

Malaysia's Latest Indirect Tax Updates

23 February 2026

Following the Malaysian Ministry of Finance (MoF) [Press Release dated 5 January 2026](#) (the Press Release), the Royal Malaysian Customs Department (RMCD) issued updated Service Tax Policies (SvTPs) as well as a new Sales Tax Policy (SlTP), outlining key updates to the following areas:

1. Refund mechanism arising from the reduction of service tax rate from 8% to 6% for rental or leasing services
2. Extension of service tax exemption on construction work contracts signed before 9 June 2025 without a reviewable clause until 30 June 2027
3. Sales Tax exemption on critical raw materials or manufacturing inputs

1. Refund mechanism arising from the reduction of service tax rate from 8% to 6% for rental or leasing services

Following the introduction for the reduction of the service tax rate from 8% to 6% by way of a service tax exemption under Item 8 of [SvTP 2/2025 \(Amendment No. 3\)](#) dated 23 January 2026, RMCD subsequently prescribed a refund mechanism under Appendix B in [SvTP 2/2025 \(Amendment No. 4\)](#) dated 6 February 2026.

In this regard, impacted taxpayers who have overpaid service tax to RMCD are allowed to apply for a refund claim in accordance with subsection 38(1)(b), Service Tax Act 2018 by submitting the following documents to RMCD control station:

- ▶ An official application letter.
- ▶ JKDM No. 2 form - Claim for Refund / Drawback of Duty / Tax / Others.
- ▶ SST listing for the relevant taxable period(s).
- ▶ A copy of the rental agreement document or related document proving that the rental or lease service occurred on or after 1 January 2026.
- ▶ An invoice by the service provider to the service recipient including the total amount of service tax payable by the service recipient.
- ▶ A document proving the service tax refund to the customer or tenant. For example, proof of payment documents, credit notes and other relevant documents.
- ▶ Other business documents that can prove that the service recipient has overpaid service tax, if necessary.

Commentary

This refund mechanism is intended to provide guidance to affected taxpayers who have already issued invoices for rental or leasing services at the 8% service tax rate prior to the introduction of this policy and who wish to obtain a service tax refund from RMCD. Despite this, taxpayers must still ensure that the applicable transitional provisions are satisfied to accurately determine the correct tax rate on their rental or leasing services before claiming a refund.

2. Extension of service tax exemption on construction work contracts signed before 9 June 2025 without a reviewable clause until 30 June 2027

This update is reflected under Item 3 of [SyTP No. 3/2025 \(Amendment No. 3\)](#) dated 30 January 2026, whereby the service tax exemption for construction work contracts signed before 9 June 2025 without a reviewable clause has been extended until 30 June 2027. The prescribed conditions under Appendix A remain fundamentally unchanged.

Commentary

The extension of the service tax exemption on construction work contracts without a reviewable clause until 30 June 2027 aims to ease business costs associated with capital-intensive construction projects. This measure reflects the importance of the construction sector, being a steady and key contributor to Malaysia's GDP since 2022. Prior to the Press Release, such exemption was only applicable from 1 July 2025 until 30 June 2026.

3. Sales Tax exemption on critical raw materials or manufacturing inputs

Under [SITP No. 1/2026](#) dated 4 February 2026, MoF has granted a sales tax exemption effective 1 January 2026 on critical raw materials and manufacturing inputs used by registered manufacturers, covering goods utilised in the production of livestock and agricultural products, such as:

- ▶ animal feed - e.g., fishmeal, rice bran, etc. (refer Appendix I)
- ▶ fertilisers - e.g., rock phosphate (calcinated), dolomite, etc. (refer Appendix II)
- ▶ pesticides - e.g., glyphosate (including salts), glufosinate (including salts), etc. (refer Appendix III)



In addition, the SITP also prescribes a sales tax refund under subsection 35(6) of the Sales Tax Act 2018 for any manufacturer who has paid sales tax on or after 1 January 2026 on the importation or purchase of raw materials used in the manufacture of animal feed, fertilisers, or pesticides as classified in Appendix I, II, or III, subject to the fulfilment of the prescribed conditions:

- ▶ the importation or purchase of such materials must be made from **1 January 2026 until the amendment to the Sales Tax (Persons Exempted from Payment of Tax) Order 2018 is gazetted.**
- ▶ the raw materials belong to a **category approved by the Secretary General of Treasury** as specified in Appendix I, II and III.
- ▶ the manufacturer has paid the sales tax on the importation or purchase of such raw materials.
- ▶ the manufacturer of animal feed, fertilisers or pesticides shall be licensed under the Department of Veterinary Services or the Pesticides and Fertilisers Control Division, Department of Agriculture; and
- ▶ the manufacturer shall submit the refund application using the **JKDM No. 2 form** to the Division of Revenue Accounting, Technical Services Division, of the relevant Royal Malaysian Customs Department of the respective RMCD station no later than **30 April 2026.**

Commentary

- ▶ This policy serves as an extension of MoF's initiative to exempt animal feed from sales tax. In September 2025, MoF exempted raw soybeans, a key component in animal feed production, from sales tax as part of efforts to stabilise the prices of essential food items such as chicken, eggs and meat.
- ▶ At the time of writing, the Government has not yet gazetted any amendments to the Sales Tax (Goods Exempted from Sales Tax) Order for these exempted goods. As the issuance of such an Order may take time due to the required legal processes, affected taxpayers may still incur sales tax during the importation or purchase of these goods. Accordingly, the refund mechanism issued under this policy serves as a measure to guide taxpayers in obtaining a sales tax refund on the purchase or importation of such goods, given that SST operates as a single stage consumption tax.
- ▶ Overall, this measure aims to stabilise the prices of basic necessities for the majority of the *rakyat*, thereby reducing the cost of living and strengthening social protection amid global uncertainties driven by wars, geopolitical tensions, trade disruptions, and shifting U.S. policies.



Our Recommendations:

1. Review Conditions of the Tax Policies

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

2. Adhere to the Transitional Provisions:

- ▶ Ensure that the transitional provisions are met before obtaining a service tax refund for rental and leasing services.

3. Maintain Proper Records:

- ▶ Ensure all relevant documents are available to support the relevant SST refunds from RMCD.
- ▶ 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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