Baker Tilly TaxSnaps

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Finance Bill 2026 & Measures for the Collection, Administration and Enforcement of Tax Bill 2026

Following our earlier Budget 2027 releases (*Budget 2027 Highlights* and *Budget 2027 Highlights - Further Tax Measures*), the Finance Bill 2026 and the Measures for the Collection, Administration and Enforcement of Tax Bill 2026, just released, now set out the proposed legislative framework for several of the measures announced, whilst introducing further changes to Malaysia's tax landscape. This edition of Tax Snaps picks up on some salient and interesting features of the 2 Bills.

Income Tax

Payment of Remuneration to Employees

Tax deduction for monetary remuneration to employees which fall within Section 13(1)(a) of the Income Tax Act 1967 ("ITA") is not allowed where the payment is not made through an account in the employee's name with a prescribed financial institution. This restriction will however not apply to Micro, Small and Medium Enterprises ("MSME"). This proposal is effective from Year of Assessment ("YA") 2028.

Cost of Issuing New Shares to Employees

Amendment to be made to Section 39 of the ITA to disallow a deduction for costs incurred by a company, whether directly or by way of reimbursement, in respect of rights granted to employees to acquire new shares issued by the company. The restriction also extends, subject to prescribed rules, to payments made to a holding or subsidiary company for new shares issued by that company to the paying company's employees. This proposal is effective from YA 2027.

Tax Treatment on Distributions of Real Estate Investment Trust / Property Trust Fund

Effective from YA 2026, the preferential 10% final Withholding Tax ("WHT") has ceased to apply to resident individuals (taxed at prevailing rates of 0%–30% of chargeable income) and non-resident individuals and foreign institutional investors (taxed at 30% of chargeable income) with Malaysian tax filing obligations. The 24% final WHT for non-resident companies remains unchanged.

The Finance Bill 2026 proposes a 30% final WHT on gross distributions to non-resident individuals and foreign institutional investors, removing the need to file a Malaysian tax return solely for such distributions. This proposal is effective from YA 2027,

Income Tax (continued)

Our observation of the current and proposed changes:

Unit holder	Current (YA 2026)	Proposed (YA 2027)
Resident individual	Tax rate: 0%–30%; tax return filing	Remains unchanged
Non-resident individual	Tax rate: 30% of chargeable income; tax return filing	Tax rate: 30% WHT (final) on gross distribution – no filing requirement
Foreign institutional investor	Tax rate: 30% of chargeable income; tax return filing	Tax rate: 30% WHT (final) on gross distribution – no filing requirement
Non-resident company	Tax rate: 24% WHT (final)	Remains unchanged

Income Tax (continued)

Among the administrative amendments contained in the Finance Bill 2026 are two interesting changes that are worth noting:-

Confidentiality Beyond Employment

The Bill proposes to extend the definition of a **"***Classified Person"* under the ITA and Petroleum Income Tax Act 1967 ("PITA") to include former Inland Revenue Board ("IRB") officers and employees, ensuring that taxpayer information remains protected after they leave service.

Our observation:
Continuing confidentiality beyond employment is not entirely new. The Labuan Business Activity Tax Act 1990 ("LBATA") already protects confidential information during an official's employment and thereafter. Although the statutory mechanisms differ, the amendments reinforce the common principle that taxpayer confidentiality continues beyond employment.

Oral Information

The Bill proposes to expressly allow the DGIR to require oral information under the Real Property Gain Tax and LBATA. While noteworthy, the concept is not entirely new. The PITA already allows the DGIR to require information orally or in writing.

Our observation:
These amendments appear to extend existing information-gathering powers by the IRB and it will be worth examining the legal implications for taxpayers, particularly in the conduct of tax investigations.

Stamp Duty

The Finance Bill 2026 proposes a significant restructuring of the Stamp Act 1949, with the First Schedule replaced and the Third Schedule deleted, effective from 1 July 2027. The information previously contained in the Third Schedule, principally identifying the person liable to pay stamp duty, is incorporated into the revised First Schedule alongside the relevant instruments and applicable duty.

Please refer to Appendix for the First Schedule of the Stamp Act 1949.

Our observation:
The consolidation brings the instrument, applicable duty and person liable for payment into a single Schedule, reducing the need to cross-reference between the First and Third Schedules.

Transfer Pricing

Definition of "Control"

Finance Bill 2026 amends subsection 140A(5A) of the ITA by inserting the words "directly or indirectly" into the definition of control. This amendment will be effective from 1 January 2027.

The same concept is being introduced under the LBATA through changes to section 17D, resulting in the provision that ownership and control may be held directly or indirectly. The provision continues to encompass the existing 20% or more share-capital threshold, together with the other statutory control conditions.

Our observation:
The introduction of subsection 119B(4) provides for the DGIR to directly impose an administrative penalty on non-compliant entities without having to take them to court for prosecution.

Multinational Enterprise (MNE) Groups subject to the automatic exchange of information and Country-by-Country Reporting requirements should review their reporting processes to ensure compliance with the applicable reporting obligations and minimise the risk of penalties.

Penalty for Non-Compliance with Exchange of Information and Country-by-Country Reporting Rules

A new subsection 119B(4) is introduced into the ITA, which empowers the DGIR to impose a penalty of not less than RM 20,000 and not more than RM 100,000, on a person who fails to comply with the requirements relating to the automatic exchange of information and the furnishing of country-by-country report, where no prosecution has been instituted under Subsection 119B(1).

In tandem with this amendment, subsection 124(3) of the ITA states that where payment of the penalty, or the penalty amount has been abated or remitted, the person shall not be liable to be charged with an offence under Subsection 119B(1). This amendment will be effective from 1 January 2027.

Our observation:
The introduction of subsection 119B(4) provides for the DGIR to directly impose an administrative penalty on non-compliant entities without having to take them to court for prosecution.

Multinational Enterprise (MNE) Groups subject to the automatic exchange of information and Country-by-Country Reporting requirements should review their reporting processes to ensure compliance with the applicable reporting obligations and minimise the risk of penalties.

Global Minimum Tax

Finance Bill 2026 amends paragraph 164(2)(a) and introduces a new subsection 164(3A) of the ITA in relation to the determination of financial accounting net income or loss for Domestic Top-up Tax purposes.

The amendment to paragraph 164(2)(a) clarifies that the financial statements of the Malaysian Constituent Entities used to compute domestic top-up tax must align with the Ultimate Parent Entity's accounting period in preparing its Consolidated Financial Statements, except in situations below:

- Acquisition;
- Dispostion;
- Dissolution;
- Merger; or
- Similar Restructuring; (including establishment of a Permanent Establishment)

In addition, specified domestic top-up tax provisions will also apply to Joint Ventures and their subsidiaries as if they were Constituent Entities, thereby extending the scope of the Rules to certain JV structures.

The amendment to section 202 by introducing a new subsection (1A) of the ITA provides clarity on the due date for furnishing a Top-up Tax return where the Constituent Entity is a member of two or more Multinational Enterprise Groups in a Financial Year.

The Top-up Tax Return due dates are as follows:

Situation	**Proposed deadline**
MNE Groups with the same financial year	Within 15 months from the last day of that financial year
MNE Groups which have different financial years	Within 15 months after the last day of the later financial year

The amendments are deemed to have effect for Financial Years beginning on or after 1 January 2025 and subsequent Financial Years.

Global Minimum Tax (continued)

Our observation:
The amendments provide practical relief in applying Malaysia's Domestic Top-up Tax rules where accounting period mismatches arise as a result of corporate restructuring activities. Multinational enterprise groups should assess whether any acquisitions, disposals or internal reorganisations have resulted in differing accounting periods that may affect their Global Minimum Tax computations.

The amendments also provides legislative certainty on the application of Malaysia's Global Minimum Tax rules to Joint Venture structures and aligns the legislation with the intended operation of the Global Anti-Base Erosion (GloBE) framework.

The Finance Bill 2026 and the Measures for the Collection, Administration and Enforcement of Tax Bill 2026 signal a broader shift towards more prescriptive tax rules, greater digitalisation and stronger tax administration and enforcement. While some amendments provide greater clarity, including those relating to Joint Ventures, accounting periods and the restructuring of the Stamp Act schedules, others may broaden the transactions, entities and reporting obligations that businesses need to consider.

Businesses should take stock of these changes early rather than wait for the respective commencement dates. An early impact assessment will help identify gaps, clarify responsibilities and allow sufficient time for the necessary systems and processes to be updated.

Our tax team can assist businesses in assessing the impact of the proposed amendments, identifying areas requiring action and preparing for the relevant effective dates.

Disclaimer:
The information contained in this document is based on current taxation laws and other related legislation, including proposals and measures contained in the Finance Bill 2026 and the Measures for the Collection, Administration and Enforcement of Tax Bill 2026. The information is intended for general guidance only and should not be relied upon as a substitute for professional advice.

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