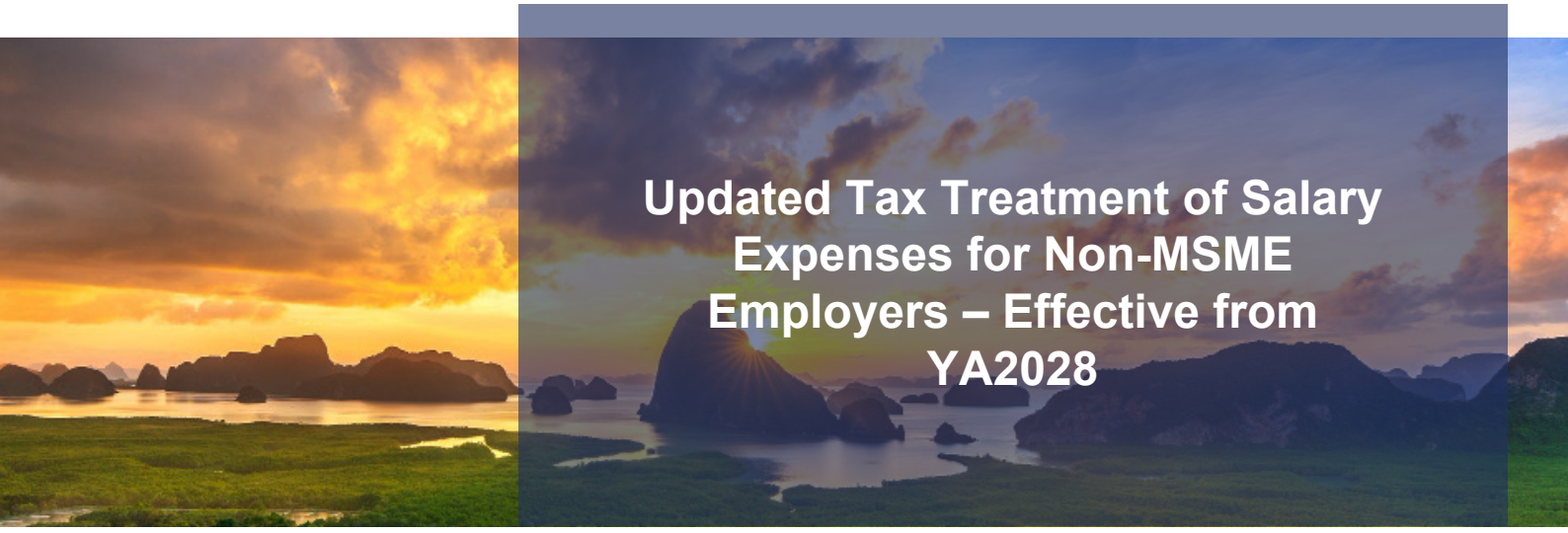
SW TY TEOH 信永中和

Audit I Tax I Advisory I Digital
Family Office I Japan & US Desk I Valuation
W shinewingtyteoh.com

October 2026 - Issue T53
ideas & insights



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

This publication contains information in summary form and is therefore intended for general guidance only. No person should rely on the contents of the aforesaid publication without first obtaining advice from a qualified professional person. ShineWing TY TEOH is not responsible for the results of any actions taken on the basis of information neither in this publication, nor for any error in or omission from this publication. ShineWing TY TEOH expressly disclaims all and any liability and responsibility to any person, whether a reader of this publication or not, in respect of anything, and of the consequences of anything, done or omitted to be done by any such person in reliance, whether wholly or partially, upon the whole or any part of the contents of this publication.

WHY ShineWing TY TEOH 为什么选择信永中和迪威？

20th	**715**	**102**	**12000**	**15th**	**7**
Global Largest Accounting Firm IAB 2024	Global Revenue (USD' Million) Year 2023	Offices across 21 Countries & Regions Year 2023	People including 640 Partners Year 2023	Malaysia Largest Accounting Firm IAB 2024	Offices across Malaysia Year 2024

- ✓ Registered Auditor of Public Company Accounting Oversight Board (PCAOB), USA
- ✓ Approved Auditor of Labuan Financial Services Authority (Labuan FSA), Malaysia
- ✓ Approved Training Employers
- ✓ Independent Member Firm of Praxity



Team Leaders & Members Credentials

WHAT WE OFFER 我们的专业服务

+ Audit & Assurance + BPO & Business Advisory + China Desk + Digital Advisory + Family Office & Private Client Services + Financial & Transaction Advisory + Japan Desk + Market Entry Advisory + Migration Advisory + Labuan Offshore Advisory + Risk & Governance Advisory + Singapore Desk + Tax Advisory + Transfer Pricing Advisory + US Desk + Valuation Advisory

+ 审计 + 商务外包与咨询 + 中国企业服务部 + 数据咨询 + 家族办公室及私人客户服务 + 企业融资与并购咨询 + 日本企业服务部 + 市场进入咨询 + 移民服务 + 纳闽离岸咨询 + 风险管理及内控咨询 + 新加坡企业服务部 + 税务咨询 + 转让定价咨询 + 美国企业服务部 + 估值咨询

Wshinewingtyteoh.com

Kuala Lumpur 吉隆坡 T +603 780 55022
Johor Bahru 柔佛 T +607 595 2299
Penang 槟城 T +604 296 6730 / +604 371 3318
Labuan 纳闽岛 T +6087 599 328
Muar 麻坡 T +606 952 0205
Sitiawan 实兆远 T +605 688 5112
Ipoh 怡保 T +605 546 3388