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Post-Budget 2025 Q&A

Deloitte's Panel of Partners – Standing from L–R:
Tan Eng Yew, Indirect Tax Leader; Toh Hong Peir, Energy, Resources & Industrials Executive Director; Tan Hooi Beng, International Tax Leader, Deloitte Southeast Asia; Philip Yeoh, Transfer Pricing Executive Director; and Gagan Deep Nagpal, Transfer Pricing Executive Director.

Seated from L–R: Julie Tan, Business Tax Executive Director; Chee Ying Cheng, Global Employer Services Executive Director; and Choy Mei Won, Business Tax Executive Director.

01 What are the likely industries that will be impacted as a result of the proposed expansion of the service tax?

The focus of the expansion appears to be on business-to-business (B2B) transactions and not services directed toward consumers. One industry that may be impacted is financial services, which at present is not part of the service tax scope except for credit cards, broking and underwriting, insurance, advisory, and digital type services. However, the financial services sector is diverse, covering a range of businesses including banking, asset and wealth management, payment services, financial intermediation, fintech, and cryptocurrency. Each subsector offers distinct products and services, and many of these businesses are interconnected. If service tax is applied to these transactions without suitable exemptions, it could result in multiple layers of taxation throughout the supply chain, significantly increasing the cost of doing business in Malaysia. The proposed consultation with industry stakeholders will be critical to design a tax framework that minimises the risk of multiple taxation while ensuring compliance.

02 It was announced that sales tax for non-essential items such as imported premium products (e.g. salmon and avocado) will be increased. What are the implications on increasing sales tax on such premium products?

The proposal appears to be in line with previous initiatives in Budget 2023 and 2024 which aimed to tax luxury goods. Various models were contemplated, the government now seems to be leaning on the existing tax framework for this purpose. Historically, during the implementation of the Sales and Service Tax (SST) 1.0, there was indeed a 20% sales tax rate on certain items, setting a precedent for higher tax rates on luxury or discretionary goods. It is vital for the government to engage with relevant stakeholders while finalising the list of taxable items and determining the applicable rates. A well-considered approach is needed to mitigate the ripple effect on the prices of goods and services, which could ultimately affect the overall cost of living.

Join us at the 50th Deloitte TaxMax on 21 November where we will unpack the 2025 National Budget and more. Scan to find out more.

Deloitte was recognised as the Malaysia Tax Advisory Firm of the Year, Malaysia Transfer Pricing Advisory Firm of the Year, Malaysia Indirect Tax Advisory Firm of the Year, and Malaysia Tax Disputes Advisory Firm of the Year in 2024 by the International Tax Review.

03 As an individual who currently owns a residential home, would I still be entitled to the tax relief for housing loan interest paid for the purchase of a residential apartment (my 2nd property) costing RM500,000 if I have not taken any financing on the current residential home?

Based on the Appendix to the 2025 Budget Speech, the proposal is to encourage the purchase of a first residential home and the tax relief will be given on interest payments for the first residential home loan. In your case, you may not be able to claim the tax relief on housing loan interest paid on the purchase of your second residential home if the intention of this proposal is to incentivise first-time residential homeowners, and not first residential home loan. We expect more clarification on this.

04 How does the 2% dividend tax apply to dividends received by an individual who incurs financing costs in respect of its share investments?

Based on the Appendix to the Budget Speech, the 2% applies on the statutory dividend income, that is the net dividend income after deduction of interest expense incurred to finance the share investments. Pending the release of the Finance Bill, we believe the allowable interest expense will be apportioned towards the dividend income, which is in excess of RM100,000 on the basis that dividends up to RM100,000 would be exempt from the 2% tax.

05 With the implementation of the global minimum tax (GMT) in Malaysia in 2025, will companies currently enjoying tax incentives be affected and what should they do?

Firstly, only companies within large multinational groups (including Malaysian-headquartered) with an annual consolidated turnover of at least EUR 750 million will be in scope. Under GMT rules, a top-up tax to 15% would apply when the effective tax rate (ETR) for a jurisdiction (e.g. Malaysia) is below 15%. For example, if a group has 5 companies in Malaysia but only one company is enjoying tax incentive, say full profit exemption for 10 years, and the other 4 companies are paying corporate taxes at 24%, to calculate the jurisdictional ETR, the financial results (with GMT adjustments) of the 5 companies will be blended. The blended rate may or may not go below 15% and some number crunching is key to ascertain this position. Moreover, the economic substance of the 5 Malaysian companies could also cushion the impact of the GMT. Where top-up tax is likely, the companies must be prepared with the GMT analysis and commence the discussion with the investment promotion agencies with a view to exploring the alternatives. As announced in Budget 2025, the Malaysian Government plans to streamline the current tax incentive regime, introduce new non-fiscal incentive and above all, consider the viability of a specific credit, namely the Strategic Investment Tax Credit (SITC). SITC is expected to be less harmful for GMT purpose, the design of it will entail careful consideration as amount of tax refund could be enormous.

06 What is the proposed self-assessment system for stamp duty and how will it be implemented?

The proposed self-assessment stamp duty system (STSDS) aims to enhance efficiency and compliance in the stamping process. Under this system, which will be implemented in phases, duty payers or their appointed agents will be required to upload information to the Stamp Assessment and Payment System (STAMPS) and self-assess the value of stamp duties for various instruments or agreements. Subsequently, payments will need to be made within the specified timeframe.

The implementation of the STSDS will streamline the stamping process by empowering duty payers and their agents to take responsibility for assessing and reporting stamp duty values. We anticipate that this will result in greater compliance, shorter processing times, and improved accuracy in duty payments, along with more frequent stamp duty tax audits and increased penalties for non-compliance.

07 What should the government consider for a successful implementation of the carbon tax?

While Budget 2025 lacks detailed information, the proposal to utilise the revenue from carbon tax to fund research and green technology programs is a good consideration. Additionally, the government can consider allocating a portion of the revenue to assist small businesses that may not have the financial means to invest in green technologies. It is also important to set an appropriate tax rate that is reasonably high enough to incentivise efforts to reduce carbon emissions but at the same time, does not disproportionately impact businesses and consumers. The government can also consider a gradual increase in tax rate to allow sufficient time for businesses to adapt, similar with how carbon tax was introduced in Singapore.

08 With the IRB urging more companies to participate in the Tax Corporate Governance Framework (TCGF), what areas should taxpayers focus on to ensure effective tax governance practices related to transfer pricing?

To ensure effective transfer pricing governance, taxpayers should focus on several key areas, integrating transfer pricing into their business practices while adhering to compliance requirements. For example, timely identification and pricing of related-party transactions in accordance with arm's length standards, include transfer pricing considerations in key business decisions and key operational matters, keep key decision-makers regularly informed about transfer pricing matters and implement robust processes and internal controls to operationalise transfer pricing policies effectively.

By focusing on these areas and leveraging effective technology tools, taxpayers can effectively enhance their transfer pricing governance and be well-prepared to explore the TCGF.