



Environmental Preservation, Social and Governance (ESG) Tax Deduction Rules

The ESG Tax Deduction Rules [[Income Tax \(Deduction for Expenditure in relation to Environmental Preservation, Social and Governance\) Rules 2025](#)] was gazetted on 23 June 2025.

The salient points included in the ESG Tax Deduction Rules are as follows:

- Effective from Year of Assessment (YA) 2024 to YA 2027
- Tax deduction of up to RM50,000 per YA is allowed on expenditure incurred in relation to the ESG by the following taxpayers:
 - i. Financial institution supervised by the Central Bank or a company listed on Bursa Malaysia on expenditure incurred for the ESG reporting:
 - Validation, verification and certification the use of ESG practices, calculation and tracking of the greenhouse gas emissions, and ESG exposure;
 - 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;
 - Capacity building including training, education and skills development for employees; and
 - Services of consultant expert or subject matter expert to perform activities as specified above.
 - ii. A company or Labuan company on expenditure incurred for:
 - Preparing the reporting as required under the Tax Corporate Governance Framework (TCGF) guidelines issued by the Inland Revenue Board of Malaysia (IRBM) and appointing an independent reviewer to perform review assessment of compliance with the guidelines, subject to obtaining the said certificate of compliance; or
 - Preparing the contemporaneous transfer pricing documentation.

iii. Micro enterprise or small and medium enterprises (MSMEs) on expenditure incurred for:

- Consultation fees for the development of customised software for the implementation of e-Invoice and obtaining services of external service providers but excludes:
 - Any expenses incurred at the planning stage or preliminary procedures for the provision of the customised software; and
 - Any consultation fee relating to the issuance of e-Invoice through MyInvois Portal.

iv. The definition of MSMEs are as follows:

Category	Manufacturing		Services & Other Sectors	
	Sales turnover	Number of full-time employees	Sales turnover	Number of full-time employees
Micro	< RM300,000	< 5	< RM300,000	< 5
Small	RM300,000 < RM15 million	5 to 74	RM300,000 < RM3 million	5 to 29
Medium	RM15 million to RM50 million	75 to 200	RM3 million to RM20 million	30 to 75

Note: If a business fulfils either one criterion across the different sizes of the operation, then the smaller size will be applicable.



v. The type of establishments that qualify as MSMEs are:

- Locally incorporated under the Companies Act 2016; or
- Registered under the Registration of Business Act (1956) or Limited Liability Partnerships (LLP) Act 2012; or
- Registered under respective authorities or district offices in Sabah and Sarawak; or
- Registered under respective statutory bodies for professional service providers.

vi. The definition of MSMEs does not apply to the following businesses:

- Listed companies on Main Market of Bursa Malaysia or main bourses of other countries;
- Large firms (non-MSMEs), Multinational corporations (MNCs), Government-linked companies (GLCs), MOF Incorporated and State-owned enterprises; and
- Subsidiaries of the above.

The complete definition of MSMEs can be found in the [Guideline for SME Definition](#) issued in March 2024 by the National Entrepreneur and SME Development Council (NESDC) [(formerly known as National SME Development Council (NSDC)].



We would like to highlight that the ESG Tax Deduction Rules and the Guideline for SME Definition may be subject to changes. For further details, please click on the links above or please contact your respective Grant Thornton tax adviser should you require further guidance.

Contact us to discuss how we can help with the ESG tax deduction rules



Chow Chee Yen
Senior Executive Director
T +603 2692 4022
E cheeyen.chow@my.gt.com



Alan Chung
Senior Executive Director
T +603 2692 4022
E alan.chung@my.gt.com



Tan Lee Chin
Executive Director
T +603 2692 4022
E leechin.tan@my.gt.com

© 2025 Grant Thornton Malaysia PLT. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.