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Malaysia's Budget 2027

Reactionary Statement by Yvonne Beh, Partner in the Tax, Trade and Wealth Management Practice of Wong & Partners, a member firm of Baker McKenzie International

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- Budget 2027 is broadly pro-investment and pro-productivity, with the strongest direct tax benefits directed at MSMEs, strategic investors and companies investing in automation, digitalisation and green assets.
- The priority sectors are clear: semiconductors, E&E, advanced manufacturing, AI and digital technology, renewable energy, Islamic finance, maritime, aerospace, logistics, medical devices, tourism, creative content and high-value agriculture.
- As anticipated, the Budget 2027 did not introduce any new taxes in Malaysia. The emphasis is instead on targeted tax rate reductions, enhanced capital allowances, stamp duty concessions, sector-specific incentives and financing support. This is expected to provide some relief for businesses from rising operating and financing costs, particularly for MSMEs and businesses investing in productivity-enhancing assets.
- One significant proposal from Budget 2027 would be to allow manufacturers to reclaim sales tax paid on machinery, spare parts and equipment acquired from local traders or distributors. This sales tax refund facility will also include raw materials used to manufacture, pharmaceuticals, animal feed, fertilisers and pesticides. This proposal will help reduce the 'cascading' effect of sales tax within the supply chains and encourage purchases to be made from local distributors and businesses.
- Accelerated Capital Allowances which applies to expenditure on locally produced plant and machinery and ICT equipment and software have been extended to 31 December 2030. This is likely to ease businesses to obtain tax deductions more quickly, improving project economics and cash flow while encouraging automation, digitalisation and increase purchases from Malaysian manufacturers.
- The reduction in income tax rates for MSMEs by 1%, will likely yield improved cash flows and retained earnings for reinvestments and working capital.

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- The enhancement of the tax incentive for Global Services Hub is very welcomed, as this will improve Malaysia's attractiveness for regional headquarters, treasury, shared-services and fund-management operations. Budget 2027 has proposed improved incentives which are renewable in 5-year blocks, up to 30 years, which will apply from 1 January 2027, with the following tax rates:
 - 5% preferential tax rate on qualifying Global Services Hub income for new companies;
 - 5% rate on income above a prescribed baseline for existing Principal Hub or GSH companies;

Additionally, withholding tax exemption on interest paid by qualifying treasury and fund-management operations and stamp duty exemption on intercompany loan agreements will also be granted under this enhanced incentive.

- Green investment incentives which grant 100% Investment Tax Allowance for green and sustainable technology projects, electric-vehicle charging stations and green technology assets purchased for a company's own use, are enhanced and extended until 31 December 2030. These incentives will continue to ensure higher adoption of green technologies and generation of more sustainable projects.
- The proposal to include a Multi-Family Office model at Forest City, Johor for licensed fund managers serving multiple families will likely strengthen Malaysia's wealth-management proposition and may attract regional private capital and professional services activities to Forest City.

- Ends -

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