

# INCOME TAX (DEDUCTION FOR EXPENDITURE IN RELATION TO ENVIRONMENTAL PRESERVATION, SOCIAL AND GOVERNANCE) RULES 2025

PU (A) 193  
16 June 2025

IN exercise of the powers conferred by paragraph 154(1)(b) of the Income Tax Act 1967 [Act 53] read together with paragraph 33(1)(d) of the Act, the Minister makes the following rules:

## CITATION AND COMMENCEMENT

- 1(1) These rules may be cited as the **Income Tax (Deduction for Expenditure in relation to Environmental Preservation, Social and Governance) Rules 2025**.
- 1(2) These Rules have effect from the year of assessment 2024 to the year of assessment 2027.

## INTERPRETATION

2 In these Rules—

“contemporaneous transfer pricing documentation” has the meaning assigned to it in the Income Tax (Transfer Pricing) Rules 2023 [P.U. (A) 165/2023];

“ESG” means a set of criteria to assess the sustainability practice and ethics of a financial institution, company, Labuan company, micro enterprise or small and medium enterprise, which encompasses environmental impact, social responsibility and governance effectiveness;

“financial institution” means—

- (a) a licensed bank, licensed investment bank, a licensed insurer or professional reinsurer under the Financial Services Act 2013 [Act 758];
- (b) a licensed Islamic bank, licensed international Islamic bank, licensed takaful operator, licensed international takaful operator or professional retakaful operator under the Islamic Financial Services Act 2013 [Act 759];
- (c) a prescribed institution under the Development Financial Institutions Act 2002 [Act 618];
- (d) a financial holding company under the Financial Services Act 2013; or
- (e) a financial holding company under the Islamic Financial Services Act 2013;

“independent reviewer” means a person appointed to perform a review of tax risk management and governance framework as specified in the guidelines for the Tax Corporate Governance Framework;

“small and medium enterprise” has the meaning assigned to it in the Small and Medium Enterprises Corporation Malaysia Act 1995 [Act 539];

“micro enterprise” means a micro enterprise as may be determined by the National Small and Medium Enterprises Development Council established under the Small and Medium Enterprises Corporation Malaysia Act 1995;

“Tax Corporate Governance Framework” means a framework which provides for the techniques and processes within an organization to identify tax risks, assess tax risks, set out the appropriate actions to mitigate the impact of tax risks and implement a tax control framework.

## DEDUCTION

**3(1)** For the purpose of ascertaining the adjusted income of a financial institution, company, Labuan company, micro enterprise or small and medium enterprise resident in Malaysia from its business in Malaysia in the basis period for a year of assessment, a deduction shall be allowed for an amount equivalent to the expenditure incurred by the financial institution, company, Labuan company, micro enterprise or small and medium enterprise in the basis period in relation to the ESG as follows:

- (a) expenditure for the ESG reporting incurred by a financial institution supervised by the Central Bank or a company listed on Bursa Malaysia for—
  - (i) validation, verification and certification the use of ESG practices, calculation and tracking of the greenhouse gas emissions, and ESG exposure;
  - (ii) subscription of technology or software systems for data collection, tracking the use of ESG metrics, risk management, scenario analysis and calculation of greenhouse gas emissions;
  - (iii) capacity building including training, education and skills development for employees; and
  - (iv) services of consultant expert or subject matter expert to perform activities as specified in subparagraphs (i) to (iii);
- (b) expenditure incurred by a company or Labuan company for—
  - (i) preparing the reporting as required under the guidelines for the Tax Corporate Governance Framework issued by the Director General and appointing an independent reviewer to perform review assessment of compliance with the guidelines for the Tax Corporate Governance Framework; or
  - (ii) preparing the contemporaneous transfer pricing documentation; or
- (c) consultation fees incurred by a micro enterprise or small and medium enterprise for the development of customized software for the implementation of electronic invoice in a business and obtaining services of external service providers but does not include—
  - (i) any expenditure incurred at the planning stage or preliminary procedures for the provision of the customised software; and
  - (ii) any consultation fee relating to the issuance of an electronic invoice through MyInvois Portal.

**3(2)** The expenditure under subparagraph (1)(b)(i) shall be subject to the company or Labuan company obtains a certificate of compliance with the guidelines for the Tax Corporate Governance Framework.

**3(3)** The total amount of expenditure for deduction under subrule (1) shall not exceed fifty thousand ringgit for a year of assessment.

## **NON-APPLICATION**

- 4** These Rules shall not apply if the financial institution, company, Labuan company, micro enterprise or small and medium enterprise in a year of assessment, in respect of expenditure referred to in subrule 3(1)—
- (a) has made a claim for deduction under section 33 of the Act;
  - (b) has been granted an exemption under paragraph 127(3)(b) or subsection 127(3A) of the Act; or
  - (c) has made a claim for deduction under any rules made under section 154 of the Act.