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Malaysian Budget 2025 – Tax Highlights

30 October 2024

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Introduction to Budget 2025

On 18 October 2024, the Prime Minister and Minister of Finance, YAB Dato' Seri Anwar Bin Ibrahim tabled the Malaysian Budget 2025 ("**Budget**") themed "Reinvigorating the Economy, Driving Reforms, and Prospering the People". This is the third MADANI themed Budget that aims to drive economic growth, achieve long-term fiscal sustainability and elevate the people's standard of living.

Notwithstanding that inflation is gradually receding and the easing of monetary risk, global instabilities risk remains. The Government of Malaysia ("**Government**") projects that there will be 4.5% to 5.5% of economic growth and is committed to reduce the fiscal deficit to 3.8% of gross domestic product in 2025.

In line with the Government's commitments, the Government has allocated RM 421 billion for this Budget, which is the largest ever expansionary budget in the country's history, surpassing the RM 393.8 billion allocated for Budget 2024.

Tax revenue remains the largest contributor to the Government's revenue amounting to 76.3% of the total revenue. The Government is looking to introduce various tax measures aimed at broadening the tax revenue base and attracting high-value investments. These measures include amongst others, the implementation of Dividend Tax, Carbon Tax, an increase in the Sales Tax rate, expansion of scope of Service Tax and the introduction of new tax incentives and extensions of existing tax incentives.

This alert will examine some of the key tax highlights arising from the Budget and our analysis of these proposals.

Key Tax Highlights of Budget 2025

1. **Dividend Tax**: Dividend income exceeding RM 100,000 received by individual shareholders will be subject to a dividend tax of 2% on the chargeable dividend income from year of assessment ("**YA**") 2025.
2. **Sales and Service Tax**: The sales tax will be increased on non-essential items such as imported premium goods (for e.g., salmon and avocado) from 1 May 2025 onwards. However, essential food items consumed by the people will continue to be exempted from Sales Tax. The Government also proposed that the scope of service tax will be broadened to include new taxable services beginning 1 May 2025. This includes commercial service transactions between businesses.
3. **Carbon Tax:** In 2026, Carbon Tax will be imposed on the iron, steel and energy industries.
4. **Self-Assessment System ("STSDS") for Stamp Duty**: The Government proposed the implementation of STSDS which requires tax payers or appointed agent to perform self-assessment on the stamp duty payable and make payments within specified timeline. The implementation of STSDS will be done in 3 phases based on the types of instruments.

These highlights and the other key tax developments arising from the Budget are detailed below.

1. Dividend Tax

1.1. Introduction of Dividend Tax

Effective from YA 2025, annual dividend income exceeding RM 100,000 received by individual shareholder will be subject to a dividend tax of 2% on the chargeable dividend income (after taking into account allowances and deductions).

From the Budget Touchpoints published alongside the Budget announcement, dividend income received by individual shareholders for dividends paid, credited or distributed from company profits will fall in scope for dividend tax. Individual shareholders include resident individuals, non-resident and individual who hold shares through nominees.

Where the individual shareholder has income other than dividend income, the chargeable dividend income shall be determined as follows:

$$\frac{Dividend\ statutory\ income}{Aggregate\ income} \times Chargeable\ income = Chargeable\ dividend\ income$$

The Government proposed exemption from dividend tax on the following dividend income:

- 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 cooperatives;
- dividend income declared by closed-end funds;

- dividend income received by residents from Labuan entities; and
- any exemption given on dividend income at the shareholder level as determined by the Minister of Finance.

Further, it is proposed that dividend tax is not applicable to profit distributions made to the contributors and depositors by:

- Employees Provident Fund;
- Armed Forces Fund Board;
- Amanah Saham Nasional Berhad; and
- any unit trust.

Our thoughts

Since YA 2008, dividend distributed from the company is not subject to tax at the shareholder level under the single-tier system. Under the current tax regime, there is no mechanism to claim for tax deduction at a company level for dividend distributed to its shareholder. As such, the proposed dividend tax may result in double taxation as the profits of the company has already been taxed.

Nevertheless, the proposed imposition of dividend tax appears to be a form of wealth tax aimed at individuals in the higher income bracket. This is in line with the Government's aim of closing the wealth gap and ensure a fairer distribution of wealth in Malaysia.

While the Budget helpfully provides some detail on the applicability of dividend tax, many points remain unclear at this juncture.

In particular, further clarification will be required on the following:

- to mitigate double taxation, whether there will be any tax credit mechanism available at a company level for the dividend paid to individual shareholders.
- when computing chargeable dividend income, what constitute as "allowances" and "deductions" when determining chargeable dividend income.
- whether exempted dividend income received by individual shareholder will be taken into account when ascertaining the RM 100,000 annual dividend income received threshold.

Further details are expected to be announced in the Finance Bill.

2. Carbon Tax

2.1. Implementation of Carbon Tax

To promote the adoption of low-carbon technologies, the Government intends to introduce carbon tax on the iron, steel and energy industries in 2026.

Our thoughts

The decision of the Government to implement carbon tax is in line with Malaysia's broader national objectives of achieving net-zero carbon emissions by 2050. Further, the plan to introduce carbon tax by

Our thoughts

2026 appears to be strategically aligned with the commencement of European Union's Carbon Border Adjustment Mechanism ("**CBAM**").

Broadly, CBAM aims to put a fair price on the carbon emitted when producing carbon-intensive products such as iron and steel imported into the European Union fairly. This is to prevent "carbon leakage" and ensure the carbon price of imported carbon-intensive products is equivalent to the carbon price of domestic production. Importers are required to declare the carbon emission embedded in the imports and any carbon price paid for these emission. Deduction may be allowed if carbon price had been paid during production.

The implementation of carbon tax by 2026 is welcomed as it incentivizes businesses to reduce carbon emission, whilst ensuring that local producers of carbon-intensive products remain competitive at a global level.

3. STSDS for Stamp Duty

3.1. Implementation of STSDS for Stamp Duty

At present, instruments or agreements must be submitted for stamping through the online Stamp Assessment and Payment System ("**STAMPS**") portal. It is mandatory for the duty payers to complete relevant information required and upload supporting documents onto STAMPS. However, Stamp Office is responsible to assess the stamp duty payable and issue a notice of assessment to the duty payer.

Under the STSDS, the burden to ascertain the stamp duty payable is shifted from the Stamp Office to duty payers. Duty payers or appointed agent are required to perform self-assessment on the stamp duty payable and make payments within a specified timeline.

STSDS will be implemented in 3 phases, as follows:

- Phase 1 on 1 January 2026: Instruments or agreements related to rental or lease, general stamping and securities;
- Phase 2 on 1 January 2027: Instruments of transfer of property ownership; and
- Phase 3 on 1 January 2028: Instruments or agreements other than those stated in Phase 1 and Phase 2.

Our thoughts

Generally, stamping of instruments under STAMPS may take up to 2 months. The implementation of STSDS will enhance efficiency of the stamping process, which is particularly beneficial for duty payers involved in time-sensitive transactions.

However, it is of interest to consider whether the Stamp Act 1949 ("**SA**") will be amended to account for the implementation of STSDS is required. Under the current SA, there is no prescribed limitation period as the notice of assessment issued by the Stamp Office shall be regarded as final and conclusive unless:

- the duty payer who is dissatisfied with an assessment, objects by written notice within 30 days from the date of assessment; and
- the duty payer who is dissatisfied with the decision made upon the review of the written notice of objection, appeals further against the decision, to the High Court.

Our thoughts

In the absence of a limitation period under the STSDS, the duty payer will be subject to the uncertainty of when the Stamp Office may challenge the stamp duty paid and this may be for an indefinite period. This would result in excessive administrative burden on the duty payer to maintain all supporting documents indefinitely to justify the duty paid.

Crucially, ascertaining the nature of the instrument and accurately assessing the stamp duty payable may not always be straightforward. Shifting such burden to the duty payer may be excessive. It is also unclear if any penalties will be imposed if the duty payer's self-assessment of the stamp duty is subsequently regarded as incorrect by the Stamp Office.

4. Incentives / Reliefs

4.1. Introduction of New Investment Incentive Framework

4.1.1. Supply Chain Resilience Initiative

To strengthen the local supply chain, this Budget proposes to introduce the Supply Chain Resilience Initiative accompanied with incentives as follows:

- expenses up to RM 2 million per annum incurred by Multinational Enterprises ("**MNEs**") for the Supply Chain Resilience Initiative will be provided with a double tax deduction for a period of 3 consecutive years;
- MNEs or their suppliers who makes joint venture investments with other local suppliers will be given income tax deduction on the amount invested in the joint venture;
- local suppliers under this initiative will be given tax incentives package based on outcome-based approach; and
- over RM100 million investment matching fund will be provided through equity crowdfunding platform for the development of local suppliers in the sectors involving Electrical and Electronics ("**E&E**"), specialty chemicals and medical devices.

4.1.2. Creation of Economic Clusters

It is proposed that economic clusters will be created based on the state's specialties under the Supply Chain Resilience Initiative. For instance, renewable energy in Perlis and Sabah, specialty chemical industries in Pahang and Terengganu.

4.1.3. Special Rate Income Tax Incentives

To reduce economic disparity between regions, income tax incentives at special rates will be offered for investments in 21 economic sectors in Perlis, Kedah, Kelantan, Terengganu, Sabah and Sarawak. This is subject to the success of economic spillovers.

4.1.4. Tax Incentives for Carbon Capture, Utilisation, and Storage (CCUS)

To promote Environmental, Social and Governance-based investments, it is proposed that tax incentives such as investment tax allowances or income tax exemptions are provided for CCUS activities.

4.1.5. Tax Incentives for Increasing Exports

Since YA 2002, companies engaged in selected service activities and successfully increase exports are provided with tax exemption of up 70% of the statutory income equivalent to 50% of the value of increased exports. The selected services activities are as follows:

- Legal
- Accounting
- Architecture
- Marketing
- Business consultancy
- Office services
- Construction management
- Building management
- Plantation management
- Private education
- Publishing
- Printing
- Information technology and communication
- Engineering
- Local franchise

To further enhance the activities of the E&E sector, it is proposed that the increased export incentive for selected services activities be expanded to include integrated circuit ("**IC**") design services. The inclusion of IC design services is in line with the aim of the New Industrial Master Plan 2030 to establish Malaysia as a hub for advanced IC design technologies and solutions, by developing 5 globally competitive local IC design companies.

4.1.6. Special Tax Deductions to Private Universities and Skills Training Institutes

In line with the Government's agenda to create high-income job opportunities, it is proposed that special tax deductions will be given to private universities and skills training institutes that develop new courses involving artificial intelligence ("**AI**"), robotics, Internet of Things ("**IoT**"), data sciences, FinTech and sustainable technology.

4.2. Tax Incentives related to Global Minimum Tax ("**GMT**")

Following from Budget 2024, the implementation of GMT was passed into law under the Income Tax Act 1967 and due to be effective from 1 January 2025. Aligned with the Government's agenda to broaden the tax base in Malaysia, the Government has conveyed its preparedness to implement the GMT. Whilst the implementation of GMT will generate additional revenue, the Government acknowledges the potential risk arising from GMT on existing and future investments.

To alleviate the impact of GMT, the Government is analyzing the feasibility of Strategic Investment Tax Credit. Further, the Government is committed to streamline existing incentives and introduce new (non-tax) incentives.

Our thoughts

In light of the implementation of GMT, it is much welcomed to hear the Government's commitment to streamline existing incentives and to provide new (non-tax) incentives. Notably, the Government is analyzing the feasibility of Strategic Investment Tax Credit. In line with other countries such as Singapore, this may be a form of refundable tax credit. Briefly, the mechanism of refundable tax credits allows eligible companies to receive the credit by way of cash or cash equivalent within 4 years. Under the OECD's Pillar 2 Global Anti-Base Erosion (GloBE) rules, refundable tax credits are treated as income and not a reduction in taxes. As a result, the effective tax rate of a company will not be reduced significantly.

4.3. Johor-Singapore Special Economic Zone ("JSSEZ")

On 11 January 2024, the governments of Malaysia and Singapore signed a memorandum of understanding to collaborate on establishing the JSSEZ in Johor. To foster the development of JSSEZ as a sustainable special economic zone, it is proposed that special incentives will be introduced by the end of 2024. The special incentives are designed to attract quality investments and provide high-value job opportunities.

4.4. Forest City Special Financial Zone ("FCSFZ")

To boost tourism, the Government announced that Forest City has been approved as a duty-free island. Further, it is proposed that tax incentive package will be offered to FCSFZ to promote financial related activities such as global financial services and Fintech.

4.5. Tax Incentive for Implementation of E-Invoicing

E-Invoicing will be implemented in phases based on the turnover or revenue thresholds of the business, as follows:

Phase	Targeted Taxpayers	Implementation Date
1.	Taxpayers with an annual turnover or revenue of more than RM 100 million	1 August 2024
2.	Taxpayers with an annual turnover or revenue of more than RM 25 million and up to RM 100 million	1 January 2025
3.	All other taxpayers	1 July 2025

To incentivise taxpayers in the implementation of E-Invoicing, it is proposed that the expenses incurred for the purchase of information and communication technology ("**ICT**") equipment, computer software packages and consulting fees be provided with accelerated capital allowance. The accelerated capital allowance can be fully claimed within a period of 2 years, as follows:

Qualifying Expenditure	Current Capital Allowance Rate	Proposed Capital Allowance Rate
Purchase of ICT equipment and computer software		
Consultation, licensing and incidental fees related to customized computer software development	Initial Allowance: 40% Annual Allowance: 20%	Initial Allowance: 20% Annual Allowance: 40%

The effective date for the claim of accelerated capital allowance is from YA 2024 to YA 2025.

4.6. Tax Incentive for Smart Logistics Complex ("SLC")

By way of background, SLC is a modern warehouse that adopts technologies such as IoT and AI for automation of warehouse operations. This aids to reduce costs and enhance the performance of the overall supply chain. However, there is currently no tax incentives available for companies which adopts the Fourth Industrial Revolution ("**IR4.0**") elements in smart warehousing.

To further increase the overall performance of supply chain through adoption of advanced technologies in logistics, it is proposed that the adoption of IR4.0 elements such as AI, IoT and blockchain by eligible SLC companies will be provided with the following incentives:

- income tax exemption equivalent to an investment tax allowance of 60% on qualifying capital expenditure incurred for a period of 5 years; and
- this allowance can be set-off against up to 70% of the statutory income for each YA.

Eligible SLC companies may apply to the Malaysian Investment Development Authority from 1 January 2025 to 31 December 2027. To apply for the SLC tax incentive, the following conditions must be fulfilled:

- to qualify as an eligible SLC company, it must be a:
  - 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.
- eligible logistics services are regional distribution centres, integrated logistics services, storage of hazardous goods or cold chain logistics.
- warehouse with a minimum build-up area of 30,000 square meters.
- adaptation of at least 3 IR4.0 elements.
- Other conditions as prescribed.

Eligible Company	Current Tax Incentive	Proposed Tax Incentive
SLC companies that adopts IR4.0 elements .	Not available	Investment tax allowance of 60% on the qualifying capital expenditure incurred for a period of 5 years, and this allowance can be offset against up to 70% of the statutory income for each YA.

4.7. Tax Incentive for Automation

The Government has introduced tax incentives for automation in sectors of manufacturing, services, agriculture and commodities which takes form of an accelerated capital allowance for 1 year. Further, this is coupled with income tax exemptions on the same capital expenditures.

4.8. Expansion of Income Tax Exemption for Takaful Related Activities in Labuan

At present, any income derived from Labuan trading entities[1] relating to Islamic finance activities including but not limited to Islamic digital banking, Islamic digital token issuer and Islamic Exchange are exempted from tax under the Labuan Business Activity Tax (Exemption) Order 2024. The income tax exemption is applicable for 5 years from YA 2024 to YA 2028.

This Budget proposed that full income tax exemption provided to Labuan trading entities undertaking Islamic finance activities be expanded to include qualifying Labuan takaful business activities and Labuan takaful related activities from YA 2025 to YA 2028. The proposed expansion are 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: ▪ 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: ▪ risk management; or ▪ product development
Labuan underwriting manager or Labuan underwriting takaful manager	Provides 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

[1] These include Labuan bank, Labuan investment bank, Labuan Islamic bank or Labuan Islamic investment bank, Labuan credit token company or Labuan Islamic credit token company, Labuan fund manager and Labuan International Financial Exchange.

Labuan Trading Entity	Qualifying Activities
Labuan insurance broker or Labuan takaful broker	Provides services such as: ▪ arrange Labuan takaful and re-takaful business; or ▪ financial analysis

4.9. Tax Incentive Extensions

The following tax incentives have been extended:

Tax Incentive	Period of Extension
Income Tax Exemption on Foreign-Sourced Income Foreign-sourced income received by resident individuals in Malaysia, which is subject to income tax in the source country is exempted from income tax in Malaysia.	Extended for 10 years from 31 December 2026 to 31 December 2036.
Tax Deduction for Sponsorship of Smart Artificial Intelligence Driven Reverse Vending Machines ("RVM") To promote recycling practices, tax deductions is given to contributions or sponsorships made by businesses for Smart AI Reverse Vending Machine.	Extended for 2 years up until 31 December 2026.

5. Indirect Tax

5.1. Increase in Sales Tax on Non-Essential Goods

The Budget proposed that effective from 1 May 2025, sales tax will be increased on non-essential goods. For instance, imported premium goods such as salmon and avocado.

However, essential food items consumed by the people will continue to be exempted from sales tax.

Our thoughts

At present, sales tax are charged on all taxable goods:

- manufactured in Malaysia by a registered manufacturer and sold, used or disposed of by him; or
- imported into Malaysia by any person.

A key consideration that remains uncertain at this stage is the precise scope of the increase in sales tax and what are regarded as essential goods. The Government will need to clarify on the types of goods

Our thoughts
which constitute as "non-essential goods" and which are subject to the sales tax increase. We await further details which may be contained in the Finance Bill.

5.2. Expansion of Scope of Service Tax

In line with the Government's intention to broaden the tax base, it is proposed that the scope of services will be expanded to include new taxable services effective from 1 May 2025. This includes commercial service transactions between businesses ("**B2B**") such as fee-based financial services.

Our thoughts
A critical question remains on the specific scope of commercial services which will be included as taxable services. It is currently unclear which industry may be impacted by this proposal. Unlike the Goods and Services Tax ("**GST**") regime, the service tax regime does not have a mechanism for businesses to claim for input tax credits for the service tax paid, and this may result in an increase in the cost of doing business.

5.3. Review of Excise Duty Rate on Sugar Sweetened Beverages

In line with efforts to improve the health and well-being of the people, the Government plans to raise the excise duty on specific sugar sweetened beverages. The proposed rate is an increase from RM 0.50 to RM 0.90 per litre.

Sugar sweetened beverages are beverages matching the following tariff code descriptions which exceed the stated sugar content thresholds.

Tariff Code	Types of Beverage	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
	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

6. Stamp Duty

6.1. Review of Stamp Duty for Loan or Financing Agreement for the Purchase of Goods based on Shariah Principles

At present, loan or financing agreements for the purchase of goods through hire purchase in accordance with the conventional hire purchase and Shariah principle of *Al Bai Bithaman Ajil* will be charged stamp duty at the fixed rate of RM10 under Item 22(6) of the First Schedule to the SA.

However, loan or financing agreements for the purchase of goods other than hire purchase based on Shariah principles such as *Murabahah* and *Tawarruq* are subject to stamp duty rate of 0.5% under Item 22(1) of the First Schedule of SA.

To streamline the imposition of stamp duty on loan or financing agreements based on Shariah principles for the purchase of goods (other than hire purchase), it is proposed that loan or financing agreements based on Shariah principles will be charged stamp duty at the fixed rate of RM 10. This proposal is to apply to loan or financing agreements based on Shariah principles executed from 1 January 2025 onwards.

Type of Matter	**Stamp Duty Rate**	
	Current Stamp Duty Rate	**Proposed Stamp Duty Rate**
Loan or financing agreements for the purchase of goods (other than hire purchase) based on Shariah principles such as *Murabahah* and *Tawarruq*	*Ad valorem* stamp duty of 0.5%	Fixed duty of RM 10

6.2. Review of Stamp Duty for Loan or Financing Agreements Executed by Micro, Small and Medium Enterprises (MSMEs) through Initial Exchange Offering (IEO)

Currently, loan or financing agreements executed by MSMEs and investors through the IEO are subject to stamp duty at rate of 0.05% to 0.5% under Item 27(a)(i) of the First Schedule of the Stamp Act 1949.

It is proposed that loan or financing agreements be given a 100% stamp duty exemption executed by MSMEs and investors through the IEO platforms registered with the Securities Commission for 2 years. This stamp duty exemption is applicable to loan or financing agreement executed from 1 January 2025 until 31 December 2026.

Loan Value	**Stamp Duty Rate**	
	Current Stamp Duty Rate	**Proposed Stamp Duty Rate**
An amount not exceeding RM 250,000	0.05%	Exempted from stamp duty for loan or financing agreements executed from 1 January 2025 to 31 December 2026
For each additional RM 1,000 and not exceeding RM 1,000,000	0.25%	
For each additional RM 1,000 or part thereof	0.5%	

6.3. Review of Stamp Duty for Loan or Financing Agreements under the Micro Financing Scheme

Presently, the agreement for a loan or financing pursuant to a micro financing scheme is exempted from stamp duty under the Stamp Duty (Exemption) (No.4) Order 2011 provided the following conditions are satisfied:

- the micro financing scheme is approved by the National Small and Medium Enterprise Development Council;
- the loan or financing for an amount not exceeding RM50,000; and
- executed on or after 1 January 2012.

Under this Budget, it is proposed that the stamp duty exemption be given for loan or financing agreements executed from 1 January 2025 under the micro financing scheme for amounts up to RM 100,000. This is to further extend assistance to MSMEs in obtaining unsecured loans or financing.

Type of Matter	**Stamp Duty Rate**	
	Current Position	**Proposed Position**
Loan or financing agreements under the Micro Financing Scheme approved by the National Small and Medium Enterprises Development Council. Applicable to loan or financing agreements under the Micro Financing Scheme executed from 1 January 2025	Exempted from stamp duty for amounts up to RM 50,000	Exempted from stamp duty for amounts up to RM 100,000

6.4. Review of Stamp Duty for Life Insurance and Family Takaful Certificate

Pursuant to the exemptions for Item 32 to the First Schedule of the SA, transfers by endorsement of a policy of insurance other than a policy of life insurance is exempted from stamp duty. Following this, the deed of assignment for life insurance policy and family takaful certificate is subject to *ad valorem* stamp duty under Item 32(a) to the First Schedule of the SA.

It is proposed that the deed of assignment for life insurance policy and family takaful certificate executed from 1 January 2025, will be charged at a reduced fixed stamp duty rate.

Ownership Transfer Value	**Stamp Duty Rate**	
	Current Stamp Duty Rate	**Proposed Stamp Duty Rate**
The first RM 100,000	1%	RM 10
Above the first RM 100,000 to RM 500,000	2%	RM 100

Ownership Transfer Value	Stamp Duty Rate	
	Current Stamp Duty Rate	Proposed Stamp Duty Rate
Above RM 500,000 to RM 1,000,000	3%	RM 500
More than RM 1,000,000	4%	RM 1,000

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