

# Malaysia's Latest Indirect Tax Updates

27 January 2026

Subsequent to the Malaysian Ministry of Finance (MoF) [Press Release dated 5 January 2026](#) (the Press Release), the Royal Malaysian Customs Department (RMCD) issued an updated Service Tax Policy (STP) in the national language titled [Service Tax Policy 2/2025 \(Amendment No. 3\)](#) dated 23 January 2026, specific to rental or leasing services (Group K, First Schedule of Service Tax Regulations 2018).

## The key updates under STP 2/2025 (Amendment No. 3) are as follows:

1. Reduction of service tax rate from 8% to 6%
2. Increase in annual sales threshold for Micro, Small, and Medium Enterprise (MSME) tenants exempted from service tax, from RM1 million to RM1.5 million
3. Service tax exemption for newly established MSME businesses, applicable for one year from the date of registration in the MyPMK system

With respect to other items under this STP, these remain status quo in accordance with [Service Tax Policy 2/2025 \(Amendment No. 2\)](#) dated 17 October 2025, which is deemed effective from 1 July 2025.

### 1. Reduction of service tax rate from 8% to 6%

Effective 1 January 2026, the Service Tax policy in relation to rental or leasing services has been enhanced, as follows:

This update is reflected under item 8, STP No 2/2025 (Amendment No. 3):

Item no	Exemption	Key Conditions
8.	A service tax exemption of 2% on the rental or leasing service tax rate is granted until amendments to subsidiary legislation are gazetted.	This exemption is effective from 1 January 2026.

### Commentary

The reduction of the service tax rate on rental and leasing services to 6%, effective 1 January 2026, is expected to result in an annual tax savings of around RM500 million. This change requires an amendment to the Service Tax (Rate of Tax) Order which is pending gazettelement at time of writing. Given that the issuance of such Order may take time due to legal processes, there is a risk that taxpayers may apply the revised tax rate prematurely. Therefore, the notification under STP No. 2/2025 (Amendment No. 3) by the RMCD acts as an interim measure to guide taxpayers. Arising from this, taxpayers will still need to ensure that the transitional provisions are met to accurately impose the correct tax rates on their rental or leasing services.

## 2. Increase in annual sales threshold for Micro, Small, and Medium Enterprise (MSME) tenants exempted from service tax, from RM1 million to RM1.5 million

This update is reflected under item 4, STP No 2/2025 (Amendment No. 3):

Item no	Exemption	Key Conditions
4.	Tenants with Micro, Small, and Medium Enterprise (MSME) status are exempted from paying service tax on the acquisition of rental or leasing services.	<ul style="list-style-type: none"> <li>a) The tenant must make a declaration and register the MSME through the MyPMK system developed by the RMCD;</li> <li>b) The annual sales of the PMK must not exceed <b>RM1,500,000.00</b> based on the latest assessed annual income declared to the Inland Revenue Board of Malaysia (IRBM);</li> <li>c) The annual sales of the SME must be updated every year to RMCD;</li> <li>d) The tenant shall be responsible for any information declared to RMCD;</li> <li>e) If the declaration is found to be untrue, RMCD may recover the service tax that was not eligible for exemption; and</li> <li>f) Other conditions as determined by the Director General of Customs, Deputy Director General of Customs, or Assistant Director General of Customs (Internal Tax Division) for the purpose of ensuring smooth operations and enforcement.</li> </ul> <p>Any MSME that has registered through the MyPMK system before or on 31 December 2025, exemption from paying service tax on rental or leasing services is <b>effective from 1 July 2025</b>.</p>

### Commentary

The increase in the annual sales threshold, aims to reduce business costs associated with rental or leasing services acquired by MSMEs. Previously, such tax exemption applied only to businesses with an annual turnover of below RM1 million.

### 3. Service tax exemption for newly established MSME businesses, applicable for one year from the date of registration in the MyPMK system

This is reflected under item 9 STP No 2/2025 (Amendment No. 3):

Item no	Exemption	Key Conditions
9.	<p>Tenants with MSME status are exempted from paying service tax on the acquisition of rental or leasing services.</p> <p>Newly established MSMEs are eligible for service tax business to enjoy exemption treatment on rental and leasing services.</p>	<p>This exemption is for a period of 1 year starting from the date of registration of the MSME with the SSM or similar agencies in Sabah and Sarawak are subject to the following conditions:</p> <ul style="list-style-type: none"> <li>a) The tenant <b>must make a declaration and register the MSME</b> through the <b>MyPMK system</b> developed by the RMCD;</li> <li>b) The newly established MSME <b>must submit an income tax return to IRBM</b> to qualify for service tax exemption on rental or leasing services after the existing one (1) year period has expired; and</li> <li>c) <b>Update the income declaration information to IRBM into the MyPMK system in the year following the date of SSM registration.</b></li> </ul> <p>This exemption is <b>effective from 1 January 2026.</b></p>

#### Commentary

Similar to the two items above, the exemption for newly established MSME businesses aims to reduce the business costs associated with rental or leasing services acquired by MSMEs. Previously, such tax exemption was limited to existing businesses with an annual turnover of below RM1 million. While the RMCD now grants newly established MSME businesses this exemption, it is conditional upon the businesses filing their income tax returns with IRBM after one year and subsequently updating their income declaration in the MyPMK system.



## Our Recommendations:

### 1. Review the STP Conditions

- ▶ Carefully review the conditions outlined in the STP to ensure full compliance before implementing any exemption.

### 2. Adhere to the Transitional Provisions:

- ▶ Ensure that the transitional provisions are met to accurately apply the correct tax rates on the rental and leasing services.

### 3. Maintain Proper Records:

- ▶ Keep all relevant documents organised and accessible to substantiate the exemption claimed by the business in the event of an RMCD audit.

### 4. Seek Professional Advice:

- ▶ When in doubt, consult a qualified tax adviser or lawyer to assist with compliance and mitigate potential risks.



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