

KERATAN AKHBAR

TARIKH : 7 OKTOBER 2025

AKHBAR : THE STAR

MUKA : 5
SURAT

Budget 2026: The First test of 13MP

STANDARD, TUESDAY 7 OCTOBER 2025 Insight 5

By DATUK KOONG LIN LOONG

Run-up to *13MP* **MALAYSIA MADANI**

Budget 2026: The first test of 13MP

A growing economy raises incomes, eases cost-of-living pressures and lowers resistance to reform.

WHEN Budget 2026 is tabled this Friday, it will carry more weight than usual. As the first budget under the 13th Malaysia Plan (13MP), it is expected to lay the groundwork for achieving an ambitious goal – annual gross domestic product (GDP) growth of 4.5% to 5.5% from 2026 to 2030. It is also the fourth budget under the Madani Economy framework. The overarching goals – raising Malaysia's growth ceiling, improving living standards and pushing reforms, especially in governance – align seamlessly with the nation's long-term ambitions.

Yet for these ambitions to take root, the economy must first be put on a stronger footing. A growing economy raises incomes, eases cost-of-living pressures and lowers resistance to reform.

The 13MP identifies clear economic priorities: expanding job opportunities, safeguarding graduate employability, raising wages and household income, and creating an artificial intelligence (AI)-driven economy.

These are not abstract ideals – they are urgent tasks the government has long pledged to deliver.

The starting point is investment. GDP growth of 4.4% in the first half of 2025 is encouraging, but sustaining momentum requires both foreign and domestic investment.

Small and medium enterprises (SMEs) are the backbone of the domestic economy, accounting for 96.1% of businesses, 8.1 million jobs and RM196.8bil in exports. If SMEs falter, Malaysia's growth targets will slip out of reach. Government policy must, therefore, address the many real obstacles holding them back.

The latest Associated Chinese Chambers of Commerce and Industry of Malaysia survey is telling.

The top five challenges faced by businesses are high operating costs (54.8%), escalating raw material prices (42%), shifting consumer behaviour (37.3%), declining confidence (37.1%) and cash flow stress (34.7%).

These figures paint a clear picture – financial pressure is suffocating SMEs. Without targeted relief, firms simply cannot invest, innovate or expand.

Tax policy is a major sticking point. Malaysia's corporate tax rate of 24% is uncompetitive.

Regional peers are more attractive: Singapore at 17% and Cambodia at 20%, Indonesia and Myanmar at 22%. East Asian hubs are lower still, with Hong Kong at 16.5% and Taiwan at 20%.

Coupled with Malaysia's relatively higher labour costs and slower technology adoption, a higher tax rate is a deterrent to both investors and entrepreneurs.

For startups, incentives fall short. Singapore exempts 75% of the first S\$100,000 of chargeable income and 50% of the next S\$100,000 for the first three years.

Hong Kong taxes qualifying SMEs at just 8.25% on the first HK\$2mil (US\$255,000). Malaysia, by comparison, charges SMEs 17% on the first RM150,000 and 17% on the next RM450,000 – levels close to Singapore and Hong Kong's normal corporate tax rates, with far lower thresholds.

This hardly fosters the innovation ecosystem Malaysia urgently needs.

The conversation on AI further highlights the gap between ambition and reality. While the government rightly champions AI, many SMEs are still struggling with basic automation and digitalisation.

For them, AI adoption is a distant goal. This makes it vital to strengthen support for the fundamentals – incentives for automation, digitalisation and Industry 4.0 – alongside AI initiatives.

Take the furniture industry as an example. Nearly half (48%) of automation in the sector remains at the most basic level, 33% at mid-level, and only 19% has advanced to Industry 4.0.

Here, banks and financial institutions can play a transformative role. Beyond loans, they can act as coordinators, linking SMEs with the Science, Technology and Innovation Ministry and universities for technical guidance.

Hybrid financing models, combining low-interest loans with subsidies, could also help businesses adopt the technologies they need.

Tax reforms introduced in recent years highlight another pressing concern – clarity and practicality.

Adjustments to the sales and service tax (SST) still lack detailed guidelines, particularly on outsourced contracts.

Similarly, the rollout of electronic invoicing has been disappointing. Despite industry calls for a user-friendly app or integration with platforms like Touch 'n Go e-wallet or MySejahtera, the Inland Revenue Board (IRB) has delivered only a mobile version of its website. We should leverage the app that made recent RON95 subsidy a success.

At the IRB's annual forum, I raised the need for a proper solution that will truly ease nationwide adoption. Without this, compliance will remain a burden rather than an enabler.

The broader tax landscape has shifted dramatically since the pandemic. Measures such as SST expansion, taxation of foreign-sourced income, personal dividend tax, capital gains tax, higher stamp duties and low-value goods tax have all raised operating costs and reduced margins.

While these steps bolster government revenue, they weigh heavily on businesses. It is time to restructure existing incentives, and to introduce innovative, business-friendly measures that encourage investment, growth and job creation.

When businesses thrive, profitability rises, wages improve and, ultimately, national revenue increases.

The private sector is willing to align itself with the government's goals under the 13MP and the Madani Economy.

What it asks for is a budget that is not only realistic but also bold, innovative and decisive in addressing long-standing challenges. Budget 2026 must give businesses the confidence to grow and invest.

Without that, Malaysia risks falling short of its own ambitions.

Datuk Koong Lin Loong is the managing partner, Reanda LKKG International. He is also treasurer-general cum chairman of SME Committee, The Associated Chinese Chambers of Commerce and Industry of Malaysia. The views expressed here are the writer's own.