



BUDGET 2027 • WHO'S HANDLING IT?

“I thought you were handling it.”

Budget 2027 exempts “MSMEs” from two payroll changes. But the Budget measures MSME two different ways, and a company can pass one and may fail the other.



01 TAX CONSULTANT

02 ACCOUNTANT

03 HR

04 COMPANY SECRETARY

05 LAWYER

06 YOU, THE DIRECTOR

07 THE GAP - UNASSIGNED

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THE BOARDROOM

Directors, owners and HR: read sections 01 to 06, then 08. No tax background needed.

THE LEDGER

Accountants and tax managers: section 07 maps what the file will likely need. Read 05 first and 08 last.

01 • THE MINDSET

This isn't a tax knowledge problem. It's a planning structure problem.

Every October the Budget speech lands, and every company does the same thing. Someone forwards a summary. Everyone nods. Nobody owns it.

Then one of two things happens. The company acts on something that isn't law yet, or it waits so long that the law starts without it. Either way, the same sentence gets said in the boardroom: **"I thought you were handling it."**

COMPLIANCE MINDSET

Reacts when the rule lands.

Reads the headline. Waits for someone to say what to do. Finds out who owned it after it goes wrong.

PLANNING MINDSET

Decides before it lands.

Knows what stage each change is at. Names who is watching it. Documents the decision and the reasons behind it, in the company's favour.

A planner doesn't need to know every rule. A planner needs to know three things about each change: is it law yet, who in the company is watching it, and what have we decided to do about it. The rest of this guide shows why, using one real Budget 2027 example.

THE DIRECTOR'S QUESTION

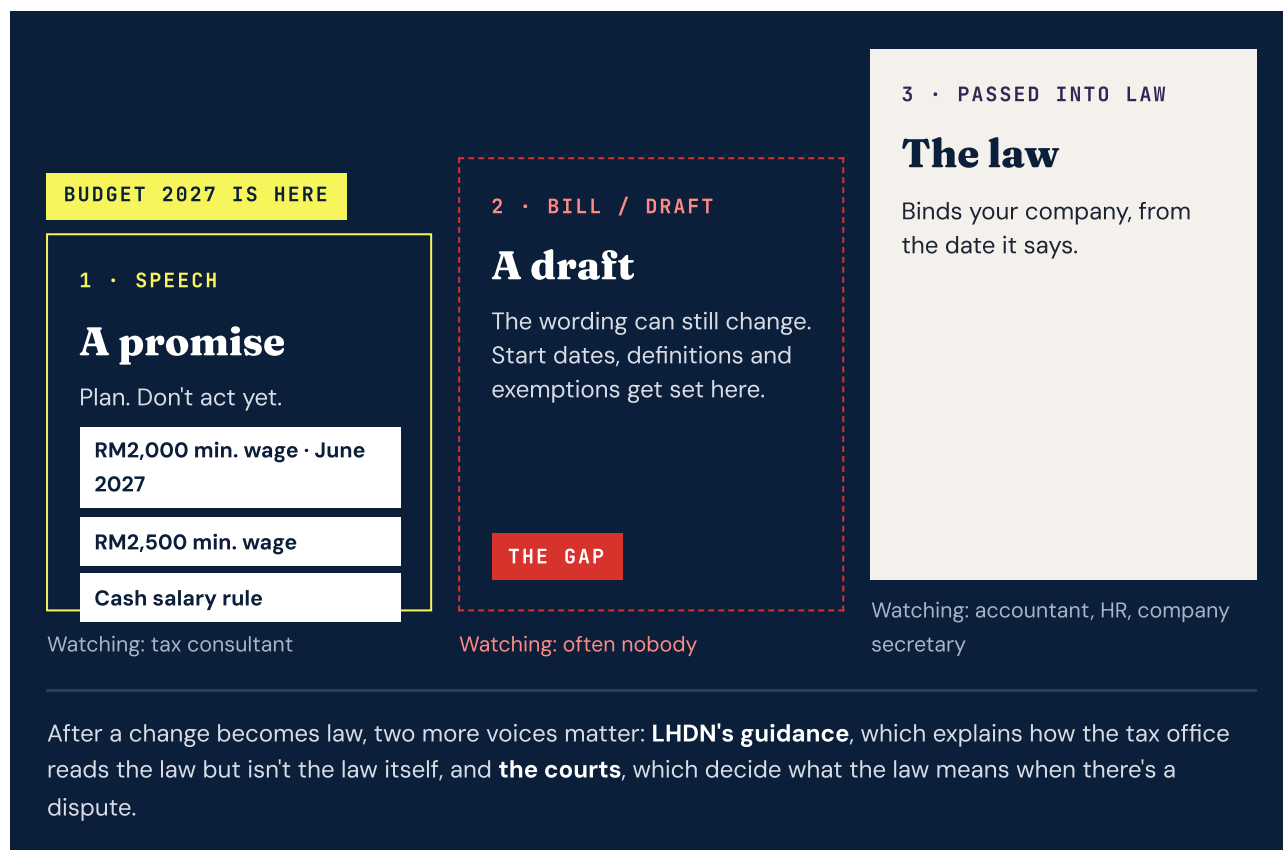
"Is this already law, or still an announcement?"

Ask it before acting on any Budget headline. The answer decides whether you plan or act.

02 • THE STRUCTURE

Every Budget change climbs the same ladder.

Each step has a different owner. Planning starts by knowing which step you're on.



For Budget 2027: the MSME definition will be settled at step 2. Whoever is watching step 2 gets the answer first. In most companies, nobody is.

Three moves a planner makes every Budget season

01 Ask which step it's on.

"Is this already law, or still an announcement?" The answer decides whether you plan or act.

02 Name one owner for the gap.

One person tracks the change from speech to law. One name, not "the team."

03 Decide your ground while you still have options.

Before a rule becomes law, you choose. After it's law, it's a risk you swallow. So weigh it now: **what will we do about the people still paid in cash? Which MSME position do we stand on, and can we defend it?** Then document the decision and the considerations behind it, so the record works for the company, not against it.

03 • THE CASE

Mr. Lim's Monday meeting

Mr. Lim runs a metal fabrication company in Klang. RM40 million in sales, 180 staff, and RM5 million of paid-up capital (the money the owners have put into the company). Most of the payroll goes out by bank transfer. A small site crew still collects cash every Friday, the way it has for fifteen years.

On Friday 9 October, the Budget speech lands in his WhatsApp in pieces. Minimum wage to RM2,000. Something about RM2,500. Something about salaries and bank accounts. By 7pm, his golf group has decided: "Small companies are exempt lah. Relax."

On Monday he raises it with his team. The accountant says the company pays everyone by bank. HR says not quite: the site crew prefer cash. The company secretary asks whether any of this is a board matter. Nobody answers. Then Mr. Lim asks the question that should be easy: **"Are we a small company or not?"** The accountant says no. HR says yes. They're both right.

Everyone walks out assuming someone else will follow up. Nothing has gone wrong yet, because none of it is law yet. That's exactly why this is the moment it slips. Here's how it looks from around the table:



Mr. Lim's company is an illustrative composite, not a real company.

04 • WHAT THE SPEECH ACTUALLY SAID • 9 OCTOBER 2026

Three payroll changes. Only one is a tax change.

RM2,000

Minimum wage, up from RM1,700. A **wage rule, not a tax rule**. MSMEs with annual sales **below RM50 million** are exempt.



SPEECH



BILL / DRAFT



LAW

STARTS JUNE 2027

RM2,500

For semi-skilled workers and graduates, as the start of a wider pay reform. **"Semi-skilled" isn't defined yet**.



SPEECH



BILL / DRAFT



LAW

NO START DATE

Cash salary rule

Salary is **tax deductible only if paid through a financial institution or a cashless payment instrument** under the Employment Act. Today, cash counts. MSMEs excluded.



SPEECH



BILL / DRAFT



LAW

FROM YA 2028

None of it is law yet. So there's still room to choose.

Sources: Budget speech paras 32–33 • Tax Measures, Appendix 14

PLAIN WORDS

MSME means a micro, small or medium enterprise: the speech's word for smaller companies. Both payroll exemptions depend on it, and the Budget itself measures it two different ways (see section 05).

"Counts as a business cost for tax" (tax-deductible) means the salary reduces the profit you pay tax on. If it stops counting, the company pays tax on that salary as if it were profit.

Financial institution or cashless payment instrument is the Tax Measures wording (Appendix 14), tied to the Employment Act. The speech itself only says "bank account". In practice: banks and approved e-wallet providers.

05 • WHERE THE RULES COLLIDE

Four places the rules contradict each other

Each announcement sounds simple on its own. Put them next to each other, and next to the laws they lean on, and they start to clash.

CONFLICT 01

Which MSME? The Budget itself uses two.

Minimum wage exemption (speech, para 32)

Sales only: MSMEs with annual sales **below** RM50m are exempt. Mr. Lim, at RM40m: **exempt**.

Tax measures (Appendix 11)

Paid-up capital **RM2.5m and below**, *with* annual sales **not exceeding** RM50m. Mr. Lim, at RM5m paid-up: **likely not an MSME**.

WHERE IT BITES Appendix 14 (the cash salary rule) says “MSME” but defines nothing; the nearest definition is Appendix 11. Same Budget, same company: exempt from one rule, likely caught by the other. Even the edge differs: “below” vs “not exceeding” RM50m.

CONFLICT 02

The tax exemption vs the Employment Act

The cash salary rule says (Appendix 14)

MSMEs are excluded. Their salary stays tax deductible however wages are paid.

The Employment Act already says

Wages go into an account in the employee's name. Cash or cheque only if the employee asks in writing *and* the Director General of Labour approves (sections 25 and 25A).

WHERE IT BITES Being exempt from the tax rule isn't permission to pay cash. Mr. Lim's Friday cash payroll may already be an employment law problem.

CONFLICT 03

Small by one rule, big by another

The wage exemption says

Under RM50m in annual sales, a smaller company may skip the RM2,000 rise.

E-invoicing says

RM25m to RM100m in annual turnover is Phase 2, mandatory since 1 January 2025.

Company tax says (Appendix 11)

Paid-up capital above RM2.5m: no MSME rates. Taxed at the flat **24%**, not 15% / 17% (proposed 14% / 16%).

WHERE IT BITES Mr. Lim's company is “small” for wages, “mid-sized” for e-invoicing, and **not an MSME for company tax, so it pays 24% on every ringgit**. Three rulebooks, three sizes.

CONFLICT 04

The speech vs the law

The speech says

Three changes. Two with dates (June 2027, YA 2028), one without.

The law route says

Tax rules arrive through the Finance Bill and Finance Act. Wage rules arrive through a Minimum Wages Order. Different documents, different timing, different people watching.

WHERE IT BITES Act on the speech and you may restructure for a rule that changes. Wait for “everything” and you may miss the one that started without you.

SAME COMPANY • FOUR RULES

Is Mr. Lim an MSME? Even the Budget gives two answers.

Manufacturer

Sales **RM40m**Staff **180**Owners' capital **RM5m**

Government's business-size rules

PASS ANY ONE TEST

Sales RM40m vs RM50m limit ✓ • Staff 180 vs 200 ✓

MEDIUM

Budget 2027 • minimum wage exemption

SALES ONLY • SPEECH PARA 32

Sales RM40m vs “below RM50m” ✓

EXEMPT

Budget 2027 • tax measures

PAID-UP AND SALES • APPENDIX 11

Sales ✓ • **Paid-up capital RM5m vs RM2.5m ×**

LIKELY NOT

Cash salary rule • from YA 2028

“MSME” UNDEFINED • APPENDIX 14

If it follows Appendix 11, his Friday cash wages stop being tax deductible.

LIKELY CAUGHT

Exempt from one Budget rule. Likely caught by the other. HR: “we're an MSME”, right for the minimum wage. Accountant: “not for tax”, likely right under Appendix 11. Neither has the whole answer.

05 • TAX NEVER STANDS ALONE

One payroll decision. Six rulebooks.

Paying a worker touches far more than tax. Each rulebook has its own authority, its own definitions and its own timing. When one changes, the others don't move with it.



Income Tax Act

LHDN • ACCOUNTANT

Is this salary still tax deductible?

Employment Act

LABOUR DEPT • HR

Cash only on written request and Director General approval.

Minimum Wages Order

HUMAN RESOURCES MINISTRY • HR

The floor, from when, and who is exempt.

Finance Bill 2027

MOF • PARLIAMENT • TAX CONSULTANT

Not written yet. Which MSME definition, from when?

SME definition

SME CORP MALAYSIA • DIRECTOR

Small, medium, or neither?

Companies Act

SSM • COMPANY SECRETARY

Paid-up capital above RM2.5m fails the tax MSME test.

WHAT THE MSME QUESTION COULD COST MR. LIM, EVERY YEAR • FOR EXAMPLE

RM0

if the cash salary rule **treats him as an MSME**, as the minimum wage rule does

RM172,800

extra tax a year from YA 2028 if it uses the tax definition and his **cash wages stop being tax deductible**

THE MATH

30 site crew × RM2,000 a month × 12 months (cash wages a year)

= RM720,000

RM720,000 no longer tax deductible × 24% company tax rate (extra tax a year)

= RM172,800

06 • WHO'S HANDLING IT?

Everyone watches one step. Nobody watches the gap.

"The gap" is the time between the Budget speech and the day a rule becomes law. The details get decided then, and each person below assumes someone else is watching.



The questions likely to reach the board

- ? Who owns it?** Someone has to follow when each rule starts, which "small business" label (MSME) fits the company, and which workers are affected. If it's "the team", it's nobody.
- ? Which workers?** Who is still paid in cash? Under the Employment Act, that's only allowed if the worker asked in writing *and* the Labour Department approved it. Who earns under RM2,000 today, and which graduates earn under RM2,500?
- ? Can the price carry it?** If wages go up, does today's selling price still cover the cost? Raise prices, accept a thinner margin, or change how the work is done: each has a trade-off, and 2027 contracts may already be agreed.
- ? How big are we, really?** A company can count as "small" for the minimum wage and still not qualify as small for tax. That decides which rules apply and which tax rate it pays.
- ? When do we decide?** Before a rule becomes law, the company has choices. After, it lives with the result. Are the decision and the reasons behind it documented in a way that protects the company?

07 • WHAT THE FILE WILL LIKELY NEED

What tends to surface when the rules land.

The rules don't exist yet, so there's nothing to apply. Here is where the file is likely to be tested.

1. Where each rule sits on the law route

Announcement	1 • Speech (9 Oct 2026)	2 • Bill / draft order	3 • Law	Start
RM2,000 min. wage	Up from RM1,700; MSMEs below RM50m sales exempt (para 32)	NOT YET	NOT YET	June 2027
RM2,500 min. wage	Semi-skilled workers and graduates (para 32)	NOT YET	NOT YET	Not given
Cash salary rule	Non-MSMEs: salary deductible only if paid cashless (para 33; App. 14)	NOT YET	NOT YET	YA 2028

2. Which MSME, three ways

- ? **Tax MSME test (Income Tax Act; Budget Appendix 11):** paid-up capital RM2.5m and below; annual sales not exceeding RM50m; related-company test; foreign-ownership condition.
- ? **Minimum wage test (speech para 32):** annual sales below RM50m. How sales are measured and whether related companies count is not yet set.
- ? **SME Corp test:** sales *or* staff by sector; large-group subsidiaries excluded. Three tests, possibly three answers.

3. How wages are actually paid

- ? Which pay elements go out by bank, e-wallet, cheque or cash? For anything outside an employee account, is the written request and Director General approval on file (s25, s25A)?

4. Cost and record

- ? How many staff sit under RM2,000, and what would the June 2027 rise cost each month if the company isn't exempt?
- ? Are the board's decision and the considerations behind it documented, with an owner and a review date?

08 • THE TAKEAWAY

This was never just about the minimum wage.

RM2,000, the cash salary rule and the MSME exemption were this year's example. Next October there will be a new list, and the one after that. The changes come and go. **The way a change becomes law does not.** Learn that once and every Budget reads the same way.

The system, in one table

WHERE IT IS	DOES IT BIND YOU?	THE QUESTION TO ASK
STEP 1 The Budget speech	No. It's a promise.	<i>"Is this still a speech, or has it moved?"</i>
STEP 2 • THE GAP The Bill or draft order	Not yet. It can still change.	<i>"Whose name is on watching this?"</i>
STEP 3 Passed into law	Yes, from the date it says.	<i>"From when, for whom, and does it match what we were told?"</i>
ABOVE IT LHDN guidance	It's LHDN's reading. Not the law itself.	<i>"Does the Act actually say this?"</i>
ABOVE IT The courts	Yes. The final word on what the law means.	<i>"Has anyone tested this yet?"</i>

Swap the example. Keep the system.

~~RM2,000 minimum wage~~

a new tax rate

a new incentive

an e-invoicing deadline

Run any of them up the same ladder and the same three habits apply.

1. Ask which step

Before anyone acts, ask whether it is a promise, a draft or law.

2. Name the owner

One person watches the gap. Not "the team". A name.

3. Decide your ground

Before it's law, you have options. After, it's a risk you swallow.



GOT YOUR NAME ON IT?

It's your name on the accounts. Not your tax adviser's.

Your tax agent arrives after year end. **They weren't there when the transaction was made. You were.** In a dispute, your records are **either the sword in LHDN's hand or the shield in yours**, and that's decided on the day of the transaction. **Be in the know. Manage your own risk, instead of relying on luck.**

09 • READ IT YOURSELF

The official text, word for word.

Copied word for word from the Ministry of Finance Budget 2027 documents (English versions). Words in CAPITALS appear that way in the official speech; we haven't added any emphasis.

Budget 2027 speech • paragraph 32

[belanjawan.mof.gov.my • bs27.pdf • p.13-14](https://belanjawan.mof.gov.my/bs27.pdf)

"• THE GOVERNMENT HAS AGREED TO RAISE THE MINIMUM WAGE FROM 1,700 RINGGIT TO 2,000 RINGGIT. The new rate will take effect from June 2027, benefiting more than 4 million workers. MSMEs with annual sales below 50 million ringgit will be exempted to provide room for adjustment to business models.

• ... ACCORDINGLY, THE MADANI GOVERNMENT WILL REFORM THE WORKERS' INCOME FRAMEWORK, BEGINNING WITH A MINIMUM WAGE OF 2,500 RINGGIT A MONTH FOR SEMI-SKILLED WORKERS AND GRADUATES."

Budget 2027 speech • paragraph 33

[belanjawan.mof.gov.my • bs27.pdf • p.14](https://belanjawan.mof.gov.my/bs27.pdf)

"IN RELATION TO WAGES, the Government will make further efforts to curb the employment of undocumented foreign workers. Companies other than MSMEs may only claim tax deductions on wage expenditure if wages are paid through bank account permitted under the Employment Act 1955. Tax deductions for other expenditures will not be subject to this requirement."

Tax Measures • Appendix 11 • Review of income tax rates for MSMEs

[belanjawan.mof.gov.my • tax-measures.pdf • p.17](https://belanjawan.mof.gov.my/tax-measures.pdf)

CURRENT POSITION

"Companies with paid-up capital of ordinary shares of RM2.5 million and below or Limited Liability Partnership (LLP) with partnership capital contributions of RM2.5 million and below, with annual sales not exceeding RM50 million are categorised as Micro, Small, and Medium Enterprises (MSMEs) and subject to income tax as follows:"

First RM150,000: 15% • RM150,001 to RM600,000: 17% • Exceeding RM600,000: 24%

PROPOSAL

"... it is proposed that the MSMEs income tax rates be revised as follows: i. A reduction of 1 percentage point for the first chargeable income band of RM150,000 from 15% to 14%; and ii. A reduction of 1 percentage point for the chargeable income band of RM150,001 to RM600,000 from 17% to 16%."

EFFECTIVE DATE

"From the year of assessment 2027."

Tax Measures • Appendix 14 • Income tax deduction for salary payments through financial institutions and cashless payment instruments

[tax-measures.pdf • p.20](https://tax-measures.pdf)

CURRENT POSITION

"Expenses incurred wholly and exclusively in the production of gross income, including salary payments to employees, are allowable as tax deduction under Section 33, Income Tax Act 1967. Eligibility to claim tax deduction is regardless of whether the expenses are paid in cash, non-cash or through any other method of payment."

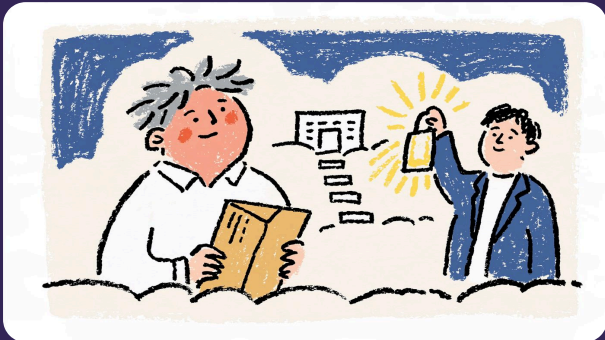
PROPOSAL

"To enhance the transparency of financial transactions by employers and support compliance towards cashless salary payments through financial institutions and cashless payment instruments as prescribed under the Employment Act 1955, it is proposed that tax deduction on salary expenses be allowed only for payments made through financial institutions or cashless payment instruments, except for salary payment transactions by Micro, Small and Medium Enterprises. Tax deduction on expenses other than salary payments remains allowable, regardless of the method of payment."

EFFECTIVE DATE

"From the year of assessment 2028."

Malay versions: Ucapan Belanjawan 2027 (para 32–33) and Senarai Lampiran Langkah Cukai (Lampiran 11 and 14), same site. These are proposals until passed into law.



BUDGET 2027 SEMINAR WITH DR. CHOONG KWAI FATT

The “how” is in the seminar.

Change creates uncertainty. Dr. Choong follows each Budget 2027 change from the speech to the law, and shows you how to decide **before the year closes**, not after.

KUALA LUMPUR

15–17 December 2026 · The Westin Kuala Lumpur

JOHOR BAHRU

26–28 January 2027 · DoubleTree by Hilton Johor Bahru

CLAIMABLE

HRDCorp claimable · KL early bird until 13 November 2026

[See the Budget 2027 seminars →](#)

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The tax expert isn't there when the transaction is made. You are. Be in the know.

This guide is general information, not legal or tax advice. It describes announcements made in the Budget 2027 speech on 9 October 2026, which may change before they become law. Mr. Lim's company is an illustrative composite. Sources: Budget 2027 speech (Ministry of Finance), paragraphs 32, 33 and 127; Budget 2027 Tax Measures, Appendices 11 and 14 (belanjawan.mof.gov.my); Employment Act 1955, sections 25 and 25A; SME Corp Guideline on SME Definition (March 2024); LHDN e-Invoice implementation timeline. Confirm your own position with a licensed tax agent before acting.