MALAYSIA SEMICONDUCTOR INDUSTRY ASSOCIATION

BUDGET 2026
RECOMMENDATIONS

ACCELERATING MALAYSIA'S SEMICONDUCTOR FUTURE

MALAYSIA SEMICONDUCTOR INDUSTRY ASSOCIATION

19 SEPTEMBER 2025

E&E Industry Environmental Scan

Malaysia's semiconductor industry is at a **critical juncture**. Rising costs, tariff uncertainty, some regulatory inefficiencies, and talent challenges are affecting Malaysia's competitiveness. Budget 2026 must recognize these pressures to ensure Malaysia remains an attractive hub for high-value investments in the global semiconductor value chain.

1. Rising Cost of Doing Business

Operational costs are escalating. These cost pressures will erode Malaysia's global competitiveness & attractiveness.

Escalating operational costs driven by:

- **Stamp duty expansion & self-assessment (January 2026)** – additional compliance and record-keeping obligations.
- **Service Tax (SST) expansion (July 2025)** – wider scope with higher rates for professional, IT, finance, and construction services.
- **Electricity tariffs (45.40 sen/kWh, RP4, July 2025)** – a 13–14% increase with monthly fuel price adjustments.
- **Rising wages** – increasing wages across the industry due to inflationary pressures.
- **EPF contributions for foreign workers (October 2025)** – 2% employer and employee contributions each.
- **Mandatory e-Invoicing (August 2024)** – adding administrative burdens and unresolved data security risks.
- **Rising logistics costs** – due to supply chain disruptions, wars & tariffs.

2. Global Geo-Political Tension & Tariff Pressures

Global trade uncertainty is creating volatility in supply chains and making investment planning difficult for semiconductor firms.

Key pressures include:

- **U.S. semiconductor tariff uncertainty** – unresolved sectoral outcomes, ripple effects across supply chains.
- **Global Minimum Tax (GMT, 2025)** – reduces the effectiveness of traditional tax incentives, making Malaysia less attractive for FDI.

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E&E Industry Environmental Scan *continued…*

3. Regulatory Efficiency & Business Enablement

Slow and inconsistent processes are impacting the smooth operations of companies.

Key inefficiencies include:

- **LMW framework to be Updated** – excludes R&D and design-led firms, restricting modern industry models.
- **Material Transfer between LMW and FIZ** – to allow movement of products and materials between entities of same company.
- **CCC approval inconsistency** – different compliance requirement for different states affects factory and facility readiness.
- **Incentive approvals too slow** – 6–12-month processing compared to other countries in the region.
- **Customs and digital systems gaps** – reliance on manual reporting, lack of integration, and burdensome data entry.

4. Talent Readiness & Retention

Malaysia faces growing challenges in building and keeping the skilled workforce needed for advanced semiconductor activities under the National Semiconductor Strategy (NSS).

Key gaps include:

- **STEM pipeline shortage** – number of students pursuing STEM fields is reducing.
- **Brain drain to regional hubs** – engineers moving abroad for better pay and other opportunities.
- **Reduce corporate tax for R&D and D&D Engineers** – to help firms provide competitive compensation to retain engineers and technical talent (pilot this proposal for E&E industry).
- **Utilize foreign STEM graduates** – to utilize the foreign graduates to complement local graduates, allow a minimum of 2 years employment after graduation, which could be converted to employment pass later.
- **Leverage global talent** – accelerate NSS in IC Design, Wafer Fabs, Advanced Packaging, and Advanced Technology Equipment.
- **Establish semiconductor and E&E focused universities** – modernize these universities with the latest labs & equipment.
- **TVET misalignment** – too many initiatives on TVET by different ministries. Curricula and equipment lagging behind industry requirements, although there is work in progress.

Call to Action

Malaysia's semiconductor firms are prepared to lead in innovation, sustainability, and global competitiveness. However, rising costs, tariff uncertainties, regulatory & talent challenges will impact this momentum.

Budget 2026 must be the turning point — unlocking the sector's full potential through bold, targeted, and timely reforms that will secure Malaysia's place in the global semiconductor value chain.

To grow Malaysia's economy and secure a stronger role in the global semiconductor ecosystem, the industry must be globally competitive.

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MSIA BUDGET 2026

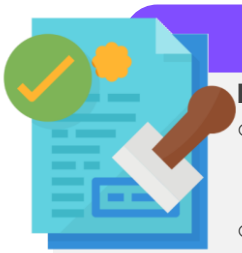
RECOMMENDATIONS & PRIORITY LIST

Rising Cost of Doing Business

Issue at a glance…

Operational cost pressures are escalating, straining Malaysia's competitiveness.

Stamp Duty Self-Assessment (1 Jan 2026)



Issue:

- Mandatory stamping & filing for all instruments increases compliance burden
- Unstamped instruments cannot be used as legal evidence in court
- IRB audits and enforcement expected to intensify
- Stamp duty on intercompany agreements raises costs for MNC operations and financing

MSIA Recommendations:

- Exempt employment contracts and low-risk instruments
- Provide stamp duty relief for intercompany agreements, including financing
- Defer implementation by **6–12 months** to allow business readiness
- Harmonize duty rates and provide clearer guidance on complex instruments

1

Sales & Service Tax Expansion (1 Jul 2025)

Issue:

- SST expanded: leasing, construction, finance, healthcare, education
- Wider sales tax (5–10%)
- B2B exemption too restrictive

MSIA Recommendations:

- Broaden B2B exemption
- Relief for capital-intensive industries
- Investment-linked exemptions
- Raise automation allowance cap (RM100 Million)
- Consider phased GST reintroduction for a broad-based tax system

2

Revised Electricity Tariff (1 Jul 2025)

Issue:

- Base tariff ↑13–14% to 45.40 sen/kWh
- New RP4 structure with added charges
- Monthly AFA adjustment tied to fuel prices

MSIA Recommendations:

- Phased tariff adjustments for E&E
- Incentives for energy efficiency
- Encourage renewable energy adoption

3

Other Cost Burdens (2024 – 2025)

Issue:

- **EPF for Foreign Workers (Oct 2025):** 2% employer + 2% employee contributions add to labor costs
- **Mandatory e-Invoicing (Aug 2024):** Compliance burdens & unresolved data security gaps
- **Tax Estimation Rules:** Penalties & refund delays strain cash flow; relief needed for liquidity

MSIA Recommendations:

- Provide exemptions/relief for EPF contributions in strategic sectors
- Strengthen e-Invoicing data security & allow phased adoption
- Remove penalties for underestimation; permit offset of tax credits

4

**Refer to Appendix 1 - 4 for full details for MSIA recommendations on Rising Cost of Doing Business*

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#2

Global Geo-Political Tension & Tariff Pressures

Issue at a glance…

Global trade tensions and tariff disputes are creating uncertainty for Malaysia's semiconductor industry. Escalating tariff barriers, export restrictions, and shifting trade alliances disrupt supply chains and increase operating costs. Without mitigation, these pressures could weaken Malaysia's competitiveness in the global value chain.

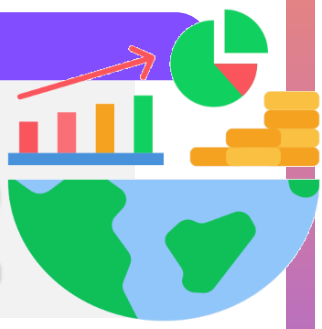
MSIA Recommendations

1 Strengthen Trade Diversification

- Expand market access through FTAs and regional alliances
- Incentivize companies to diversify export destinations

2 Develop Technology & Build Supply Chain Resilience

- Introduce Domestic Investment Strategic Grant (DISG) to accelerate the implementation of NSS in IC Design, Wafer Fabs, Advanced Packaging, and Advanced Technology Equipment.
- Encourage local sourcing to reduce tariff exposure & to enhance supply chain resilience



3 Enhance Geopolitical Readiness

- Establish an industry-government taskforce for rapid response
- Introduce a **RM500k per company grant** to support:
  - Supply chain diversification studies
  - Market repositioning strategies
  - Scenario planning & impact assessment
- Introduce a **Qualified Refundable Tax Credit (QRTC)** to offset GMT impact and sustain Malaysia's investment competitiveness.

4 Customs & Regulatory Support

- Provide **customs and trade advisory services** to help companies navigate tariff structures and rules of origin
- Simplify customs processes to minimize tariff delays

**Refer to Appendix 5 for full details for MSIA recommendations on Global Geo-Political Tension & Tariff Pressures*

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#3

Regulatory Efficiency & Business Enablement

Issue at a glance…

Regulatory processes can be complex, with multiple approvals and compliance requirements that increase administrative workload and business costs. Inconsistent interpretations and different compliance requirement create uncertainty and sometimes affects investment decisions. Enhancing regulatory efficiency and facilitation will support Malaysia's competitiveness as a global investment hub.

MSIA Recommendations

1 Modernize LMW Framework

- Recognize R&D-led and design-led firms as eligible for LMW status
- Allow multi-entity operations within the same LMW area with robust digital tracking

2 Streamline Material Transfers & CCC Approvals

- Allow the movement of products and materials between entities of same company between LMW & FIZ
- Standardize CCC requirements across states and link approvals to federal facilitation

3 Accelerate Incentive Approvals

- Introduce a fixed processing timeline (max 3 months) for investment incentives
- Improve inter-agency coordination to reduce bottlenecks
- Expand R&D and automation incentives (grants, tax credits, subsidies for robotics/Industry 4.0 adoption).
- Launch "Made by Malaysia" promotion initiative to strengthen branding and global market access

4 Strengthen Customs & Digital Integration

- Upgrade Customs systems (SMK → centralized automated platform)
- Expand SMART GPB to IPC-status companies for seamless import/export
- Reduce manual reporting and integrate with IRB systems

**Refer to Appendix 6 - 7 for full details for MSIA recommendations on Regulatory Efficiency & Business Enablement*

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#4

MALAYSIA SEMICONDUCTOR INDUSTRY ASSOCIATION

Talent Readiness & Retention

Issue at a glance…

Malaysia's semiconductor ambitions depend on a strong talent base, yet the workforce pipeline is strained: too few STEM graduates, engineers leaving for better opportunities abroad, and training programs not aligned with industry needs. Without urgent action, these gaps risk slowing progress under the National Semiconductor Strategy (NSS).

MSIA Recommendations

Expand & Incentivize STEM Education

1

- Provide additional tax reliefs for parents with children in STEM:
  - RM20,000 for Master's and PhD levels
  - RM10,000 for tertiary level
  - RM3,000 for secondary level

Attract, Retain & Reward High Skilled Engineers

2

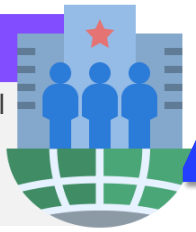
- Offer personal income tax incentives to encourage high skilled engineers to remain in Malaysia and contribute to advanced design and development work:
  - 50% reduction for engineers working with Malaysian-owned companies (≥60% local ownership)
  - 15% reduction for engineers working with other companies (i.e. MNCs)
- Corporate tax reduction for R&D and D&D Engineers (25% → 15%) – to help firms especially SME to provide competitive compensation to retain engineers and technical talent (pilot this proposal for E&E industry).
- Utilize foreign STEM graduates – to utilize the foreign graduates to complement local graduates, allow a minimum of 2 years employment after graduation, which could be converted to employment pass later.
- Leverage global talent – accelerate the implementation of NSS in IC Design, Wafer Fabs, Advanced Packaging, and Advanced Technology Equipment.

Modernize and Align University/TVET with Industry

3

- Establish universities to focus on semiconductor technologies (select 5 out of 20 universities) – modernize these universities with the latest labs & equipment.
- Streamline overlapping TVET initiatives across agencies for clarity and efficiency.
- Identify specific TVET institutions to be the center of excellence to focus on semiconductor & E&E industry – allocate sufficient funding for curricula and lab upgrades.
- Strengthen TVET–industry collaboration to produce job-ready graduates.

Facilitate Global Talent Access



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- Continue to streamline & improve on the employment permit approval system for foreign experts.
- Leverage global expertise to complement local talent and support knowledge transfer to accelerate the implementation of NSS.

**Refer to Appendix 8 for full details for MSIA recommendations on Talent Readiness & Retention*

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About MSIA

The Malaysia Semiconductor Industry Association (MSIA) is the leading voice of the semiconductor and electronics industry in Malaysia, representing 350 members from more than 20 countries worldwide. Its membership includes individuals and companies incorporated in Malaysia that are directly involved in the semiconductor industry (electronics and systems), its supply chain, and related service providers such as engineering, finance, legal, and consultancy firms.

MSIA also collaborates with industry societies, associations, chambers of commerce, and government-linked agencies, fostering partnerships that strengthen Malaysia's position as a global semiconductor hub.

For more information, please visit:

Website	: http://www.msia.org.my
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THANK YOU

TOGETHER, WE CAN SECURE MALAYSIA'S PLACE IN THE GLOBAL SEMICONDUCTOR VALUE CHAIN