Making Malaysian Industries Globally Competitive
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For the attention of: Chief Executive Officer

GI / 14 / 2026

Summary and Highlights of the 345th Meeting
of the FMM Council held on July 23, 2026

No	ISSUES AND FMM'S VIEWS & ACTION TAKEN	For enquiries
1	<u>MPC Industry Engagement Session on Alignment of the Definition of 3D Jobs and the Foreign Worker Employment Policy for the Manufacturing Sector</u> FMM submitted its official position on the proposed 3D definition and foreign worker employment policy for the manufacturing sector to YB Minister of MITI and YB Minister of Human Resources on May 18, 2026 which covered the following: a. Support the Government's objective to reduce excessive foreign labour dependency, improve productivity and encourage automation. b. Does not support using a narrow "3D jobs" classification as the access gate for foreign worker eligibility. c. The term "3D jobs" should be reframed to more neutral terms such as "critical manufacturing occupations" or "essential manufacturing occupations". d. Foreign workers remain necessary to complement local workers, particularly in operational, shift-based, repetitive, manual and production-support roles. e. FMM recommends that the Multi-Tier Levy Mechanism (MTLM) be implemented, operationalised and evaluated first before introducing another major framework. f. Foreign worker eligibility should be based on job and sector criticality, including labour shortage severity, localisation feasibility, automation readiness, export contribution and supply chain role. g. FMM supports a Government-led but industry-validated Sectoral Shortage Occupation List for manufacturing. h. Any new framework should be phased, consultative and aligned with NIMP 2030, RMK-13, Industry4WRD, the National Semiconductor Strategy and Malaysia's industrial competitiveness objectives. Following the above, MPC convened an Industry Validation Workshop on June 11, 2026 focused on aligning the definition of general workforce roles with the foreign worker employment policy for the manufacturing sector. MPC proposed replacing the traditional "3D" terminology with three more neutral, role-based categories: a. Critical Operational Roles (COR) – high-risk, hazardous or safety-critical work. b. Physically Intensive Roles (PIR) – physically demanding, repetitive, shift-based or difficult-to-fill work. c. Industrial Essential Roles (IER) – work involving dust, dirt, contaminants, sanitation or waste handling. A six-thrust self-assessment framework was also proposed, covering technology readiness, operational compliance, local talent efforts, business scalability, intensity of critical tasks and economic impact. The framework would comprise approximately 30 weighted questions, with weightages tailored by manufacturing subsector.	Head Office, Business Environment Division (Ms Hema Thiruchelvam)

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	FMM commented as follows: a. Agreed with the proposed transformation of the definition from 3D to COR, PIR and IER as the proposed terminology is more appropriate, neutral and aligned to actual industry roles. b. However, the eligibility criteria for foreign workers should not be determined by a rigid role-based gate. Instead, FMM maintained that the more appropriate policy mechanism should be the Multi-Tier Levy Mechanism. c. Proposed that the three role categories and the six-thrust scorecard should be used as the basis for incentivising industry transformation using levy collections that are ploughed back to industry. d. Suggested that the Government consider incentives for companies that keep their foreign worker percentage at 10% or 15%, in line with the Government's targets and aspirations. Such companies could be given lower levy rates, potentially below the current RM1,850 rate. Companies with higher foreign worker dependency pay higher levy rates, but any increase should be gradual to allow industry time to adjust. e. The assessment mechanism should be simplified and should be used as an incentive qualification tool rather than as the primary basis for foreign worker quota decisions.	
2	<u>SOCSO Industry Roundtable on the Non-Employment Injury Scheme (SKBBK) and Amendments to the Employment Insurance System Act 2017 [Act 800] – July 15, 2026</u> FMM attended the roundtable session organised by the Social Security Organisation (SOCSO/PERKESO) on the proposed Non-Employment Injury Scheme, known as Lindung 24 Jam, and the amendments to the Employment Insurance System Act 2017 (Act 800). Key highlights of the session included the following: <u>Non-Employment Injury Scheme (SKBBK) / Lindung 24 Jam</u> a. PERKESO explained that Lindung 24 Jam is a new scheme introduced under the amended Employees' Social Security Act 1969 to protect employees against accidents occurring outside working hours and unrelated to their employment, complementing the existing Employment Injury Scheme. The scheme provides eligible local and foreign employees with 24-hour protection for accidents occurring in Malaysia, including accidents at home, personal road accidents and injuries sustained during recreational or sporting activities, for as long as they remain employed. b. The benefits under Lindung 24 Jam would broadly mirror those under the existing Employment Injury Scheme and include medical benefits, temporary and permanent disablement benefits, dependants' benefits, a constant-attendance allowance, rehabilitation and Return-to-Work support, education benefits and funeral benefits. c. The contribution would be borne fully by employees, with employers acting as administrators by deducting the contribution through payroll and remitting it to PERKESO. The proposed employee contribution rate would be introduced progressively at 0.75% under Phase 1, 1.00% under Phase 2 and 1.25% under Phase 3. d. Employers would be responsible for registering eligible employees, ensuring accurate payroll deductions, submitting contribution information and payments on time, and maintaining the relevant payroll and contribution records. e. Although originally introduced as a mandatory requirement, PERKESO clarified that the Government had subsequently decided that participation in Lindung 24 Jam would be voluntary for local workers but remain mandatory for foreign workers effective July 8, 2026.	Head Office, Business Environment Division (Ms Hema Thiruchelvam)

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	f. PERKESO expressed concern that voluntary participation could result in an insufficient number of contributors to sustain the risk pool, as the scheme's financial viability depends on broad participation and effective risk pooling. g. PERKESO clarified that coverage had already been provided from June 1, 2026, therefore, contributions deducted for June 2026 would generally remain payable and would not be refundable. h. PERKESO explained that Lindung 24 Jam is more comparable to personal accident insurance than to life insurance or a group medical card, as it provides medical treatment, income replacement, permanent disablement benefits and rehabilitation support rather than only a fixed or capped payment. i. Where employers already provide group personal accident insurance, the treatment of overlapping claims would depend on the terms and indemnity provisions of the respective private insurance policies. j. Only contributors who wish to opt out of the scheme would be required to make an election through the PERKESO system, by August 31, 2026. Contributors who remain in the scheme after this date will not be permitted to opt-out subsequently. Those who opt-out by the deadline may choose to opt-in at a later date; however, once they opt-in, the decision will be irrevocable. For contributors who opt-out after contributions have been deducted, the July and August 2026 contribution will be refundable to the employer, while the June 2026 contribution will remain non-refundable. k. The amendments to the Employment Insurance System Act 2017 (Act 800), focused on enhancement of benefits under the Employment Insurance System; and the expansion of Act 800 to support employment services under MYFutureJobs, including the requirement for employers to report job vacancies and new positions to PERKESO. The amendments have been tabled and passed at both houses of Parliament in June 2026 and is currently awaiting the royal assent. l. The amendments seek to improve existing Employment Insurance System benefits to better support workers affected by loss of employment and to improve the effectiveness of re-employment support. The key enhancements presented were as follows: i. Early Re-employment Allowance will be increased to 50% of the remaining balance of the Job Search Allowance. ii. Training Allowance will be increased to RM30 per day, compared with the previous rate of RM10 to RM20 per day. iii. Training Fee ceiling will be increased from RM4,000 to RM7,000. iv. A new Mobility Assistance Allowance of RM1,000 will be introduced for job placements involving a distance of more than 100 km. These enhancements are intended to support faster job placement, encourage labour mobility, improve access to reskilling and upskilling, and strengthen the overall effectiveness of the Employment Insurance System. m. PERKESO also presented the expansion of Act 800 to include employment services through MYFutureJobs, such as Employment brokerage and placement services; and Job registration and profiling services. The purpose of this expansion is to strengthen MYFutureJobs as the national employment services platform and to improve labour market matching, employment profiling and the availability of reliable labour market data. n. On the new Section 45F, which will require employers to notify PERKESO of job vacancies and new positions, PERKESO explained that the objective of this requirement is to improve the quality and integrity of labour market data, support better job matching through MYFutureJobs and strengthen transparency in employment placement.	

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	o. PERKESO clarified that the implementation of Section 45F will be carried out in stages and will be educational in nature. The intention is not to immediately penalise employers, but to first create awareness and encourage compliance. The proposed penalties for non-compliance under Section 45F will be implemented progressively in the form of compounds with no court proceedings as follows: i. First offence – fine not exceeding RM1,000; ii. Second offence – fine not exceeding RM3,000; and iii. Third and subsequent offences – fine not exceeding RM5,000. p. It was clarified that the compound mechanism under Section 45F will be aligned with Section 77 of the EIS Act, where compounds will not exceed 50% of the maximum amount stated. PERKESO also clarified that compounds will not be the first enforcement step and will only be considered as a last resort, particularly in cases of repeated non-compliance or failure to comply after reminders have been issued. q. Vacancies that must be reported include: Graduate-level positions; positions under MASCO Groups 1–4; all positions involving the employment of foreign workers, regardless of MASCO group; and positions offering a monthly salary of RM3,000 and above. r. Vacancies exempted from mandatory reporting include: Positions in manufacturing companies with fewer than 75 employees; positions in non-manufacturing companies with fewer than 30 employees; positions under MASCO Groups 5–9; domestic employment in private households; and temporary or short-term contract positions not exceeding three months. Industrial training and internship positions are also exempted but are strongly encouraged to be reported through MYFutureJobs. s. It was further clarified that positions not opened for recruitment or advertised, need not be reported. Positions filled internally through promotion, transfer or reassignment are similarly exempted from notification.	
3.	Service Tax Treatment of Logistics and Manpower Services The Royal Malaysian Customs Department has recently revised its guidance on the Service Tax treatment of logistics and manpower services. The revised interpretations have raised significant concerns for manufacturers, importers, exporters and service providers, a. Imported Taxable Services and Foreign Shipping Lines Customs has taken the position that the local agent of a foreign shipping line and its foreign principal are separate service providers. This results in Service Tax being imposed on both the local agent's service fee and the freight charges recovered from the Malaysian importer. Local shipping agents have already issued notices to clients confirming that tax will be collected on this basis. **FMM's Recommendation** Service Tax should apply only to the agency or service fee earned by the local shipping agent. Freight charges paid to the foreign shipping line and recovered without markup should be excluded from the taxable value. b. Disbursement and Reimbursement for Logistics Services Customs has recently clarified that Service Tax is required to be imposed on logistics-related disbursements and reimbursements. This appears to contradict the existing Service Tax Guide on Disbursement and Reimbursement, which provides that genuine third-party costs recovered without markup are not subject to Service Tax. The guide has not been amended, yet freight forwarders and shipping agents have already begun issuing notices of new charges to their clients, creating cost and compliance uncertainty for importers and exporters.	Head Office, International Business Division (Cik Shamini Sakthinathan)

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	c. <u>Services in Special Areas and Designated Areas</u> Sections 53 to 55 of the Service Tax Act 2018 exclude from Service Tax any service provided within a special area, between special areas, or between a special area and a designated area. Port authorities, including Port Klang Authority and Northport, issued guidance to operators and users confirming this exclusion, following consultation with MOF and Customs, and businesses operating in these areas relied on that guidance in good faith. Customs has indicated that Service Tax may apply to services performed within a special area where the recipient is located outside the special area, even where the service itself is performed and consumed within it. This differs from the previous understanding communicated by port authorities following consultations with MOF and Customs, under which qualifying services performed within free zones and port areas were not subject to Service Tax. The revised interpretation adds cost and undermines the competitiveness of areas intended to function as low-friction trade and investment hubs. **FMM’s Recommendation** MOF and Customs should confirm that qualifying services performed and consumed within special areas retain the treatment provided under the Service Tax Act 2018. Businesses that relied on earlier official guidance should not be subjected to retrospective tax, penalties or enforcement action. d. <u>Employment and Manpower Supply Services</u> The revised Service Tax Guide on Employment Services issued by the Royal Malaysian Customs Department on June 9, 2026 includes salaries, wages, EPF and SOCSO contributions and other worker-related expenses in the taxable value of employment services, even where these amounts are recovered without markup. This reverses the treatment under the 2019 Guide, which allowed certain costs, including levy, work permit, insurance and mandatory medical screening expenses, to be treated as non-taxable disbursements where they were separately itemised and recovered without markup. The revised treatment significantly increases the recurring cost of manpower outsourcing for manufacturers because Service Tax is imposed on the full invoice value rather than only on the actual service value provided by the manpower agency. As Service Tax cannot be claimed as input tax credit, the additional tax becomes a direct business cost and may increase production costs and weaken export competitiveness. **FMM’s Recommendation** FMM recommends that manpower supply be recognised as a distinct category within employment services. Salary, levy, work permit and FOMEMA costs should be excluded from the taxable value where they are separately itemised, supported by documentation and recovered without markup. Service Tax should apply to the management or service fee charged by the manpower provider and to any markup imposed on the recovered costs. Where costs are bundled into a single charge or include a markup, the full amount should remain taxable. FMM has written to the Ministry of Finance to convey the above positions.	

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	Outcome of Meeting with MOF on July 21, 2026 a. MOF and Customs maintained that employment-related costs recovered by a manpower provider form part of the taxable value. On FMM's concern relating to cash flow and compliance burden on manpower agencies, difficulty separating salary, EPF and SOCSO on invoices, the knock-on cost to manufacturers using outsourced labour, and the extra documentation and invoicing burden on freight forwarders, MOF viewed these as consequences of the policy and pointed to the Government's fiscal position as the main reason. b. The Chairman acknowledged FMM's argument on genuine pass-through costs and agreed to consider this further within MOF and revert with a decision. FMM's request to defer implementation until a decision has been made was not accepted. c. MOF confirmed there will be no retreat from policies already implemented, and any future changes would apply prospectively only. d. Disbursements expressly included in the taxable value under existing provisions or guides remain taxable regardless of how they are characterised.	

Han Mong Ying
Company Secretary

August 7, 2026/HAN

For enquiries on the above issues, please contact the Division/Branch-in-charge at the FMM Secretariat: -

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