

Are We Ready for the Global Minimum Tax?

By Mohd Khairul Ramli

The announcement in Malaysia's 2025 Budget of the impending implementation of the Global Minimum Tax (GMT) from January 1, 2025, is a clear signal of the nation aligning with a new global tax structure. The GMT mandates that multinational companies (MNCs) with consolidated annual revenues exceeding €750 million pay at least a 15% effective corporate income tax in every country they operate.¹ On paper, this may seem like a progressive step forward, aligning Malaysia with global standards aimed at curbing tax avoidance by large corporations. However, as we delve deeper into the consequences, it becomes increasingly clear that the nation may not be fully prepared for the ramifications.

The Red Flag

The immediate concern centres around Malaysia's readiness for such a transformative fiscal shift. The GMT's objective is to eliminate tax havens and ensure that profits are taxed where economic activities occur, rather than where the tax environment is most favourable. While this may sound like a solution to a persistent global issue, the implementation of the GMT in Malaysia raises serious questions about its potential to discourage foreign investment and slow down economic growth.

Tax competition has long been a critical tool for developing countries like Malaysia to attract foreign capital. Now, with the GMT imposing a minimum tax rate, Malaysia's relative advantage in offering competitive tax rates could evaporate, pushing potential investors to seek other jurisdictions. The critical question is: will this global tax reform end up discouraging the very investors Malaysia has worked so hard to attract?

It is worth noting that the OECD deal, which underpins the GMT, has its merits. The broader goal is to strengthen domestic resource mobilization, which is crucial for countries looking to finance infrastructure and social development projects. This aligns with the Sustainable Development Goals (SDGs), particularly Target 17.1, which emphasizes improving domestic capacity for tax collection.²

However, Malaysia, like many developing nations, heavily relies on corporate income tax revenue. This reliance has only deepened in recent years, as governments worldwide wrestle with the economic fallout of the COVID-19 pandemic. The introduction of GMT, though

¹ <https://www.oecd.org/en/topics/sub-issues/global-minimum-tax.html>

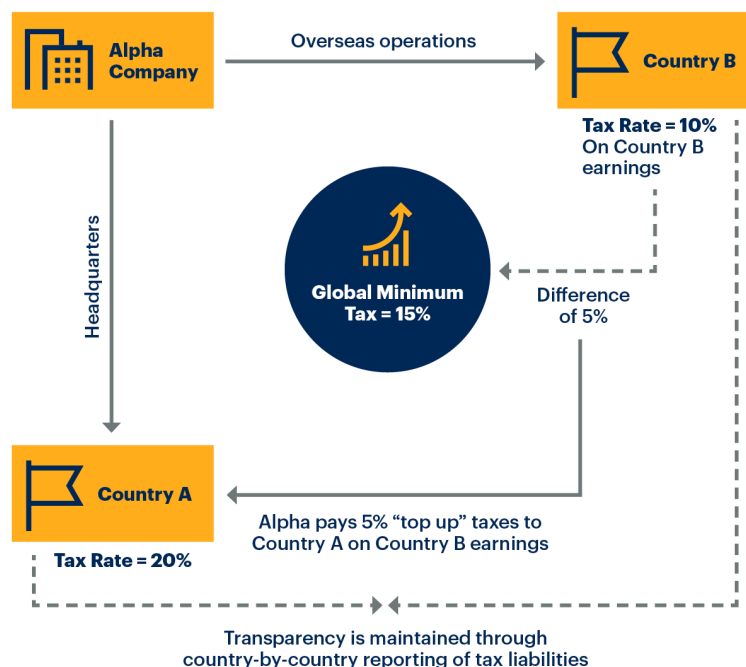
² <https://sdg-for-malaysian-states-sdsn.hub.arcgis.com/pages/sdg17-partnership-for-the-goals>

seemingly beneficial on a global scale, could exacerbate economic fragility in Malaysia if not properly executed.

Fiscal Dilemma

One of the most significant challenges lies in the interaction between domestic tax policies and the GMT. Malaysia has long employed tax incentives to attract investment in critical sectors including advance manufacturing such as semiconductor, services, mining and agriculture. These incentives, which often result in effective tax rates lower than 15%, are now at risk of being nullified under the new GMT regime.

Figure 1: Global Minimum Tax (GMT) Illustration



Source: Act Now to Assess the Impact of the Global Minimum Tax, Gartner.com

This means that Malaysia may lose the competitive edge it has used to draw in multinational companies. Worse still, under the GMT rules, if an MNC's effective tax rate falls below the 15% threshold, other jurisdictions, such as the MNC's home country, can impose a "top-up" tax, effectively diverting revenue that Malaysia would have otherwise collected. If the host country (where the MNC operates) does not impose additional taxes to bring the effective tax rate to 15%, the home country (where the MNC's parent company is located) can collect the difference through the "Income Inclusion Rule" (IIR).³

³ <https://oecdpillars.com/pillar-tab/ascertain-the-parent-entity-liable-for-top-up-tax-under-the-income-inclusion-rule/>

This raises the uncomfortable question: Is Malaysia inadvertently ceding its tax revenue to other countries? The answer, unfortunately, seems to be yes. The very structure of the GMT allows high-tax jurisdictions to collect taxes that would otherwise have gone to lower-tax countries, like Malaysia, thereby undermining the revenue-generating capacity of developing economies. For a country already grappling with the need to finance better physical and digital infrastructure, this could be a blow to long-term economic plans.

Complex Compliance

While many tax experts argue that it will help level the playing field in global taxation, the practical implementation of these rules reveals a more complicated picture. Malaysia's tax administration may face significant hurdles in enforcing these complex rules, which involve jurisdictional blending, top-up taxes, and extensive adjustments to taxable income.

According to the Deloitte report on Global Tax Minimum, the sheer technicality of calculating the effective tax rate under the GMT is vastly different from typical accounting methods, which means Malaysia will need to overhaul its tax systems to align with these global standards.⁴ This presents a massive administrative burden on the Inland Revenue Board of Malaysia (IRBM), which will need to invest in technological upgrades and personnel training to ensure compliance with the GMT's stringent requirements.

Compounding this challenge is the potential impact on multinational companies already operating in Malaysia. According to several international tax reports, the industries most affected by the GMT are large manufacturing sectors in which Malaysia has sought to grow its economic footprint. These companies are now warning shareholders of the potential decline in after-tax earnings due to the GMT.⁵ For Malaysia, this poses a real threat to its economic strategy. Reduced profits for these MNCs could mean a slowdown in investments, fewer jobs, and diminished growth prospects in these high-value industries.

The GMT's impact also extends beyond direct taxation issues. Malaysia's tax incentives are often locked into contracts that are protected by stabilization clauses, making them difficult to renegotiate. For example, long-term investment agreements in the oil and gas sector often include such clauses, which prevent the government from altering the agreed-upon tax rates. As a result, the process of reviewing and amending these incentives to comply with the GMT could be time-consuming, politically sensitive, and legally complex. This puts Malaysia at a

⁴ <https://www.oecd.org/en/topics/sub-issues/global-minimum-tax.html>

⁵ <https://www2.deloitte.com/content/dam/Deloitte/my/Documents/tax/my-tax-espresso-special-alert-july2021-global-min-tax.pdf>

disadvantage compared to countries that are already adjusting their fiscal frameworks to align with GMT rules.

Regional Rivals

Furthermore, international competition is heating up. Jurisdictions such as Singapore, Ireland, and Vietnam are already designing clever workarounds to soften the blow of the GMT, such as refundable credits and qualified subsidies that reduce the effective tax rate without triggering the 15% minimum.⁶ These countries are positioning themselves to retain their attractiveness to MNCs, while Malaysia risks falling behind.

It is also important to consider the broader implications of this policy on Malaysia's overall tax structure. If the GMT is to succeed in Malaysia, there will need to be a fundamental reassessment of the nation's tax base. This may require a move towards broader consumption-based taxes, such as reintroducing the Goods and Services Tax (GST), which Malaysia repealed in 2018.

Without diversifying its tax revenue sources, Malaysia risks being overly reliant on corporate income tax, which is precisely the area being squeezed by the GMT. Vietnam, for instance, estimates that implementing Pillar Two of the GMT will yield an additional USD 600 million annually in corporate tax revenue.⁷ Malaysia, however, has yet to produce similar estimates, which raises concerns about whether the country fully grasps the magnitude of the changes ahead.

Conclusion

In conclusion, while the implementation of the Global Minimum Tax represents a global shift towards more equitable taxation, Malaysia's readiness for this change remains in question. The potential loss of foreign investment, combined with administrative hurdles and the risk of ceding tax revenues to other jurisdictions, suggests that Malaysia may not be fully prepared to reap the benefits of this global tax reform. To safeguard its economic future, Malaysia must act swiftly to adapt its fiscal policies, modernize its tax administration by reintroduced the Good and Services Tax (GST), and ensure that it remains competitive in the rapidly evolving global economy.

⁶ <https://www2.deloitte.com/my/en/pages/tax/articles/gmt-in-2025.html>

⁷ <https://theinvestor.vn/vietnam-can-collect-600-mln-more-from-global-minimum-tax-enactment-d7359.html>