CURBING REVENUE LEAKAGES

Behind Malaysia's crackdown on illegal foreign businesses

Agency's specialised unit boosts enforcement against illegal operators and concealed ownership structures

GROWING unease among domestic small and medium enterprises over illegal foreign-run businesses is no longer confined to quiet complaints. It has now reached the highest levels of government.

Speaking at the Communications Ministry's Monthly Assembly in Putrajaya on June 8, Prime Minister Datuk Seri Anwar Ibrahim expressed concern over the rising number of foreigners abusing tourist and student visas to conduct businesses in Malaysia, including in the micro, small and medium enterprises (MSME) sector.

Anwar also highlighted a more troubling pattern.

Some foreign operators were found to be conducting businesses under licences and permits registered under the names of Malaysian citizens, while others had legally incorporated businesses but sourced their supplies and workforce directly from their home countries.

Such practices undermine the competitiveness of domestic entrepreneurs and weaken the country's business ecosystem.

In response, Anwar directed relevant ministries and enforcement agencies, including the Inland Revenue Board (HASiL), Royal Malaysian Customs Department, Domestic Trade and Cost of Living Ministry, local authorities, Malaysian Communications and Multimedia Commission and Bank Negara Malaysia, to undertake firm and coordinated enforcement action.

MSMEs are the backbone of the economy, accounting for 97.4 per cent of all businesses, contributing RM652.4 billion, or 39.1 per cent of the gross domestic product, and employing 8.2 million people, equivalent to 48.5 per cent of the national workforce.

When legitimate businesses are forced to compete against operators who avoid regulatory obligations and tax compliance, the consequences extend far beyond individual enterprises.

They threaten fair competition, government revenue and the sustainability of the broader economy.

HASiL said it has long been strengthening its institutional capacity to address tax compliance among foreign business operators.

It said the government approved the establishment of the Foreign Taxpayer Branch (CPCA) at the end of 2024, with the specialised branch officially commencing operations on Jan 1, 2025.

The branch's primary mandate is to oversee tax compliance involving foreign nationals, foreign-owned businesses, non-resident individuals and withholding tax matters.

HASiL said the creation of CPCA consolidated responsibilities previously divided among the branches in the federal territories of Kuala Lumpur and Putrajaya, as well as Selangor, into a single specialised unit.

It said this enables the agency to develop more focused compliance strategies, respond more effectively to revenue leakage risks and deliver more consistent services to taxpayers under its jurisdiction.

HASiL said the benefits of this approach are becoming evident.

Through joint investigations with the Royal Malaysia Police, CPCA found that about 90 per cent of the shadow economy cases it investigated involved the use of local proxies to conceal the true ownership of businesses.

According to HASiL, the finding has improved enforcement efforts by allowing investigations to focus on deliberate tax evasion and hidden ownership structures instead of relying mainly on public complaints or broad-based enforcement activities.

The Inland Revenue Board (HASiL) has long been strengthening its institutional capacity to address tax compliance among foreign business operators. PIX FROM HASIL

Against this backdrop, HASiL said Anwar's directive to ensure taxes arising from foreign-run business operations are fully collected does not require the creation of a new enforcement framework.

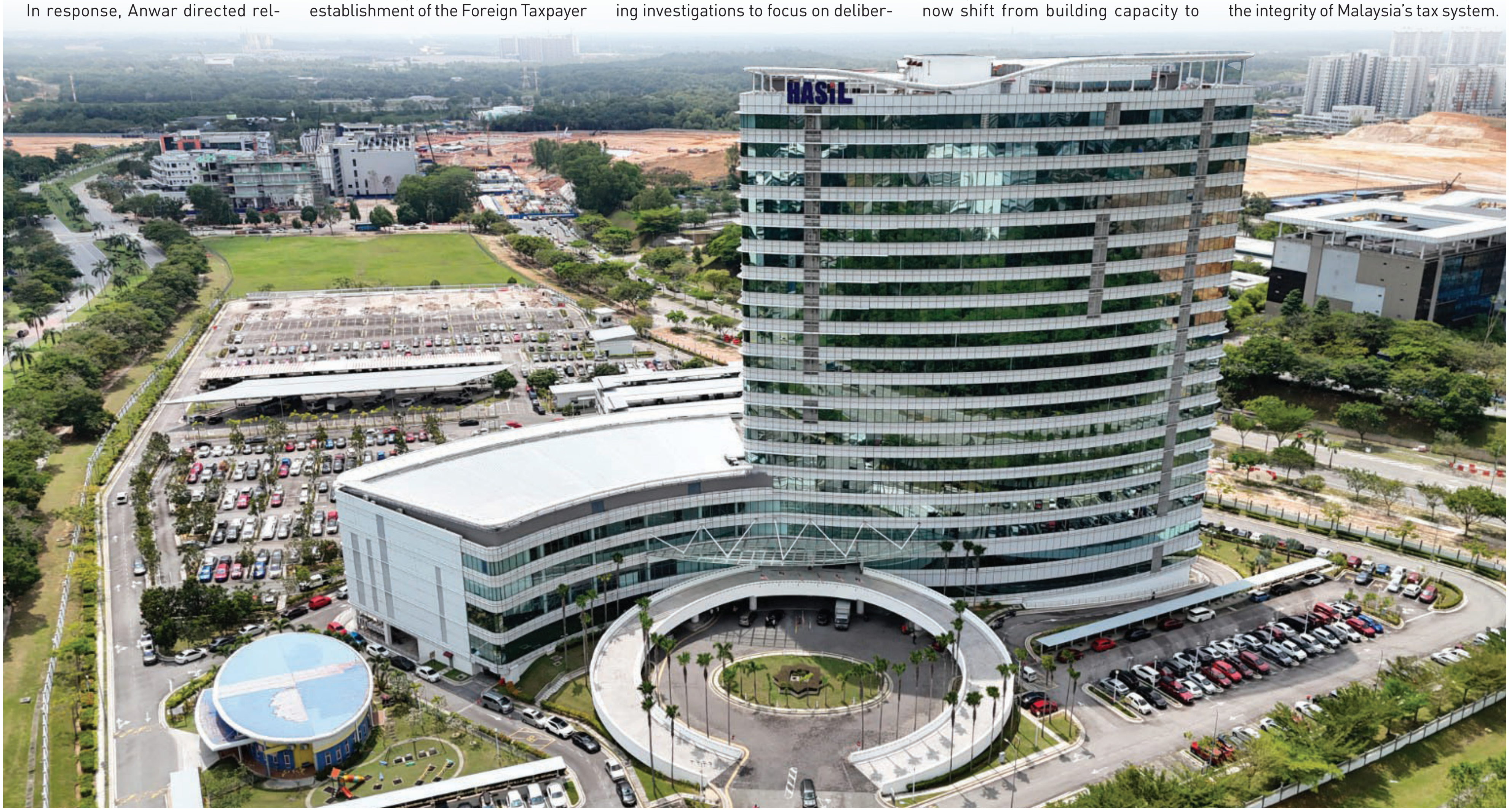
The agency said it had already established the institutional capability needed to support such a directive through CPCA.

With the specialised branch already operational and producing actionable intelligence, HASiL said the focus can now shift from building capacity to strengthening coordinated enforcement across agencies.

HASiL said CPCA represents a shift towards intelligence-led tax administration.

By centralising expertise, consolidating taxpayer information and identifying concealed ownership structures, HASiL said it is better positioned to detect revenue leakages and direct enforcement resources towards areas where risks are greatest.

As cross-agency collaboration continues to deepen, HASiL said the targeted approach will strengthen tax compliance, protect legitimate businesses from unfair competition and safeguard the integrity of Malaysia's tax system.



According to the Inland Revenue Board, the Foreign Taxpayer Branch represents a shift towards intelligence-led tax administration.