

Highlights of the 2025 Malaysian Budget

28 OCTOBER 2024

The [2025 Malaysian Budget](#) (2025 Budget) was tabled by the Prime Minister and Minister of Finance, Dato' Seri Anwar bin Ibrahim, before the Dewan Rakyat (House of Representatives) of the Malaysian Parliament on 18 October 2024.

The 2025 Budget is the largest in the country's history. Its allocation of RM421.0 billion surpasses the previous record of RM393.8 billion under the 2024 Malaysian Budget. Of this amount, RM86.0 billion is set aside for development expenditure, a decrease of RM4.0 billion from 2024, and RM335.0 billion for operating expenditure, an increase of RM31.2 billion from 2024.

The allocation for development expenditure under the 2025 Budget is supplemented by a private-finance initiative (PFI) project valued at RM9.0 billion¹ and direct domestic investments by government-linked investment companies (GLICs) of RM25.0 billion, thereby increasing the total public investment for development to RM120.0 billion.

The fiscal deficit for 2025 is estimated at 3.8% of the country's Gross Domestic Product, a reduction of 0.5% from the 4.3% deficit in 2024.²

The initiatives under the 2025 Budget seek to achieve goals in three focus areas – **“Reinvigorating the Economy, Driving Reforms and Prospering the Rakyat.”**

The 2025 Budget encompasses numerous initiatives, including subsidies and cash payments, to assist the lower income segment of Malaysian society to mitigate the effects of the rising cost of living. These initiatives will not be covered in our article unless they may be of interest to companies, business owners and investors.

References in this article to Paragraphs and Appendices are references to Paragraphs of the 2025 Budget Speech and Appendices of Tax Measures respectively.

I. Driving Reforms

1. **Expanding the Revenue Base:** The following measures will be introduced to expand the country's revenue base:
 - Enhancements to Sales and Service Tax (SST):
 - Sales tax will be imposed on non-essential goods, particularly imported premium products.
 - Service tax will be extended to include commercial services, particularly businesses that operate on a fee-based model and for transactions between businesses (B2B).
 - The progressive expansion of SST will commence from 1 May 2025.
 - A proportion of the revenue collected will be directed to enhance cash assistance for the rakyat and improving the quality of education and healthcare services (Paragraphs 41 to 44 and Appendix 29).
 - Dividend Tax:
 - A dividend tax of 2% will be imposed on dividend income exceeding RM100,000 received by individuals commencing in Year of Assessment (YA) 2025. The formula for calculating the tax is set out in Appendix 10.
 - Dividend income from seven sources are exempted from dividend tax. These include dividend from foreign sourced income, dividend from profits of companies having

pioneer status or reinvestment allowances, dividend from tax-exempt profits of shipping companies, dividend by closed-end funds and dividend received by residents from Labuan entities.

- Dividend tax will not apply to distributions from four sources, including Employees Provident Fund, Lembaga Tabung Angkatan Tentera, Amanah Saham Nasional Bumiputera and any other unit trust (Paragraphs 45 and 46 and Appendix 10).
2. **Targeted Subsidies:** In line with recent initiatives such as the Imbalance Cost Pass-Through (ICPT) for electricity consumption and the targeted subsidies for diesel, the Government will pivot from blanket subsidy towards targeted subsidy. Among measures that will be implemented are:
- Targeted subsidy for RON 95 petrol will be introduced in mid-2025 to exclude wealthy individuals, foreign nationals and businesses constituting 15% of consumers – this will result in annual savings of RM8.0 billion (Paragraphs 52 to 55).
 - Reduction in subsidies for education and public healthcare services for the top 15% income earners (T15) (Paragraphs 56 to 59).
3. **Public-Private Partnerships:** The Public-Private Partnership Master Plan (PIKAS) seeks to increase private investments by RM78.0 billion and to generate 900,000 employment opportunities by 2030. Development projects will consider the ‘user pay’ element to ease the fiscal burden of the Government (Paragraphs 66 and 67).
4. **Legislative Reforms:**
- Over 3,000 archaic laws will be reviewed. A Legislative Reform Taskforce will be formed to spearhead the revision of commercial laws, such as the Contracts Act 1950, to align them with contemporary standards (Paragraph 76).
 - The Consumer Credit Bill will be tabled in the upcoming parliamentary meeting to regulate non-bank credit providers and credit service providers, such as factoring companies, non-bank leasing firms and entities that offer "Buy Now Pay Later" facilities (Paragraph 77).

II. Reinvigorating the Economy

5. **New Investment Incentive Framework:** A New Investment Incentive Framework will be introduced that focuses on high-value activities to improve the existing practice of providing product-centric incentives. Emphasis will be given to investments that yield a multiplier effect that directly benefits the rakyat and the nation, rather than merely serving the profit motives of investors. The new framework is expected to be implemented in the third quarter of 2025.

Among the measures outlined are:

- The tax exemption of up to 70% of statutory income equivalent to 50% of the value of increased exports will be extended to integrated circuit (IC) design services from YA 2025 (Appendix 23).
- To strengthen the local supply chain and primary sector ecosystem, a supply chain resilience initiative will be introduced with the following incentives:
 - Multinational Enterprises (MNEs) that incur expenses for supply chain resilience initiatives, up to RM2 million annually, will be given a double tax deduction for three consecutive years;
 - MNEs or vendors to MNEs that jointly invest in other local vendors will be given income tax deduction on the amount invested in the joint venture initiative;

- Local vendors participating in this initiative will be provided with an outcome-based tax incentive package; and
- A matching investment fund of RM100 million will be established through equity crowdfunding platforms to finance the development of local vendors especially in E&E, specialty chemicals and medical device industries.
- To establish economic clusters in line with the respective states' advantages, such as renewable energy in Perlis and Sabah and specialised chemical industries in Pahang and Terengganu.
- To narrow the economic gap between regions, income tax incentives at a special rate will be offered for investments in 21 economic sectors in states such as Perlis, Kedah, Kelantan, Terengganu, Sabah and Sarawak, subject to the success of economic spillovers.
- To encourage more investments that comply with Environmental, Sustainability and Governance (ESG) standards, tax incentives such as investment tax allowances or income tax exemptions will be provided for carbon capture, utilisation and storage (CCUS) activities.
- To mitigate the potential risk to the domestic investment climate by reason of the implementation of the global minimum tax (GMT) on multinational companies from 1 January 2025, the Government aims to streamline existing incentives, introduce new non-tax incentives and explore the feasibility of introducing Strategic Investment Tax Credit.

(Paragraphs 110 to 112).

6. *Strategic Investments:*

- RM200 million will be allocated under the Strategic Co-Investment Fund (CoSIF) and the NIMP Industrial Development Fund (NIDF) to support the growth of SMEs and mid-tier companies, as well as to encourage innovation.
- GLICs have collectively pledged to invest RM120.0 billion in domestic direct investments over the next five years under the Government-linked Enterprises Activation and Reform Programme (GEAR-uP), of which RM25.0 billion will be mobilised in 2025.
- The Government will support the development of the local rare earth element (REE) industry through collaboration with countries that have technological capabilities in these areas. As one of the first steps, the Government will commence mapping out potential REE sources in the country.
- Khazanah Nasional Berhad (Khazanah) will set aside RM1.0 billion over the next four years to lead investments that support the local semiconductor industry.

(Paragraphs 114 to 116).

7. *Venture Capital and Start-up Ecosystem:*

- Khazanah will establish a National Fund-of-Funds (NFOF), scheduled for operations in November 2024, with a total fund allocation of RM1.0 billion over the next four years. The NFOF will support venture capital fund managers to invest in start-up companies, with RM300 million allocated for 2025.
- Kumpulan Wang Persaraan (Diperbadankan) (KWAP) will allocate RM1.0 billion under Dana Perintis over a period of four years to accelerate the development of the local start-up ecosystem, with RM200 million allocated for 2025.

- Cradle Fund has been allocated RM65 million to support start-ups with the potential to expand regionally and globally. Matching grants of RM15 million have been provided to strengthen the linkages between GLCs and local startups under an Innovation Accelerator programme administered by Cradle.

(Paragraph 118).

8. *Digitalisation and Automation:*

- RM10 million is allocated to the National Artificial Intelligence Office (NAIO) to enhance efforts to increase the adoption of AI through collaborations with academia and industry.
- To encourage taxpayers to fully implement e-Invoicing by 1 July 2025, expenses for purchases of information and communication technology (ICT) equipment, computer software packages, consultancy, licensing and incidental fees for software customisation will be granted accelerated capital allowance that is fully claimable within two years, with an initial allowance of 20% and annual allowance of 40% (Appendix 11).
- To reduce dependence on foreign workers, a multi-tiered levy mechanism will be implemented from 1 January 2025. The proceeds from the levy will be channelled back to the industry to engineer business processes towards automation and mechanisation.
- To enhance MSMEs' business capacity by embracing digitalisation, RM50 million will be allocated as the Digital Matching Grant for SMEs and the Digital Grant for Vendors under Bank Simpanan Nasional Berhad (BSN) to help local entrepreneurs remain competitive.

(Paragraphs 121 to 125).

9. *Johor-Singapore Special Economic Zone:*

- The initiatives announced earlier were reiterated:
 - Declaration of Forest City as a duty free-island.
 - Tax incentive packages for financial services activities for global business services and financial technology.
 - Tax incentives for Single Family Offices.
- To further develop JS-SEZ as a sustainable special economic zone, the Government will announce special incentives to attract quality investments and offer high-value jobs by end-2024.

(Paragraph 126).

10. *Facilitating Export Market:*

- Khazanah will launch the Mid-Tier Company Programme with a fund of RM1.0 billion to provide financing to support capacity building of local companies.
- RM750 million has been allocated by EXIM Bank under the Exporter Sustainability Incentive Scheme to encourage local exporters to expand their operations into foreign markets.
- MATRADE has been allocated RM40 million as a reimbursement grant to assist Malaysian exporters to promote Malaysian-made products and services on the international stage, particularly in new markets in Africa, Latin America and the Middle East.

- To enhance the capacity of the logistics industry by adapting to IR4.0 technology, logistics companies that engage in smart logistics complex activities will be granted a 60% investment tax allowance to be set-off against up to 70% of statutory income for each YA for five years. Applications for this incentive must be received by the Malaysian Investment Development Authority from 1 January 2025 until 31 December 2027. Brief details of eligible companies, eligible logistic services and other conditions are set out in Appendix 19.

(Paragraphs 128 and 129).

11. *Energy Transition:*

- In pursuit of the net-zero emissions by 2050 goal set under the National Energy Transition Roadmap (NETR), more than RM300 million will be provided in 2025 towards the RM2.0 billion seed funding under the National Energy Transition Facility (NETF).
- The measures proposed to increase access to renewable energy (RE) include the following:
 - The extension of the Net Energy Metering (NEM) programme to 30 June 2025 to encourage residential consumers to adopt solar photovoltaic (PV) systems.
 - The Green Technology Financing Scheme (GTFS) will be continued with a total financing of RM1.0 billion until 2026.
 - UEM Lestra and Tenaga Nasional Berhad will invest RM16.0 billion to decarbonise industrial parks, build a strong RE portfolio and invest in transmission and distribution network capabilities.
 - The open grid access initiative will be implemented through the Corporate Renewable Energy Scheme (CRESS) to allow companies to obtain electricity supply from a RE generator of their choice.
 - The Government will introduce several programmes that utilise dual-layered systems for RE generation such as the agrivoltaics to mitigate the adverse effects of RE generators on food production.
 - The CCUS Progressive Regulatory Framework Bill will be tabled in Parliament.
 - To encourage the adoption of low-carbon technologies, a Carbon Tax will be introduced for the iron and steel and energy industries by 2026. The tax proceeds will be used for research and programmes related to green technology.

(Paragraphs 137 to 144).

12. *Food Security:*

- To support food security and promote sustainable agriculture, Agrobank will provide RM200 million in loan facilities to agro-food entrepreneurs.
- RM300 million will be allocated to establish cooperations with State Governments for agricultural projects (up from RM150 million in 2024) to support onion production in Perak, red tilapia farming in Pahang and increase paddy yield in Negeri Sembilan.
- RM27 million of incentives will be provided to farmers and breeders to increase the production of cattle livestock, small ruminants, dairy goats, sheep and onions.
- Phase 1 of the Five-Season, Two-Year Paddy Planting Project in the Muda Agricultural Development Authority (MADA) areas will commence at a cost of nearly RM1.0 billion to increase paddy yield by 15%.

(Paragraphs 147 and 148).

13. **Halal Industry Development:** Measures to support local halal companies include:

- Special financing of almost RM600 million will be made available by Bank Pembangunan Malaysia Berhad (BPMB) and SME Bank to halal-compliant SMEs.
- Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) will provide up to RM1.0 billion of guarantees to guarantee up to 80% of halal SME loans.

(Paragraph 158).

14. **Business Assistance and Financing:**

- Government agencies will provide more than RM40.0 billion of loan facilities and business financing guarantees. These include the following:
 - BPMB will provide RM6.4 billion in financing to support, among others, infrastructure development, digitalisation, tourism, logistics, transportation, renewable energy and energy transition.
 - SJPP will continue to guarantee up to RM20.0 billion in SME financing, including a special RM5.0 billion guarantee for Bumiputera SMEs.
 - Bank Negara Malaysia (BNM) will provide a RM3.8 billion SME loan fund to support entrepreneurs transitioning to digitalisation and automation, in addition to continuing to assist the agri-food sector and sustainable practices.
 - RM650 million will be allocated to support women and youth venturing into entrepreneurship.
 - RM130 million will be allocated to implement programmes for the Indian community.

(Paragraph 163).

- To further assist MSMEs, stamp duty exemptions will be granted on the following:
 - Loan or financing agreements executed by MSMEs with investors through the Initial Exchange Offering (IEO) platform from 1 January 2025 to 31 December 2026 will be fully exempted from stamp duty (Paragraph 165 and Appendix 16).
 - Agreements for loan or financing under the *Skim Pembiayaan Mikro* (Micro Financing Scheme) for up to RM100,000 will be exempted from stamp duty (up from RM50,000 presently) with effect from 1 January 2025 (Paragraph 164 and Appendix 17).

15. **Bumiputera Economic Transformation:** The initiatives to promote the Bumiputera agenda include the following:

- Majlis Amanah Raya (MARA) and Perbadanan Usahawan Nasional Berhad (PUNB) will make available RM800 million in financing for Bumiputera entrepreneurs, including local artisans.
- RM1.3 billion will be allocated for small and medium projects to be carried out by G1-G4 contractors.
- RM200 million is allocated for the CAKNA 2 Scheme to support the cash flow of G1-G4 contractors in completing small-scale Government projects worth up to RM1.5 million.
- Fifty acres of land in Bandar Malaysia will be categorised as Malay Reserve Land.

(Paragraphs 170 to 173).

III. Prospering the Rakyat

Many initiatives, such as periodic cash payments, subsidised transportation and expanding the scope or threshold of certain tax reliefs, have been announced to improve the well-being of the lower income segment of the rakyat. Details of these can be read from the 2025 Budget Speech.

Below are some of the measures that may impact business owners.

16. *Foreign sourced income:*

The expiry date of the tax exemption on foreign sourced income that have already been subjected to income tax in the source country will be extended for a further 10 years from 31 December 2026 to 31 December 2036 (Paragraph 184).

17. *Increase in minimum wage:*

The minimum monthly wage will be increased from RM1,500 to RM1,700 commencing 1 February 2025. For employers with fewer than five employees, the new minimum wage rate will take effect on 1 August 2025 (Paragraphs 186 and 187).

18. *Publication of Starting Salary Guidelines:*

The Ministry of Human Resources will publish starting salary guidelines for all employment sectors as a reference for employees. For instance, the starting monthly salary for a Mechanical Engineer would be RM3,380 and a Creative Content Design Professional, RM2,985 (Paragraph 188).

19. *Progressive Wage Policy:*

To reform the labour market to increase workers' income, the Progressive Wage Policy will be fully implemented in 2025. An allocation of RM200 million is set aside for this initiative which is expected to benefit 50,000 workers (Paragraph 189).

20. *Mandatory contribution for non-citizens:*

A mandatory requirement for non-citizen employees, including foreign workers, to contribute to Employees' Provident Fund will be introduced in phases (Paragraph 191).

21. *Hiring Women Returning to Work:*

Presently, the tax benefits of hiring women who are returning to work after a career break of at least two years are as follows:

- the employee is eligible for income tax exemption on remuneration received for a maximum of 12 consecutive months; and
- the employer is eligible for tax deductions on salary payments to the employee.

To further encourage women to return to the work force, a 50% further deduction will be given to employers on employment expenses paid for a period of 12 months for hiring women returning to work. This additional deduction applies to applications received by Talent Corporation Malaysia Berhad (Talent Corp) from 1 January 2025 until 31 December 2027 (Paragraph 235 and Appendix 22).

22. *Flexible working arrangements:*

Employers will be given an additional 50% tax deduction on the cost of capacity building and software procurement for implementing flexible working arrangements. The eligible expenses is capped at RM500,000 and is subject to a one-off claim to be verified by Talent Corp. Applications must be received by Talent Corp from 1 January 2025 until 31 December 2027 (Paragraph 236 and Appendix 20).

23. *Home Ownership:*

Initiatives to boost home ownership include the following:

- Syarikat Jaminan Kredit Perumahan Berhad (SJKP) will continue to provide guarantees of up to RM10.0 billion for housing financing for the benefit of 20,000 home buyers (Paragraph 226).
- For first-time home buyers, tax relief will be allowed on mortgage interest payments as follows:
 - up to RM7,000 for residential properties valued up to RM500,000; and
 - up to RM5,000 for residential properties valued above RM500,000 but not more than RM750,000.

The relief can be claimed for three consecutive YAs on sale and purchase agreements executed from 1 January 2025 to 31 December 2027 (Paragraph 228 and Appendix 7).

- Under the Step-Up Financing Scheme by SJKP, the Government will guarantee up to RM5.0 billion loans for young first time home buyers. The scheme offers a lower rate of repayment for the first five years of the repayment term (Paragraph 239).

24. *Creative works:*

To support the development of the arts and creative industries:

- The allocation for the Digital Content Fund is increased to RM65 million to promote creative works, especially those that embody the spirit of nationalism.
- around RM40 million is provided under the Film in Malaysia Incentive (FIMI) to support international film production in Malaysia.
- MyCreative Ventures is allocated RM25 million to support the creative industry through equity injections into high-potential companies and to provide financing for creative social entrepreneurs.

(Paragraph 274).

Other noteworthy initiatives

Several noteworthy developments that are included in the Appendices are as follows:

25. *Implementation of Self-Assessment System for Stamp Duty:*

To enhance the efficiency and compliance level of the stamping and self-payment system, it is proposed that the self-assessment stamp duty system (STSDS) be implemented in three phases as follows:

Phase	Effective Date	Type of Instruments
1	From 1 January 2026	Instruments or agreements relating to rental or lease, general stamping and securities.
2	From 1 January 2027	Instruments of transfer of property ownership.
3	From 1 January 2028	Instruments or agreements other than those stated in Phase 1 and Phase 2.

(Appendix 18)

26. *Expansion of Income Tax Exemption for Islamic Financial Activities in Labuan:*

To further attract investment in the Islamic finance sector driven by digital technology to the Labuan International Business and Financial Centre, the existing full income tax exemption given to Labuan trading entities undertaking Islamic finance activities will be expanded to include qualifying Labuan takaful business activities and Labuan takaful related activities as follows:

Labuan Trading Entity	Qualifying Activities
Labuan insurer, Labuan reinsurer, Labuan takaful operator or Labuan re-takaful operator.	Takaful and re-takaful businesses that comply with Shariah principles: <ul style="list-style-type: none"> • risk management; or • product development.
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: <ul style="list-style-type: none"> • risk management; or • product development.
Labuan underwriting manager or Labuan underwriting takaful manager.	Provision of underwriting services including administration related to Labuan takaful business.
Labuan insurance manager or Labuan takaful manager.	Provides management or administrative services related to Labuan takaful business.
Labuan insurance broker or Labuan takaful broker.	Provides services such as: <ul style="list-style-type: none"> • arranging Labuan takaful and re-takaful business; or • financial analysis.

This initiative will be effective from YA 2025 until YA 2028 (Appendix 13).

27. *Stamp Duty on Loan or Financing Agreements for purchase of goods based on Shariah Principles:*

To streamline the imposition of stamp duty on loan or financing agreement based on Shariah principles for the purchase of goods under the First Schedule of the Hire Purchase Act 1967, a fixed stamp duty of RM10 will be imposed on loan or financing agreement for the purchase of goods based on Shariah principles, other than hire purchase. The revised duty will apply to loan or financing agreements based on Shariah principles executed from 1 January 2025 (Appendix 15).

Comments

The 2025 Budget witnesses further steps by the Malaysian Government to widen its revenue base through the expansion of sales and service tax and the introduction of a dividend tax and a carbon tax. It remains to be seen whether these measures will increase the tax revenue as much as the reimposition of goods and service tax is likely to.

A significant step in reducing Government expenditure will be the substitution of blanket subsidies with targeted subsidies, the main being the rationalisation of the RON 95 petroleum subsidy which is expected to save RM8.0 billion per year.

The proposed introduction of a multi-tiered levy mechanism and EPF contributions (including employer's contribution) for foreign workers and the increase in the minimum monthly wage of employees will add to the cost of doing business, of which some are likely to be passed onto the rakyat.

The partial tax relief for mortgage interest payments for first-time buyers of residential properties in 2025 to 2027 may result in an uptick of home sales in those years.

Lastly, the proposal to introduce self-assessment for stamp duty from 2026 is interesting. As the assessment of the appropriate duty payable on certain instruments may not be straightforward, it is hoped that a channel will be available for instruments to be submitted to the Stamp Office for assessment to reduce the possibility that instruments may inadvertently be insufficiently stamped and thereby be inadmissible or unregistrable.

Article by Kok Chee Kheong (Partner) and Pravinan Lai Xiong Hui (Paralegal) of the Corporate Practice and Victoria Low (Associate) of the Tax Practice of Skrine.

¹ Details of this project were not disclosed in the 2025 Budget Speech.

² Paragraph 35 of the 2025 Budget Speech.