FMM
FEDERATION OF MALAYSIAN MANUFACTURING

# PRESS RELEASE

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## FMM Calls for Budget 2027 to Expand Productive Capacity, Accelerate Industrial Transformation and Create Better-Paying Jobs

**Kuala Lumpur, September 3, 2026** — The Federation of Malaysian Manufacturing has called for Budget 2027 to prioritise the expansion of Malaysia's productive capacity by enabling businesses, particularly small and medium enterprises (SMEs), to retain and reinvest more capital in technology, innovation, talent development and stronger domestic supply chains.

FMM recognises the Government's need for a sustainable revenue base. Its Budget 2027 recommendations therefore combine broader and more transparent consumption taxation with competitive taxation of productive businesses and appropriate safeguards for essential consumption.

The recommendations are structured around four strategic priorities: Competitive Industries; Domestic Industrial Development; Highly Skilled Workforce; and Energy Transition and Circular Economy Adoption.

*Strengthening Industrial Competitiveness*

- FMM reiterated its proposal to introduce the Goods and Services Tax (GST) at a low introductory rate of 3%, with protection for essential consumption, simplified SME compliance and reliable, time-bound refunds.

  Following the Government's indication that it is open to studying selected GST features within the Sales and Service Tax (SST), FMM recommends systematic input-tax credits or offsets, effective relief for essential goods and exports, and prompt refunds to reduce tax cascading, embedded production costs and cash-flow pressures. These measures should be supported by e-Invoice verification and early consultation with industry. FMM nevertheless maintains that GST is the preferred long-term framework for strengthening tax transparency and competitiveness.

- For qualifying SMEs, FMM proposes a corporate income-tax rate of 15% on the first RM1 million of chargeable income, 17% on the next RM1 million and 24% thereafter. The objective is to increase the retained earnings available for productive reinvestment.

- FMM also recommends a RM1.5 billion Smart Manufacturing Support Package for 2027–2030, comprising RM500 million for automation, RM750 million for manufacturing digitalisation and RM250 million for artificial intelligence (AI) adoption. This should be complemented by enhanced automation allowances, financing at rates of between 2% and 4%, fully subsidised on-site smart-factory assessments and support for implementation costs.

- To strengthen industrial innovation, FMM proposes a RM1 billion Manufacturing Research and Innovation Endowment Fund, funded equally by the Government and industry, together with more accessible research and development (R&D) incentives.

*Building Domestic Industrial Capabilities*

- To strengthen supply-chain resilience, FMM proposes a RM100 million National Supply Chain Resilience Fund to help manufacturers secure critical inputs, qualify alternative suppliers and diversify their supply sources.
  - The fund would support the Malaysia International Manufacturing Expo (MIMX) from 2027 to 2030, an international supply-chain diversification programme offering matching grants of up to RM100,000 per approved project, and a national strategic sourcing and coordination mechanism.
- FMM also recommends enhancing the Allowance for Increased Exports and Market Development Grant to support indirect exporters, entry into new markets, branding, certification and overseas distribution.
- The manufacturing SME definition should be updated to cover companies with annual turnover of up to RM100 million and/or up to 300 employees and applied consistently across Government support programmes.
- Stronger procurement linkages among the Government, government-linked companies (GLCs) and industry would further develop Malaysian vendors, strengthen “Made by Malaysia” capabilities and reduce vulnerability to external supply disruptions.

*Investing in Malaysian Talent*

- FMM proposes that 60% of foreign-worker levy proceeds be channelled into skills development and 40% into automation, supported respectively by RM100 million and RM500 million in seed funding. This would turn levy collections into sustained investments in Malaysian talent and productivity while progressively reducing dependence on low-skilled foreign labour.
- FMM recommends expanding industry-led Technical and Vocational Education and Training (TVET), teaching factories and apprenticeship programmes. These initiatives should be supported by double tax deductions for qualifying training, equipment contributions, industry coaches and expert secondments.
- The recommendations include a 50% apprenticeship wage subsidy capped at RM1,000 per month for 12 months, together with support of up to RM3,000 annually for each school-leaver enrolled in selected accredited programmes.
- Greater emphasis should also be placed on Science, Technology, Engineering and Mathematics (STEM), workforce upskilling, green skills and the development of environmental competent persons.

*Supporting a Competitive Energy Transition*

- FMM supports Malaysia’s energy transition but stresses that its implementation must reinforce industrial competitiveness. Budget 2027 should provide targeted, time-bound energy-cost relief and a mechanism to smooth exceptional increases in industrial electricity costs.

- To make green investments more affordable, FMM proposes enhanced green tax allowances, financing at rates of 3% or below, Government guarantees covering up to 80% of financing and an SME green-investment grant covering up to 30% of qualifying expenditure.

- Charges and approval processes for solar energy, battery energy storage, cogeneration and corporate renewable-energy arrangements should also be reviewed to improve commercial viability and encourage private investment.

- Carbon pricing should be phased and coordinated, with clear emissions baselines, reporting systems, offset rules and transition assistance established before implementation. The framework should also avoid overlapping carbon costs that could undermine Malaysia's export competitiveness.

- For circular-economy adoption, FMM proposes a national Waste Exchange Platform, recycling-infrastructure support and a 100% investment tax allowance for qualifying circular-economy and industrial effluent-treatment investments. A RM100 million SME effluent-treatment upgrade grant should also be introduced to support regulatory compliance and water reuse.

*Creating a Virtuous Cycle for Growth*

FMM's recommendations form a connected growth agenda in which greater retained earnings enable more investment; increased investment raises productivity; and higher productivity supports better wages, stronger supply chains and higher-value manufacturing.

Stronger manufacturing capabilities would subsequently generate greater exports and economic growth, helping to build a broader and more sustainable Government revenue base.

The recommendations support the direction of the Thirteenth Malaysia Plan (RMK-13), the New Industrial Master Plan 2030 (NIMP 2030) and the National Energy Transition Roadmap (NETR) by linking fiscal support directly to industrial capabilities, skills development, innovation and sustainability.

FMM's central message is that Budget 2027 should create the conditions for Malaysian manufacturers to grow, move up the value chain and create better-paying jobs while strengthening the country's long-term economic, industrial and fiscal resilience.

**Mr Jacob Lee Chor Kok**
**President, Federation of Malaysian Manufacturing**

***FMM Advocates Transparency, Integrity, Accountability and No Corruption***

**About FMM**

The Federation of Malaysian Manufacturing (FMM) (formerly known as Federation of Malaysian Manufacturers) has been the voice of the Malaysian manufacturing sector since 1968, advocating policies and initiatives that drive industrial growth, competitiveness and workforce development. Representing over 13,540 member companies (4,270 direct and 9,270 indirect) from the manufacturing supply chain, FMM is actively engaged with government and its key agencies at Federal, State and local levels. FMM is also well-linked with international organisations, Malaysian businesses and civil society. Apart from benefitting from FMM's advocacy, FMM members enjoy value-added services including training, business networking and trade opportunities as well as regular information updates.

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