Review of excise duty rate on cigars, cheroots and cigarillos

The excise duty rate on cigars, cheroots and cigarillos will be increased in phases, starting with a rise of RM40 per kilogramme effective 1 November 2025.

8. Review of excise duty rate on heated tobacco products

The excise duty rate on on heated tobacco products will be increased in phases, starting with a rise of RM20 per kilogramme of tobacco content effective 1 November 2025.

9. Review of import duty and sales tax exemptions on nicotine replacement therapy products

The import duty and sales tax exemptions on nicotine gum and nicotine patch will be extended to 31 December 2027. The scope of exemptions for Nicotine Replacement Therapy products will be expanded to include nicotine mist and nicotine lozenges from 11 October 2025 to 31 December 2027.

Contact us

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