

Malaysia's Latest Indirect Tax Updates

8 January 2026

As we step into 2026, the Malaysian Government has introduced a series of important Indirect Tax changes aimed at reducing business costs, supporting economic growth, and strengthening compliance. These updates impact multiple sectors and carry significant implications for businesses.

Our latest Indirect Tax Updates cover four key areas:

1. Sales Tax and Service Tax (SST) Updates under Prime Minister Anwar Ibrahim's 2026 New Year Message
2. Public Ruling 1/2026: Meaning of the Word "Used" under Regulation 17 (1)(g), Sales Tax Regulations 2018
3. Limitation on Vehicle Tax Exemption in Langkawi and Labuan
4. Policy Update for Import Duty and Sales Tax Exemptions for Importation of Multimedia/ICT Equipment by Malaysia Digital (MD) Companies

1. SST Updates under Prime Minister's 2026 New Year Message

In conjunction with Prime Minister's 2026 New Year Message on 5 January 2026, the Malaysian Ministry of Finance (MoF) has issued a [Press Release dated 5 January 2026](#) (the Press Release) with regards to SST policies.

A. Service Tax Policy Enhancement on Rental or Leasing Services

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

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



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 service tax savings to tenants of around RM500 million. This change requires an amendment to the Service Tax (Rate of Tax) Order, which has not yet been gazetted but is anticipated to take effect from the stated date.

The increase in the annual sales threshold, along with the exemption for newly established MSME businesses, 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 RM500,000 to RM1 million. While the Royal Malaysian Customs Department (RMCD) has yet to update the service tax policy, we anticipate such changes to be reflected in due course, in line with this Press Release.

B. Sales Tax Exemption on Critical Raw Materials or Manufacturing Inputs

Effective 1 January 2026, a sales tax exemption will apply to critical raw materials and manufacturing inputs used by registered manufacturers, covering goods utilised in the production of livestock and agricultural products, such as:

- a. animal feed;
- b. fertilisers; and
- c. pesticides.

Commentary

- ▶ This policy serves as an extension of the MoF's initiative to exempt animal feed from sales tax. In September 2025, the 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.
- ▶ Overall, such 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 United States policies.
- ▶ At the point of writing, the Government has yet to gazette any amendments to the Sales Tax (Goods Exempted from Sales Tax) Order, to outline the additional list of exempted goods. Nonetheless, we anticipate that such an Order will be deemed effective from 1 January 2026, in line with this Press Release.



C. Service Tax Policy Enhancement on Construction Works

The Service Tax policy in relation to construction services has been enhanced, as follows:

- a. Extension of service tax exemption on construction work contracts signed before 9 June 2025 without a reviewable clause until 30 June 2027.
- b. Service tax exemption on construction and renovation services for places of worship (e.g., surau, mosques, temples, churches, and shrines) from 1 July 2025, subject to the following key conditions as specified under Appendices D and E of [Service Tax Policy 3/2025 \(Amendment No. 2\)](#).

Appendix D: Conditions for Exemption on the Construction of Places of Worship and Related Public Facilities Intended Solely for Religious Purposes

- i. The provider of construction services must be a person registered for service tax under Group L.
- ii. The construction contract must clearly state that the project is for the construction of a place of worship.
- iii. The construction work must have supporting documents such as an approved planning permission letter from the Local Authority (PBT), Pre-Com Plan, and any other documents related to the construction of the place of worship.
- iv. Construction of other non-residential buildings (additional structures) within the same area as the existing place of worship that are commercially based (e.g., shop lots) is not eligible for this exemption.
- v. If the place of worship is to be developed together with commercial buildings (within the same building or area), a separate application for exemption must be submitted to the Tax Division of MoF.
- vi. The Director General of RMCD may impose additional operational conditions through General Rulings or Guidelines regarding the service tax exemption for the construction of places of worship.



Appendix E: Conditions for Exemption on Renovation Works for Non-Residential Buildings Converted into Places of Worship

- i. The provider of construction services must be registered for service tax under Group L.
- ii. The construction contract must clearly state that the renovation work is for converting the building into a place of worship, along with any supporting documents proving the building is intended for religious use.
- iii. No refund of service tax will be granted on non-residential spaces/buildings that have been completed (whether they have obtained a Certificate of Completion and Compliance - CCC or not) and were previously subject to service tax on construction work, then later converted into a place of worship.
- iv. Renovation works on existing completed non-residential buildings that are converted into places of worship are eligible for service tax exemption.
- v. Construction works involving extensions or additions to create worship spaces within the structure of an existing non-residential building are eligible for service tax exemption.
- vi. The Director General of RMCD may impose additional operational conditions through General Rulings or Guidelines regarding the service tax exemption for the construction of places of worship.

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 is also due to the construction sector, being a steady and key contributor to Malaysia's GDP since 2022. Previously, such exemption was only applicable from 1 July 2025 until 30 June 2026. While the RMCD has yet to update Service Tax Policy 3/2025 to reflect this, we anticipate such changes to be reflected in due course, in line with this Press Release.
- ▶ The service tax exemption on construction and renovation services for places of worship helps alleviate the additional service tax costs associated with such works. This also reflects the Government's aspiration for Malaysia to exemplify religious harmony through its diverse places of worship, while encouraging relevant stakeholders to undertake renovation and restoration works, in line with Visit Malaysia Year 2026.



2. Public Ruling 1/2026: Meaning of the Word “Used” under Regulation 17 (1)(g), Sales Tax Regulations 2018

- ▶ The RMCD has issued [Public Ruling 1/2026](#) dated 5 January 2026, with the objective of clarifying the meaning of the word “used” under Regulation 17 (1)(g), Sales Tax Regulations 2018.
- ▶ This is because under Regulation 17(1)(g) of the Sales Tax Regulations 2018, a sales tax drawback under Section 40 of the Sales Tax Act 2018 may be allowed if the taxable goods being returned are claimed and have not been used after importation or purchase from a registered manufacturer.
- ▶ In this regard, the term “used” refers to any activity performed on the taxable goods, including any activity, value-added process, or manufacturing process carried out on the taxable goods after importation or purchase.
- ▶ However, labelling, packaging, or repackaging activities must not result in the taxable goods being given added value.

Commentary

The Public Ruling clarifies that the sales tax drawback provision can apply only if the acquirer of imported or locally purchased goods does not “use” (i.e., perform any activity, value-added process, or manufacturing process) on those goods.

3. Limitation on Vehicle Tax Exemption in Langkawi and Labuan

In line with the Budget 2026 announcement on 10 October 2025, the following legislations were gazetted on 31 December 2025 and took effect on 1 January 2026, imposing limits on motor excise duty, import duty, and sales tax for vehicles classified under headings 87.03 and 87.11 of the First Schedule to the Customs Duties Order 2025, where the sales price exceeds RM300,000 (excluding excise duties, sales tax, motor vehicle license fees, insurance and freight):

- i. Customs Duties (Labuan) (Amendment) Order 2025 [P.U. (A) 479/2025]
- ii. Excise Duties (Labuan) (Amendment) Order 2025 [P.U. (A) 480/2025]
- iii. Sales Tax (Imposition of Sales Tax in Respect of Designated Areas) (Amendment) Order 2025 [P.U. (A) 481/2025]
- iv. Excise Duties (Langkawi) (Amendment) Order 2025 [P.U. (A) 482/2025]
- v. Customs Duties (Langkawi) (Amendment) Order 2025 [P.U. (A) 483/2025]

Commentary

Such provisions aim to prevent abuse by vehicle owners in Langkawi and Labuan who have taken advantage of the rule allowing cars to leave duty-free zones for up to 90 days a year, tax exemptions will now be limited to vehicles valued at RM300,000 or below (before duties, taxes, motor vehicle license fees, insurance and freight), effectively excluding luxury cars.



4. Policy Update for Import Duty and Sales Tax Exemptions for Importation of Multimedia/ICT Equipment by MD Companies

The Malaysia Digital Economy Corporation (MDEC) on 26 December 2025, issued a policy update pertaining the import duty and sales tax exemptions for the importation of Multimedia/ICT Equipment by MD Companies undertaking data centre activities. This policy update is effective from 1 January 2026.

Such applications submitted on or after 1 January 2026 by MD companies will be considered on a case by-case basis, subject to compliance with the requirements below and approval by the MoF:

Item	Details
Record Examination	<ul style="list-style-type: none"> ▶ Limited to a maximum of five (5) years. ▶ Applicable to a maximum of three (3) companies within the same group.
Types of Equipment	Limited to direct and specialised equipment directly used for approved MD activities.
Types of Data Centre Activities	<ol style="list-style-type: none"> 1. Data Centre Operator (Co-location services) Operators that provide core data centre infrastructure services, including power supply, cooling systems, physical security and equipment space. 2. Hyperscaler Global providers of cloud infrastructure and services such as Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) and/or Software-as-a-Service (SaaS) with a minimum power requirement of 25 megawatts (MW) or above, a global data centre footprint and no provision of co-location services. 3. Cloud Service Provider (CSP) Providers of Infrastructure-as-a-Service (IaaS) and/or Platform-as-a-Service (PaaS).
Sales Tax Exemption	<ul style="list-style-type: none"> ▶ Limited to locally manufactured equipment. ▶ Sales tax exemption for imported multimedia/ICT equipment may still be considered for companies making significant investments, such as hyperscaler and colocation companies developing AI-driven data centres.

MDEC will issue updated procedures and detailed guidelines by the first quarter (Q1) of 2026.

Commentary

- ▶ This policy update is designed to streamline tax incentives for high-value data centre activities in Malaysia, reinforcing the nation's position as a premier destination for data centre investments in Southeast Asia. In turn, such investments are expected to generate thousands of high-value jobs and enhance Malaysia's position as a trusted regional hub for digital services.
- ▶ In view that this policy update is new, MDEC will issue detailed guidelines by Q1 2026.

Our Recommendations:

1. Review the Conditions Within the Policies:

- ▶ Carefully review the conditions outlined in the relevant tax regulations and policies 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 goods or 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 professional to assist with compliance and mitigate potential risks.



DAVID LAI

Head of Tax Advisory
BDO Malaysia
E: davidlai@bdo.my



CHAN KWAN YEE

Executive Director, Tax
BDO Malaysia
E: chanky@bdo.my



**NUR HIDAYAH
BINTI AZIZ**

Director, Tax
BDO Malaysia
E: nurhidayah@bdo.my



WONG JEN SHAUN

Associate Director, Tax
BDO Malaysia
E: wongjs@bdo.my

BDO in Malaysia's Contacts

Kuala Lumpur

Level 8,
BDO@Menara CenTARa
360 Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur, Malaysia

T: +603 2616 2888

E: bdo@bdo.my

Penang

51-21-F,
Menara BHL
Jalan Sultan Ahmad Shah
10050, Penang Malaysia

T: +604 222 0288

E: bdopg@bdo.my

Johor Bahru

Suite 18-04,
Level 18 Menara Zurich
15 Jalan Dato' Abdullah Tahir
80300 Johor Bahru, Malaysia

T: +607 331 9815

E: bdojb@bdo.my

For further information, we welcome you to speak to any of our tax specialists below:

BEH TOK KOAY

Senior Advisor
tkbeh@bdo.my

DAVID LAI

Executive Director
davidlai@bdo.my

CHRISTOPHER LOW

Executive Director
chrislow@bdo.my

TAN CHIN TECK

Executive Director
tanct@bdo.my

WOON YOKE LEE

Executive Director
woonyl@bdo.my

KOO KIAN MING

Executive Director
kookm@bdo.my

LEE BOON HOOI

Executive Director
leebh@bdo.my

ON BEE YEE

Executive Director
onby@bdo.my

SOH PIN TAU

Executive Director
sohpt@bdo.my

YAP MEI SEI

Executive Director
yapms@bdo.my

YEAP LAY SUAT

Executive Director
yeapls@bdo.my

YONG MEE THING

Executive Director
yongmt@bdo.my

CHAN KWAN YEE

Executive Director
chanky@bdo.my

JOE KHOO SING KIM

Executive Director
khoosk@bdo.my

MIDORI ASO

Executive Director
midori@bdo.my

LEE HUI SAN

Executive Director
leehs@bdo.my

CHIA SWEE HOW

Executive Director
chiash@bdo.my

This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO Tax Services Sdn Bhd to discuss these matters in the context of your particular circumstances. BDO Tax Services Sdn Bhd, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO Tax Services Sdn Bhd or any of its partners, employees or agents.

BDO Tax Services Sdn Bhd (198401002347 (114863-K)), a Malaysian Limited Liability Company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Copyright © January 2026. BDO Tax Services Sdn Bhd. All rights reserved. Published in Malaysia.

www.bdo.my

