

## Finance Act 2025: Broadening The Tax Net & Tightening The Rules

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The Finance Act 2025, enacted alongside the Measures for the Collection, Administration and Enforcement of Tax Act 2025, marks a further step in the government's effort to broaden the tax base, reduce interpretative uncertainty and strengthen enforcement. Many of the measures take effect from 1.1.2026.

Taken together, the reforms signal a shift away from ambiguity-driven tax planning towards a framework where compliance discipline, documentation and transaction characterisation assume greater importance.

### **A Wider And More Explicit Tax Base**

One of the more targeted measures is the introduction of a 2% tax on profit distributions by limited liability partnerships (LLPs) to individual partners, applicable to annual distributions exceeding RM100,000 from the year of assessment 2026. While modest in rate, the tax raises practical questions about how payments to partners are characterised, particularly in structures where remuneration, management fees and profit shares coexist.

The risk for LLPs lies less in the headline tax and more in disputes over whether payments are distributable profits or deductible business expenses. Partnership agreements, distribution mechanics and accounting treatment are therefore likely to attract closer scrutiny from the Inland Revenue Board (IRB).

Capital gains tax (CGT), introduced earlier in 2025, is also given sharper definition. The Act expands the concept of "disposal" to include share redemptions, conversions, winding-ups and the extinguishment of ownership rights, effectively closing off arguments that CGT only applies to conventional sale transactions. It also clarifies the timing of disposal, generally fixing it at the earlier of when ownership ceases or consideration is received, a point of particular relevance in deferred or conditional transactions.

In addition, nominee arrangements are expressly addressed through deeming provisions that attribute disposals to the underlying beneficial owner. These changes do not so much increase the scope of CGT as reduce the room for interpretative manoeuvre. Future disputes are therefore more likely to focus on valuation, timing and factual characterisation rather than on whether the tax applies in principle.

Real property gains tax (RPGT) is similarly tightened through the introduction of a 10-year limitation on the carry-forward of allowable losses, effective from 2026. While prospective in application, the restriction may prove contentious for long-term property holders with legacy loss positions, particularly where disposals occur close to the cut-off period.

### **Compliance Moves Centre Stage**

Beyond substantive tax changes, the Act places renewed emphasis on cash-flow discipline and reporting accuracy. Monthly tax instalments will begin earlier in the basis period, with full implementation by 2028. Although presented as an administrative adjustment, instalment regimes have historically been fertile ground for disputes, especially where estimated tax diverges materially from final assessments. Earlier payment obligations increase the risk of underestimation and, by extension, penalties and interest.

Digitalisation also features prominently. Expanded electronic filing requirements, including mandatory partnership reporting from 2027, and formal recognition of electronic authorisation for tax agents reflect the IRB's growing reliance on data matching. As information asymmetry narrows, disputes are likely to hinge less on missing data and more on inconsistencies between filings, accounts and third-party reports.

### **Stamp Duty: Risk Shifted To Taxpayers**

Perhaps the most structural change lies in stamp duty, which moves to a self-assessment system from January 2026. Responsibility for determining duty payable shifts squarely to taxpayers, accompanied by stricter timelines and higher penalties for errors or late stamping.

In practice, stamp duty disputes often arise from misclassification of instruments or disagreement over chargeability. Under self-assessment, such disagreements are more likely to surface after penalties have crystallised, raising the stakes for upfront analysis. For businesses, stamp duty becomes less an administrative afterthought and more a legal risk requiring careful review.

### **Implications For Taxpayers**

The Finance Act 2025 reflects a clear policy preference for certainty and enforceability over flexibility. While this may reduce grey areas, it also limits the scope for technical arguments that previously underpinned some tax planning strategies. As a result, defensibility supported by coherent documentation and consistent treatment becomes as important as optimisation.

For property investors, LLPs and groups engaged in complex transactions, early reassessment of structures and timelines will be essential. Compliance, once seen as a procedural burden, increasingly functions as a first line of defence in managing audit exposure and disputes.

In that sense, the Act is less about raising rates than about redefining the rules of engagement between taxpayers and the authorities with fewer gaps to exploit and less tolerance for ambiguity.

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