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ideas & insights



Malaysia

Updated Tax Treatment of Salary Expenses for Non-MSME Employers – Effective from YA2028

Key Takeaway

- Budget 2027 proposes restricting salary deductions for non-MSME companies unless payment meet prescribed banking requirements. Business should review payroll controls and monitor legislative developments before adjusting tax positions.

The Malaysian Government has announced a proposed tax measure under Budget 2027 that would restrict the deduction of salary expenses with effect from Year of Assessment ("YA") 2028. Under the proposed measure, companies other than micro, small and medium enterprises ("MSMEs") will only be eligible to claim tax deductions for salary expenses where the relevant wages are paid through financial institutions or other prescribed cashless payment methods in accordance with the Employment Act 1955 ("EA 1955"). This proposed measure represents a shift towards greater transparency and accountability in payroll transactions, with potential implications for employers' tax compliance obligations and the deductibility of employment-related expenses.

KEY TAX IMPLICATIONS

Potential disallowance of salary expenses

For employers within the scope of the proposed restriction, salary expenditure paid through methods that do not satisfy the prescribed payment requirements may not qualify for a tax deduction. This could increase the company's taxable income and corporate income tax liability, even though the salary expense has been recorded in its financial statements.

We recommend that clients take the following steps:

A. Review existing payroll arrangements

Identify all salary payments made by cash, cheque, bank transfer or other payment instruments. Determine which arrangements satisfy the prescribed requirements and identify any gaps.

B. Transition to compliant payment channels

For employers affected by the proposal, consider moving salary payments to appropriate bank accounts or other permitted cashless payment methods before YA 2028.

C. Assess MSME eligibility

Employers should assess whether they qualify for the proposed MSME exception. The availability of the MSME exemption shall be subject to the eligibility criteria and conditions prescribed under the relevant legislation and applicable guidelines issued by IRBM.

Pending clarification of the specific definition applicable to this proposal, businesses should not rely solely on their existing MSME classification to establish eligibility for the exemption.

D. Strengthen payroll documentation

Maintain payroll registers, employee records, bank statements, payment confirmations and reconciliations between payroll records and accounting entries. Ensure that the evidence supports both the actual payment and the amount claimed as a tax deduction.

We recommend that employers conduct a payroll tax compliance review before the proposed effective date. Early action will help reduce the risk of tax deduction disallowances, unexpected tax costs and disruption to payroll operations.

Important note:

The measure described above is based on the Budget 2027 announcement available as at 9 October 2026. It is a proposal and should not be treated as enacted law until the relevant legislation is passed and the applicable requirements are confirmed.

Please contact your tax adviser if you require assistance assessing the potential impact on your business.

For more details, please refer to :
Source: Speech on the Fifth MADANI Budget 2027, 9 October 2026

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