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

November 2026 - Issue T58
ideas & insights



Tax Incentive for Conversion of Office Premises into Residential Properties

Key Takeaway

- 10% tax deduction, capped at RM10 million, for eligible office-to-residential conversions, subject to conditions.

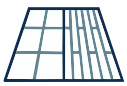
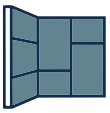
The Malaysian Government has introduced a special tax deduction to encourage the conversion of long-unused office premises into residential properties for rental purposes.

The Rules were made on 24 September 2026, gazetted on 27 October 2026 and apply from Year of Assessment (YA) 2026. The incentive covers qualifying expenditure incurred between 1 January 2026 and 31 December 2027.

Key Features And Eligibility

Criteria	Requirements
Eligible claimant	A person resident in Malaysia carrying on a business in Malaysia.
Qualifying premises	Office premises previously used for administrative and office management activities for more than 10 years, no longer in use and does not include a shophouse.
Qualifying period	Expenditure incurred from 1 January 2026 to 31 December 2027.
Deduction	10% of qualifying renovation and conversion expenditure
Maximum deduction	RM10 million
Approval	Residential development plans approved by the relevant local authority
Subsequent use	Converted premises must be used exclusively for human habitation and rented out after the renovation and conversion have been carried out.
Certification	Qualifying expenditure must be certified by an external auditor

Qualifying expenditure under the First Schedule includes:

 Fixtures and Fittings	 Flooring	 Electrical Installations	 Wall Coverings (including paint work)	 Fixed Partitions
 Doors	 Windows	 Ceilings	 Water and Gas Systems	 Air-conditioning Systems

Excluded expenditure under the Second Schedule includes:

 Designer Fees	 Professional Fees	 Purchase of antiques

Tax treatment

Previously, capital expenditure incurred on office renovation and conversion not qualify for revenue deduction under subsection 33(1) of the Income Tax Act ("ITA") 1967.

The 2026 Rules introduce a specific deduction for prescribed conversion expenditure.

For example, a company incurring RM10 million in qualifying expenditure may claim a special deduction of RM1 million (10%), subject to the statutory conditions. At a 24% corporate tax rate, this could translate into indicative tax savings of RM240,000, assuming sufficient taxable income.

If the same expenditure has been claimed under subsection 33(1), Schedule 2 or Schedule 3 of the ITA 1967. Companies should therefore evaluate the available tax treatments and avoid double claims.

Our recommendations

1. Identify potentially qualifying office premises and verify their historical use and vacancy status.
2. Obtain the necessary local authority approvals before undertaking conversion works.
3. Establish separate project expenditure records and engage an external auditor to certify qualifying costs.
4. Review existing tax deductions and capital allowance claims to prevent double claims.
5. Maintain tenancy agreements and evidence of exclusive residential use.
6. Review YA 2026 tax computations and plan qualifying expenditure before the incentive period expires on 31 December 2027.

Early tax planning and proper project documentation will be essential to maximise the available incentive and manage tax compliance risks.

For more details, please refer to :
Income Tax (Deduction for Expenditure in relation to Cost of Renovation and Conversion of Office Premise to Residential House) Rules 2026 [P.U. (A) 370/2026]

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





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