**PRESS RELEASE**
**MINISTRY OF FINANCE**

# TARGETED REVISION OF SALES TAX RATE AND EXPANSION OF SERVICE TAX SCOPE EFFECTIVE 1 JULY 2025

As announced in Budget 2025 on 18 October 2024, the MADANI Government will implement a revision of items subject to Sales Tax and an expansion of the scope of the Service Tax, effective 1 July 2025. This measure aims to strengthen the country's fiscal position by increasing revenue and broadening the tax base without adding undue burden on the majority of Malaysians.

The Sales and Service Tax (SST) revision underwent an engagement process with key stakeholders, particularly industry associations and tax agents. The preparation of legislation also took into account feedback and input from the industry to ensure that the majority of the rakyat would not be affected, and to mitigate the impact on businesses.

"The Government remains committed to advancing reforms under the Ekonomi MADANI framework. To ensure that the majority of Malaysians are not affected by the SST adjustments, the MADANI Government has adopted a targeted approach by exempting essential goods and services from taxation. In addition, various relief measures are in place to minimise the impact on micro, small, and medium enterprises (MSME)," said Finance Minister II YB Senator Datuk Seri Amir Hamzah Azizan.

"In addition to the MADANI Government's broader efforts to stimulate the economy and reinforce the social safety net, the additional revenue generated through the SST enhancements will enable further improvements in public services — particularly through increased direct cash assistance to the rakyat, enhanced infrastructure development, and more efficient public service delivery. These efforts will benefit the nation as a whole without placing undue burden on the majority of Malaysians," he added.

In general, the revision of the Sales Tax and the expansion of the Service Tax scope encompass the following:

i. The Sales Tax rate remains unchanged for essential goods consumed by the public;
ii. Sales Tax at rates of 5% or 10% will apply to discretionary and non-essential goods; and
iii. The scope of the Service Tax will be expanded to include new services such as leasing or rental, construction, financial services, private healthcare, education, and beauty services. This expansion includes targeted exemptions to avoid cascading tax effects and to ensure that certain essential services for Malaysian citizens remain exempt.

The MADANI Government also takes into account the need for regulatory compliance by companies that will be subject to SST. Accordingly, for companies that take steps to comply with the prescribed SST legal requirements, no prosecution or penalties will be imposed until 31 December 2025.

Please refer to the Appendix for detailed information. Public announcements, subsidiary legislation, general rulings, guidelines, and frequently asked questions (FAQs) will also be issued via the official media channels of the Ministry of Finance and the Royal Malaysian Customs Department.

**Ministry of Finance**
Putrajaya
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## Appendix

### 1. Sales Tax

i. Under the revised Sales Tax framework, daily essential goods that remain subject to 0% Sales Tax include chicken, beef, mutton, fish, prawns, squid, vegetables, local fruits, rice, barley, oats, wheat, flour, canned sardines, sugar, salt, white bread, pasta, vermicelli, noodles, instant noodles, milk, cooking oil, medicine, medical devices, books, journals, newspapers, and pet food. The 0% Sales Tax rate is also retained for basic construction materials such as cement, stones, and sand, as well as agricultural inputs including fertiliser, pesticides, and agricultural and livestock machinery.

ii. The MADANI Government has opted not to impose Sales Tax on daily essential goods in order to avoid direct pressure on the cost of living for the majority of Malaysians and to maintain inflation at modest levels.

iii. The Sales Tax revision includes select discretionary goods that have been shifted from 0% to 5%, such as king crab, salmon, cod, truffle mushrooms, imported fruits, essential oils, silk fabrics, and industrial machinery.

iv. A number of premium discretionary items have been subject to an increased rate of 10%, such as racing bicycles and antique hand-painted artworks.

### 2. Service Tax

Under the expansion of the Service Tax scope, six new categories of services will be included: leasing or rental, construction, financial services, private healthcare, education, and beauty services.

i. **Leasing or Rental Services –** Service Tax will be imposed at a rate of 8% on service providers whose total leasing or rental revenue exceeds the threshold of RM500,000. The MADANI Government provides the following exemptions:

   a) Leasing or rental of residential buildings, reading materials, financial leases, and tangible assets located outside Malaysia;
   b) Lessees classified as micro, small, and medium enterprises (MSMEs) with annual sales below RM500,000;
   c) Business-to-business (B2B) transactions and group relief to avoid cascading tax effects; and
   d) Non-reviewable contracts are granted a 12-month exemption from the effective date.

ii. **Construction Services –** Service Tax will be imposed at a rate of 6% for contractors with revenue exceeding RM1.5 million. The MADANI Government introduces the following relaxations:

a) A higher threshold of RM1.5 million to reduce compliance burden for small and medium contractors;
b) No Service Tax will be imposed on residential buildings and public amenities related to housing;
c) B2B exemptions to avoid cascading tax effects; and
d) Non-reviewable contracts will receive a 12-month exemption from the effective date.

iii. **Financial Services –** Service Tax will be imposed at a rate of 8% on fee- or commission-based financial services. The MADANI Government provides the following special provisions:

a) Basic financial services for the rakyat will remain exempt from Service Tax, including basic banking and interest- or profit-based Islamic financing;
b) Other exempted financial services include foreign exchange and capital market gains, punitive charges or fees, outward remittance transactions, financing facilities directly related to exported goods, charges to remittance agents abroad for inward transfers to Malaysia, and life insurance/takaful, medical, and family takaful-related broking or underwriting services for individuals;
c) B2B exemptions to prevent cascading tax effects will also be provided for shariah-compliant fee arrangements, and service providers for Bursa Malaysia and Labuan are also exempted.

iv. **Private Healthcare Services –** Service Tax will be imposed at a rate of 6% on private healthcare, traditional and complementary medicine, and allied health services provided to non-citizens, where service providers exceed the threshold of RM1.5 million. The MADANI Government offers the following concessions:

a) Malaysian citizens will be exempted from Service Tax for public and private healthcare services, as well as traditional and complementary medicine including Malay Traditional Medicine, Traditional Chinese Medicine, Traditional Indian Medicine, Islamic Medicine, Homeopathy, Chiropractic, and Osteopathy;
b) In response to public concern over Service Tax being imposed on allied health services — such as physiotherapy, audiology, and speech therapy — the MADANI Government has also exempted

Malaysian citizens from Service Tax for such services to reduce costs and improve healthcare accessibility;
c) The Service Tax rate for non-citizens is set at a lower 6%; and
d) A higher threshold of RM1.5 million is applied to ease compliance costs for small and medium-sized service providers, such as clinics.

v. **Education Services –** Service Tax will be imposed at a rate of 6% on the following:

a) Private preschools, primary schools, and secondary schools with annual tuition fees exceeding RM60,000 per student;
b) The MADANI Government views the imposition of Service Tax on high-value private education as a targeted measure affecting only more affluent groups, with a minimal number of schools impacted. Additionally, special consideration will be given to exempt Malaysian citizens with disabilities (OKU); and
c) Higher education services provided to non-citizens will be subject to Service Tax. However, the MADANI Government remains committed to accessible higher education for Malaysians and will not impose Service Tax on higher education for Malaysian citizens.

vi. **Beauty Services –** Service Tax will be imposed at a rate of 8% on taxable service providers whose revenue reaches RM500,000 within a 12-month period. Examples of such services include facial treatments and hairdressing.

For the expanded scope of Service Tax, the announcement and gazettement of the relevant legislation will provide time for businesses to assess whether:

i. their operations fall under taxable services;
ii. their service value exceeds the prescribed 12-month threshold; and
iii. they need to seek advice from the Royal Malaysian Customs Department for registration, compliance of business model, training, and documentation preparation.