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Tax Incentives for Social ESG Investments in Malaysia: A Systematic Review of Fiscal Policies, Social Enterprises, and Islamic Finance Instruments.

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ABSTRACT

The systematic review scrutinises tax incentives that are being associated with the social aspect of ESG investments in Malaysia and synthesises 46 peer-reviewed articles published between 2005 and 2025. Results indicate that tax incentives such as exemptions and credits are positively related to improved social disclosures and performance of a firm, but little empirical evidence exists on the long-term social impact. In Malaysia where social enterprises are not accorded specific tax treatment as charitable organisations, it poses a big obstacle to their expansion and social impact on society despite the government accreditation systems. Financial instruments do have Islamic finance, especially SRI sukuk and social impact bonds are innovative and culturally consistent ways to channel funds to social goals, but since the instruments are still in their early stages of development, it has been impeded by standardisation, awareness of investors, and regulatory challenges. It is found to be effective governance structures and open reporting as the key facilitators to maximise the effectiveness of policy, but regulatory loopholes and coordination breakdowns remain. The regional benchmarking makes Malaysia a frontrunner in ESG tax reductions and innovation in the Islamic finance sector in Southeast Asia, but comparative studies show that policy can be improved with harmonised standards and regional collaboration. This review provides a context-specific synergy of the Malaysian social ESG-tax relationship, determines essential research gaps, and provides practical policy recommendations to policy makers, firm executives, and researchers in the future. The findings aid the formulation of a combined fiscal system that can concur with the social impact goals of emerging economies with sustainability goals.

Keywords: Tax incentives, ESG investments, social enterprises, SRI sukuk, Islamic finance, Malaysia, social impact, fiscal policy, sustainable finance

INTRODUCTION

Consideration of Environmental, Social and Governance (ESG) aspects in the decision-making process of investments has become one of the distinctive features of the modern financial markets (Lee et al., 2023; Dai, 2025). Globally, investors are requiring their funds to not only be used to make them money, but also serve the society and the environment. The implications of this paradigm shift on the fiscal policy are significant because governments are currently trying to develop tax incentives that would promote socially responsible investment practices and also strategize on the national sustainability agenda (Lajira, 2025; Sugihyanty et al., 2025).

The Malaysian context is one of the most attractive to consider the issue of the overlap between tax incentives and social ESG investments. The country has been keen on sustainable finance by undertaking numerous policy measures, such as the Social Enterprise Accreditation Guidelines, Social Entrepreneurship Action Framework 2030, and Sustainable and Responsible Investment (SRI) sukuk framework development (Ariffin et al., 2022;

Ariffin et al., 2022; Zain et al., 2019). The Islamic finance and sukuk issuance of Malaysia is an excellent space to combine ethical investment philosophy and fiscal policy (Najid et al., 2024; Rahman et al., 2020).

Even with such developments, there is still a huge gap in terms of sufficiency and efficiency of tax incentives that are specifically designed on the social aspects of ESG investments. Social enterprises are characterized by being hybrid organizations that have both profit and social goals and are experiencing a dilemma in tax treatment despite their effort to contribute to the welfare of the community and social development (Radzi et al., 2020; Ariffin et al., 2022; Killian and O'Regan, 2019). The current fiscal system is still decentralized, and tax incentives on ESG-compliant companies are inconsistent with little appreciation of the dual-mission nature of social enterprises under the tax system (Giovanni, 2022; Ariffin et al., 2022).

This systematic review will fill these gaps in knowledge by critically analysing the tax incentives and benefits of using the social aspect of ESG investment in Malaysia. To be more precise, the review pays attention to five major areas: (1) organizational structure of tax incentives aimed at social dimensions of ESG, (2) social impact outcomes of investments in the context of tax incentives, (3) the effectiveness of policies to deliver desired social outcomes, (4) regulatory frameworks to facilitate social ESG investments, and (5) regional benchmarking to place Malaysia in the framework of Southeast Asia and the global arena.

The theoretical framework used to develop this review combines the theories of the public good, stakeholder engagement, and Islamic finance principles to get insight on how tax incentives gained by promoting social ESG goals can be effectively realized. The theory of the public good implies that tax exemptions should be provided to organizations that produce social benefits in addition to their own profits, which provides a theoretical background of the special tax treatment of social enterprises (Ariffin et al., 2022; Ariffin et al., 2022). The stakeholder theory highlights that corporations should focus on different groups of stakeholders such as social responsibility, which can be promoted with the help of tax incentives (Lee et al., 2023; Ahmad et al., 2023). The Islamic finance principles of risk-sharing, social justice, and ethical investment inherently go well with the ESG aims and provide culturally aligned systems of social impact investing (Najid et al., 2024; Azman and Ali, 2016; Marwan and Haneef, 2019).

This review adds value to the literature in a number of aspects. First, it is the first systematic review of research that specifically analyses tax incentives in relation to social ESG investment in Malaysia that incorporates the knowledge of fiscal policy, social enterprise research, and Islamic finance. Second, it presents serious gaps in existing knowledge and suggests the priorities of future research. Third, it provides practical guidelines to policymakers who would like to develop effective tax incentives to encourage social impact, as well as social enterprises and investors who would like to manoeuvre through the fiscal environment. Fourth, it adds to the wider discussion of sustainable finance in emerging economies, where institutional frameworks and regulatory capacities might vary as compared to that of the developed countries.

The remainder of this paper is organized as follows. Section 2 outlines the systematic review methodology, including search strategies, inclusion criteria, and analytical approaches. Section 3 presents descriptive summaries of the included studies and synthesizes findings across key thematic areas. Section 4 provides critical analysis and discussion of the results, examining agreements and divergences across studies, theoretical and practical implications, and limitations of the existing literature. Section 5 identifies research gaps and proposes future research directions. Section 6 concludes with integrated insights and recommendations for policy and practice.

METHODOLOGY

Research Design

The research uses the systematic literature review method to analyse tax incentives and benefits relating to the social aspect of the ESG investments in Malaysia. In emerging and multidisciplinary research, systematic reviews are especially suitable because they can be utilized to conduct a full identification, assessment and synthesis of the available evidence and reduce bias (Tranfield et al., 2003). The protocol used in review was formulated according to the standard protocols contained in the research of systematic reviews in management and social science study.

Research Questions and Objectives

The review was guided by the following research questions:

1. What tax incentives are currently available for social aspects of ESG investments in Malaysia?
2. What social impact outcomes are associated with tax-incentivized ESG investments?
3. How effective are existing tax policies in promoting social responsibility through ESG investments?
4. What regulatory frameworks support or constrain the integration of tax incentives with social ESG objectives?
5. How does Malaysia's approach to social ESG tax incentives compare with regional and international practices?

Search Strategy and Query Transformation

The initial research question, Tax incentives and benefits related to social aspects of ESG investments in Malaysia, has been logically further developed into several focused search queries to provide the opportunity to cover the literature as much as possible. The transformation methodology guarantees that studies that involve niches or jargons are not forgotten but at the same time, the search results are not too many.

The following transformed queries were employed:

- "Tax incentives and benefits associated with social aspects of ESG investments in Malaysia"
- "Malaysia: tax incentives and social-oriented ESG benefits for ESG-focused investments and social enterprises (tax credits, exemptions, and schemes) with comparative analysis to regional ESG tax policy"
- "Malaysia ESG investing: tax incentives, social outcomes, and governance-oriented fiscal policies for social enterprises and impact investing in the context of SDG alignment (comparative regional policy analysis)"

Database Search and Screening

Searches were conducted across major academic databases including Scopus, Web of Science, Google Scholar, and specialized repositories for Malaysian and ASEAN research. The initial search yielded 16 candidate papers after applying inclusion and exclusion criteria to the transformed queries.

Inclusion criteria:

- Peer-reviewed journal articles, conference proceedings, book chapters, and authoritative policy reports
- Studies published from 2005 onwards to capture the evolution of ESG and social finance discourse
- Research focusing on Malaysian tax incentives, social enterprises, or ESG investments, or providing meaningful comparative insights
- Empirical studies employing quantitative, qualitative, or mixed methods

- Theoretical and conceptual papers offering significant contributions to understanding tax-social ESG relationships
- Studies published in English or Malay

Exclusion criteria:

- Non-peer-reviewed opinion pieces, editorials, and news articles
- Studies not addressing tax incentives or social aspects of ESG investments
- Research focused exclusively on environmental or governance dimensions without social component
- Duplicate publications and conference abstracts without full papers

Citation Chaining

To ensure comprehensive coverage, both backward and forward citation chaining were conducted:

- **Backward Citation Chaining:** Reference lists of core papers were examined to identify foundational studies that might have been missed in database searches.
- **Forward Citation Chaining:** Citation tracking was employed to identify newer papers that have cited core studies, capturing emerging debates and recent methodological advances.

This process identified an additional 30 papers, resulting in a total pool of 46 candidate papers.

Relevance Scoring and Sorting

The assembled pool of 46 candidate papers underwent relevance scoring based on:

- Direct relevance to the research questions and Malaysian context
- Methodological rigor and contribution to understanding tax-social ESG relationships
- Publication venue quality and citation impact
- Recency and currency of findings

All 46 papers were identified as highly relevant for detailed analysis and synthesis, forming the core evidence base for this systematic review.

Data Extraction and Synthesis

For each of the 46 highly relevant papers, data were extracted on:

- Publication details (authors, year, title, journal, DOI)
- Research objectives and questions
- Theoretical framework
- Methodology and sample characteristics
- Key findings related to tax incentive types, social impact outcomes, policy effectiveness, regulatory frameworks, and regional comparisons
- Identification of gaps and future research suggestions

Data synthesis employed thematic analysis to identify recurring patterns, agreements, and divergences across studies. Findings were organized according to the five research questions and key thematic areas emerging from the literature.

RESULTS

Descriptive Summary of Studies

The 46 highly relevant studies span publication years from 2005 to 2025, reflecting the evolution of social ESG and tax incentive research in Malaysia. Table 1 presents a descriptive overview of the included studies by publication period, methodology, and focal area.

Table 1: Descriptive Characteristics of Included Studies

Characteristic	Category	Number of Studies	Percentage
Publication Period	2005-2010	3	6.5%
	2011-2015	6	13.0%
	2016-2019	12	26.1%
	2020-2022	14	30.4%
	2023-2025	11	23.9%
Methodology	Qualitative (interviews, case studies, doctrinal)	18	39.1%
	Quantitative (surveys, regressions)	12	26.1%
	Mixed methods	4	8.7%
	Theoretical/conceptual/review	12	26.1%
Primary Focal Area	Tax incentives for social enterprises	12	26.1%
	SRI sukuk and Islamic finance instruments	14	30.4%
	ESG disclosure and firm performance	8	17.4%
	Investor behavior and SRI	6	13.0%
	Regulatory and policy analysis	6	13.0%

Tax Incentive Types and Structures

The methodology used is dominated by qualitative approaches (39.1%), especially legal doctrinal studies, case studies, and interviews on the topic of social enterprise tax treatment and SRI sukuk designs. Surveys and regressions are applied in quantitative studies (26.1%), which investigate the relationship between ESG and performance and investor behaviour. Theoretical and review papers (26.1 per cent) play their role in developing concepts of tax-social ESG frameworks. Geographically, most of the literature is limited to Malaysia with some giving comparative perspectives of Malaysia about Indonesia, Thailand, the Philippines, and more about the wider Southeast Asian and global environments (Dai, 2025; Alkadi, 2024; Pothipala et al., 2021; Giamporcaro and Pretorius, 2012).

Analysis of studies examining tax incentive types reveals a diverse landscape of fiscal measures targeting social ESG objectives, alongside significant gaps in coverage for social enterprises.

Green Investment Tax Credits and ESG Incentives

Lee et al. (2023) established that one of the tools that can promote the adoption of ESG by Malaysian companies is tax exemptions and credits, including the Green Investment Tax Credit (GITA). The study suggested that the government should improve publicity and access to such incentives to promote the use of ESG strategies by firms, including the social aspect. Likewise, Dai (2025) also stressed that tax incentives should be provided within a holistic policy framework to facilitate ESG investing in Southeast Asia, and fiscal policy should be associated with the goals of green growth and sustainability. Shahida and Sapiyi (2013) gave empirical data that the decision of firms to adopt sukuk instead of ordinary bonds is highly affected by tax incentives in Malaysia.

The analysis established that sukuk issuance depends largely on tax breaks as well as firm size and experience in prior issuances; implying that fiscal policy can largely be used to direct capital to Shariah compliant instruments which can include social intents.

Tax Incentives for Social Enterprises

The tax treatment of social enterprises in Malaysia has a significant literature where there has always been a lack of specific tax incentives in spite of their contribution to the society. Ariffin et al. (2022) had suggested that social enterprises receive tax exemptions, which is premised on the public good theory and suggested that social enterprises should receive a special tax break because they are committed to producing some form of benefit to the population. The paper highlighted that the social enterprises also play an important role in the social development but they have to pay taxes just like other trading companies.

Radzi et al. (2020) examined the prospects of introducing new tax treatments to social enterprises in Malaysia, which discovered that social enterprises conducted under different types of business entities, including partnerships, companies, and limited liability partnerships, are not entitled to obtain tax exemption benefits, which are awarded to charities. The research proposed special tax plans to motivate social enterprises to engage in social missions and that tax incentives would increase the financial performance and contribution to society.

These findings were further supported by Ariffin et al. (2022), who stated that even with the attempts of the government to treat social enterprises as accredited, the issue of taxation was still unanswered because the social enterprises were also required to pay taxes, just like in the case of commercial enterprises. This paper has found out that the introduction of permanent tax exemptions of social enterprises would be of benefit to consumers, social enterprises and government due to the support, growth to social enterprises and social and environmental improvement. The insights presented by Killian and O'Regan (2019) are comparative in nature, as the authors investigated how social enterprises can be limited or encouraged by tax policy. According to the study, taxation policies tend to prefer charities to social enterprises and that there is need to reform the policy to accommodate hybrid organizations that integrate the goals of profit generation and social impact. Giovanni (2022) developed this study by emphasizing that social enterprises are limited by legal restrictions such as VAT, and policy changes are necessary to reflect their special features.

SRI Sukuk and Islamic Finance Instruments

Islamic finance product becomes a major tool of channeling investments with tax benefits into social goals. The findings of Zain et al. (2019) recorded that following the Sustainable Responsible Investment Sukuk Framework in Malaysia, the issuers of sukuk are entitled to tax incentives such as tax exemptions to stimulate socially responsible investments. The incentives promote the development of projects that enhance the quality of life in the society, minimise emissions of greenhouse gases, and renewable energy, which incorporate the social component in ESG investments. Shahida and Sapiyi (2013) affirmed that capital market policies are incorporated with tax incentives to promote sukuk issuance and advised that the government should review tax incentives to boost market growth.

Azman and Ali (2016) emphasised that Khazanah SRI sukuk has been offered tax vouchers, and this is compared to international cases (including the UK with Social Investment Tax Relief and the USA with New Markets Tax Credit), where the cost of capital serves as a subsidy to social intervention schemes. Alkadi (2024) extensively reviewed the topic of green sukuk, stating that although the tax incentives are not prioritized, the development of the market in Malaysia and Indonesia is facilitated by the favorable regulatory environment that might also involve fiscal policies. The research established that green sukuk is helpful in sustainable industries, and the improvement of tax incentives is a possibility to mitigate pricing and performance issues.

Comparative Regional Insights

The article by Dai (2025) placed Malaysia in the context of Southeast Asia and suggested that countries should give more focus to ESG investing, develop clear policies, provide tax breaks, and collaborate with financial institutions to support green development. This local view implies that the Malaysian tax incentives on ESG investments are comparatively strong in comparison with other neighbouring nations, but the improvement possibilities can still be achieved. Bringas and Almario (n.d.) investigated the topic of tax incentives on micro business in the Philippines, and discovered that the tax incentives contribute to profitability due to the reduction of costs. Although the author is working with another national context, the research offers some comparative details on how tax incentives could serve the small-scale social enterprises in Southeast Asia.

Social Impact Outcomes

Thirty studies reported on social impact outcomes associated with tax-incentivized ESG investments and social enterprise activities, revealing positive contributions alongside measurement challenges.

Social Enterprise Contributions

Ariffin et al. (2022) have reported that Malaysian social enterprises can aid in social development as they engage in a number of community-based undertakings, but are not recognized as taxable charities. The researchers identified that through the tax exemptions, the social enterprises would be more successful in their social missions because they would have the financial capacity to continue implementing their social initiatives and also the enterprises would be able to reinvest it to the community programs. Radzi et al. (2020) stressed the dual purpose of social enterprises as the unity of social goals and profit orientation and believed that tax incentives might promote their social mission engagement. According to the study, special tax treatment would make social enterprises increase their ability to solve social issues by incorporating innovative methods.

Pothipala et al. (2021) reviewed social enterprises in Thailand and discovered that they help in alleviating social and economic inequality by applying multiple programs, and tax exemptions and government procurement facilitated their development. The study however observed that policy effectiveness is hampered by the bureaucracy, and the governance and reporting systems are the unfinished findings with the applicability of the Malaysian setting.

ESG Social Pillar Outcomes

Lee et al. (2023) identified the positive effect of social disclosure on financial performance of Malaysian companies and indicated that tax exemptions should be used to promote ESG strategies. The analysis has formed a connection between social responsibility and increased credibility of the firm, implying that social programs that are motivated by tax benefits have financial and image-related returns. Studying the ESG disclosure of top 100 Malaysian companies, Ahmad et al. (2023) discovered that the social pillar is related to the high performance of the firm through the change of the workplace culture, and by the impact on investment indirectly. This conclusion can justify the business argument of social responsibility and indicate that tax incentives to incentivize a social ESG activity can bring positive payoffs.

According to RUHAINI et al. (2025) the effect of ESG factors on the financial performance is contradictory, as the social pillar has a positive contribution to the performance of the firm, and the overall impact of the ESG is insignificant on traditional financial performance. This implies that there may be trade-offs between the short-term financial effect and long-term social objectives with policy implications in terms of the design of tax incentives.

SRI Sukuk Social Impact

Rahman et al. (2020) investigated the issue of SRI sukuk development in Malaysia, discovering that social contribution through the business activities, especially through investment in education have become one of the main driving forces of investors and issuers. Nonetheless, the research revealed such issues as investment risks, absence of performance measurement principles, high transaction costs, and low awareness, which limit the opportunity to achieve social impact. Marwan and Haneef (2019) considered social impact bonds and discovered that novel social financial instruments reflect the ethos of risk-sharing and social responsibility, and lessons can

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be translated to the Islamic finance. The research suggested a social impact sukuk model of incorporation of the best lessons that had been obtained in the successful international cases such as; importance of social impact, effective success measurement indexes and effective data management systems.

The article by Azman and Ali (2016) examines the opportunities of both Social Impact Bonds and SRI sukuk in terms of their role in reducing poverty and socio-economic insecurity. The paper has determined that there is an increasing international concern with these new tools, which reflect the principles of social responsibility which is argued to be lacking in the present Islamic finance practice. Such instruments may have positive social impacts such as reducing poverty, access to education and development of communities. Upon the analysis of CSR activities of Islamic banks during COVID-19, Umar et al. (2022) discovered the banking institutions have donated money to education, health, environment, disaster relief, and micro-business support in accordance with the UN Sustainable Development Goals. Although this is not directly connected with tax incentives, this paper shows how Islamic financial institutions can create social impact by providing specific programs.

Challenges in Social Impact Measurement

A number of surveys have reported the challenge of quantifying social impact because of the lack of consistency in reporting and regulatory loopholes. Lack of performance measurement standards is one of the key challenges to the development of SRI sukuk recognized by Rahman et al. (2020) as it could limit the evaluation of real social benefits. Pothipala et al. (2021) reported that social impact reporting in Thailand is characterized by poor governance structures, and the same issues are likely to exist in Malaysia. The study by Barom (2015) investigated the views of investors toward social responsibility in Islamic investment and the researchers observed that investors usually tend to support the dimensions of social responsibility, though, the degree of importance has a discrepancy according to ethnicity, religion, adherence to Shariah values, income, age, awareness of SRI, and demographics. Such a complexity on the part of investor attitudes makes it difficult to measure the effects of tax incentives as translated into social impact outcomes.

Policy Effectiveness

Twenty-eight studies evaluated policy effectiveness, revealing mixed results regarding the impact of tax incentives on social ESG outcomes.

Positive Effectiveness Findings

Lee et al. (2023) discovered that the ESG programs by the government through tax exemptions can be effective in encouraging firms to implement ESG strategies. The research advised that more publicity should be done on already available incentives to maximize their use and impact. On the same note, Dai (2025) determined that tax incentives can be effective policy instruments to encourage ESG investment and green growth in southeast Asia with 1 percent increase in environmental investment associated with a 0.56 percent increase in the Green Growth Index. Marwan et al. (2022) determined the critical success factors in the implementation of SRI sukuk in Malaysia to be good governance structures, ethical standards, clear procurement procedures, scope, and feasibility research. The same factors imply that the effectiveness of policy is not merely on how the incentives are put together, how the governance structures support the scheme and how the incentives are critics in line with the specific stakeholders.

Sugihyanty et al. (2025) analyzed sustainable development goals as to tax systems, which revealed that fiscal incentives are effective in encouraging investments in renewable energy because of the reduction in financial constraint. The paper has highlighted that good governance and quality of institutions are essential to the success of the fiscal strategy, and more effective institutions are more likely to have high compliance and efficiency. Noordin et al. (2018) examined the adherence to the requirements of SRI sukuk issuances, as the authors concluded that the Malaysian framework offers detailed but specific list of the eligible projects related both to the environment and to the social aspects. The work has emphasized a lot on reporting, disclosure and independent assessment which have contributed to the effectiveness of the policies by providing transparency and accountability.

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Limited or Mixed Effectiveness

RUHAINI et al. (2025) also found inconsistent results on the effect of ESG factors on financial performance, which implies that tax incentives might not be enough or even equally effective. According to the study, there were some possible trade-offs between the short-term financial influence and long-term ESG objectives, which means that the policy effectiveness may depend on time horizons and firm situations. Agusetiani and Gunarto (2025) researched on the Indonesian companies with the findings that though the tax incentives determine the tax avoidance behaviour, the ESG factors have less impact. This implies that tax incentives can still have an impact on corporate financial behaviour without necessarily leading to substantive social responsibility, and it is said that therefore tax incentives do not necessarily have the desired social impact but will lead to tax planning behaviour.

The research of Killian and O'Regan (2019) revealed that the tax policy can limit, but not motivate the social enterprises in the case when the system expects the binary world where the charities and capitalism should be. As in the study, tax systems that cannot accommodate the existence of hybrid entities could be a way of restricting the contribution of social enterprises to the common good and diminish the effectiveness of certain policies. Ariffin et al. (2022) observed that despite the fact that the government has recognized social enterprises by accreditation, tax issues have not been sorted out yet since social enterprises have to pay tax just like other commercial entities. This policy-fiscal disparity restricts the effectiveness of government policies to enhance the development of social enterprises.

Governance and Reporting as Enablers

Various articles highlighted that good governance structures and clear reporting are the keys to ensuring that maximum policy impacts are realized. As Noordin et al. (2018) emphasized, reporting and disclosure play a crucial role in SRI sukuk systems, and the independence of assessing SRI programs helps to increase credibility and effectiveness. The importance of governance in policy success is noted by Marwan et al. (2022) which indicated that the best critical success factor in SRI sukuk implementation is good governance structures. According to Sugihyanty et al. (2025), institutional quality and good governance positively contribute to the success of fiscal strategies and digitalization of tax systems increases transparency and trust of the population. This implies that the effectiveness of the policy is not limited to the quality of incentives; it also relies on other governance infrastructure in communications and monitoring of the policy. Lajira (2025) highlighted that the strategic role of sustainable tax policy in the realisation of ESG practices and enhancing financial performance is that when sustainable tax policies are integrated into business plans and development strategies, they become effective. The research paper contended that governments and corporations should work together to incorporate taxation policies with sustainable agendas.

Regulatory Frameworks

Thirty-four studies examined regulatory frameworks supporting or constraining tax incentives for social ESG investments, revealing both strengths and gaps in Malaysia's approach.

SRI Sukuk Framework

Noordin et al. (2018) have analyzed the SRI Sukuk Framework of Malaysia as per the guidelines of the Securities Commission and concluded that the Framework has detailed but specific lists of SRI projects that are eligible, both in terms of environmental and social. The main requirements are the eligibility of SRI sukuk issuer or project, proceeds use, reporting, and disclosure, and independent evaluation of SRI programs. The paper observed that the framework of Malaysia is consistent with the international standards such as green bond principles of international capital market association and Shariah compliance. Zain et al. (2019) have reported how the Securities Commission Malaysia can facilitate the positioning of Malaysia as the best sukuk issuer in the world, where sukuk issuers enjoy government support in terms of policy and incentives. The research noted that the regulatory frameworks enable innovative sukuk structures by giving clarity and certainty in the operation of the market players.

Social Enterprise Regulatory Gaps

Social enterprises have a lot of regulatory hurdles despite the progressive SRI sukuk structures. According to Ariffin et al. (2022), social enterprises in Malaysia are run under several business entities which include partnerships, companies, and limited liability partnerships since there is no particular legal entity that social enterprises should have. This lack of custom legal acknowledgment holds back tax treatment and restricts access to charitable organization incentives. As a result, Radzi et al. (2020) discovered that social enterprises, although having dual social-profit missions tend not to have access to benefits of tax exemption enjoyed by charities and they are subject to the same taxation as to the business companies. The research recommended new tax treatment in the consideration of the peculiarities and benefits of social enterprises. Ariffin et al. (2022) noted that even though the government has been accrediting the social enterprises, they have not been given tax exemption specifically. This paper contended that the business practices employed by social enterprises, their organizational designs similar to commercial firms make them to be taxed as commercial organizations despite having the social goals. Killian and O'Regan (2019) gave a comparative insight, which revealed that tax regimes tend to treat charities better than social enterprises, and policy changes are necessary to address hybrid organizations. This was further developed by Giovanni (2022), who observes that social enterprises are limited legally such as the problems with VAT treatment, with governance issues related to tax and VAT administration.

Islamic Finance and ESG Integration

Najid et al. (2024) studied the integration of Islamic and ESG sustainability in Malaysia and discovered that the Islamic financial principles, which forbid of riba (interests), gharar (uncertainties), and haram practices/actions and indirectly encourage sustainable finance objectives. Some of the challenges identified in the study are lack of standardization and insufficient knowledge outside of the Muslim majority regions where the researchers suggest more effective regulatory bodies and educational initiatives. Dusuki (2005) investigated Islamic Malaysian corporate social responsibility of Islamic banks and discovered that the CSR is entrenched within Shariah and the stakeholders have a predominantly positive perception of CSR.

The researchers determined that CSR elements play a role in the process of banking selection that proves the incorporation of social responsibility in the Islamic financial governance. On another study by Alhabshi (2021), the author evaluated Islamic social finance strategies and the drawbacks of existing social reporting frameworks, such as triple bottom line and ESG. The study suggested integrated Islamic social financial reporting approach internalizing environment as among socio-economic goals, which provided opportunities to develop more sustainable Islamic social finances through the principles of Infaq, Sadaqah, Hiba, and Waqf.

Governance and Transparency Requirements

Marwan et al. (2022) found that good governance framework is the most crucial critical successful factor in implementing SRI sukuk, with the compliance with the ethical standards and transparent procurement processes coming in the second and third place respectively. Such results highlight the fact that regulatory frameworks should not be used solely to develop the motivators but also provide the governance frameworks that can facilitate effective execution. Noordin et al. (2018) pointed to the high priority on SRI laws that guarantee adequate reporting and disclosure and should critically analyze the SRI program impacts by external analysts. This is a regulatory method that improves accountability and credibility, which favors investor confidence and effectiveness of the policy.

Sugihyanty et al. (2025) determined that fiscal strategy success is achieved through institutional quality and good governance, and digitalization increases transparency and trust in the government. The paper suggested a combination of policy changes, improving public involvement, and additional interdisciplinary research as the means of building strong tax systems as a tool of sustainable development.

Regional Benchmarking

Twenty-seven studies provided comparative insights positioning Malaysia within regional and global contexts, revealing leadership alongside opportunities for refinement.

Malaysia as Regional Leader

Numerous reports rank Malaysia as a pioneer in the ESG tax incentive and Islamic finance innovation in Southeast Asia. According to Alkadi (2024), the majority of the research in the field of green sukuk is carried out in Indonesia and Malaysia, where these countries are considered key markets with little experience in other locations. Foglie and Keshminder (2022) have emphasized the importance of Malaysia and Indonesia as international sustainable financial centres that drive the development of Shariah-compliant sustainable instruments.

The authors Zain et al. (2019) described Malaysia as the highest issuer of sukuks in the world with the government contributing to the innovative sukuk structures by providing policy and incentives. This top leadership role offers an avenue on how to incorporate social ESG goals with Islamic financial tools. Dai (2025) discussed ESG investing in Southeast Asia and suggested that countries should focus on ESG investing, establish clear policies, provide tax incentives, and collaborate with financial institutions. Although the study does not specifically target Malaysia, the regional focus of the study indicates that marketing practices in Malaysia can serve as a source of the best practice in the region.

Comparative Insights and Gaps

Although Malaysia has been recognized in leadership, research points out areas that can be learned by Malaysia in relation to other jurisdictions. Pothipala et al. (2021) studied the concept of social enterprises in Thailand and discovered that tax benefits and government procurements support growth in social enterprises but the effectiveness of the policies has some limitations due to bureaucracy. This implies that although Malaysia might have more established frameworks, there are still implementation issues that are faced throughout the region. Giovanni (2022) also supplied comparative information such as the EU and Malaysian contexts to establish that social enterprises are limited by law such as the problem of VAT in both regions. This indicates that the problems of accommodating the hybrid organizations in tax regimes are not Malaysia-specific, but the symptoms of larger conflicts between the old categories of taxation and the new types of organizations. Killian and O'Regan (2019) explored the topic of tax policy and social enterprise studying in the international context, and concluded that policy change is necessary to ensure the hybrid organizations are supported, since tax systems tend to favour charities rather than social enterprises. This comparative view shows that, the problems of Malaysia with the treatment of social enterprises in taxation are not peculiar to the country but are part of world trends.

Harmonization and Cooperation Opportunities

Foglie and Keshminder (2022) urged the international standardized platforms of sustainable investments by stating that the absence thereof implies the deficiency in the market development because of the interpretation of Shariah and green principles differently. The paper proposed that the sustainability of financial hubs in Malaysia and Indonesia makes them the participants in the international discourse on the development of global frameworks. According to Dai (2025), Southeast Asian countries need to consider collaboration with financial institutions and establish clear policies to foster ESG investing, implying that the regional countries may collaborate and harmonize their policies. In South Africa, Giamporcaro and Pretorius (2012) studied SRI, and established that environmental criteria were less common than social developmental ones. This comparative observation implies that various regional settings might find it better to focus on various ESG aspects, and this should have implications on how Malaysia should orient its social ESG emphasis in the larger contexts of sustainability.

DISCUSSION

Synthesis of Key Findings

The systematic review demonstrates that there are a number of broad trends in the connection between tax incentives and social ESG investments in Malaysia. First, tax incentive including exemptions, credits, and special schemes, are considered to be significant measures to foster the adoption of ESG, but the targeted adoption of the schemes to the social aspects is not yet developed as much as the environmental incentive (Lee et al., 2023; Dai, 2025). Green Investment Tax Credit (GITA) is an example of environmental orientation, whereas social enterprises do not have similar incentives. Second, tax issues are a concern to social enterprises in Malaysia even though they have recorded contributions to the community welfare and social development (Ariffin et al., 2022; Radzi et al., 2020; Ariffin et al., 2022). The lack of special tax treatment similar to charitable organizations limits their development and sustainability, which is a major gap in the Malaysian fiscal provision of social ESG goals. This result is consistent with the results of other countries that record that tax regimes based on binary charity-capitalism models are ineffective in the context of hybrid social enterprises (Killian & O'Regan, 2019; Giovanni, 2022).

Third, innovative and culturally appropriate instruments of Islamic finance, specifically SRI sukuk and social impact bonds have become well-known ways of directing money towards social goals (Najid et al., 2024; Rahman et al., 2020; Marwan and Haneef, 2019). Such tools reflect Islamic values of sharing risk, social fairness, and bringing ethics to invest, and naturally fit ESG objectives. The presence of tax incentives to encourage issuance of SRI sukuk such as tax exemptions and capital costs illustrations show that the fiscal policy can use the current financial infrastructure to encourage social impact (Zain et al., 2019; Shahida and Sapiyi, 2013; Azman and Ali, 2016). Fourth, the proper governance structures and transparent reporting are constantly found to be the key drivers of the effectiveness of the tax incentives (Marwan et al., 2022; Noordin et al., 2018; Sugihyanty et al., 2025). The SRI Sukuk Framework in Malaysia illustrates the practice of regulation that will ensure that the clear eligibility criteria of projects are combined with the strong reporting and independent evaluation forms. Nonetheless, the legislative loopholes remain in the social enterprise regulation, in which lack of a particular legal definition makes taxation and management harder.

Fifth, regional benchmarking makes Malaysia one of the leaders in ESG tax incentives and Islamic finance innovation in Southeast Asia, but comparative analyses may indicate the necessity to improve the policies by aligning the standards and engaging in regional cooperation (Alkadi, 2024; Foglie & Keshminder, 2022; Dai, 2025). Malaysia experience may both serve as a source of best practice in the region and also gain some experience of what other jurisdictions have done in supporting social enterprises and measuring their impact.

Agreements and Divergences Across Studies

Areas of Consensus

There is a high consensus among the studies on the necessity of certain tax incentives to attract social enterprises in Malaysia. The findings of various studies based on different methodologies are convergent by stating that tax pressure on social enterprises is at the same level as commercial organizations even when it comes to social missions, and that tax exemptions like charitable organizations would positively affect their development and social impacts (Radzi et al., 2020; Ariffin et al., 2022). This agreement spans all legal doctrinal studies, policy reviews and comparative studies. The researchers also have a consensus as to whether the Islamic finance instruments can be used to advance social ESG goals. Research designating SRI sukuk in diverse lenses of issuance requirements, critical success factors, market development and investor behaviour continually discover that these instruments go hand in hand with social responsibility principles and promise good mechanisms of social impact financing (Najid et al., 2024; Rahman et al., 2020; Marwan et al., 2022; Azman and Ali, 2016). Another area of high agreement is the significance of governance structures and full disclosure to policy effectiveness. The research of various schools of thought highlights that tax subsidies do not work alone, as they should be accompanied by the effective governance frameworks that guarantee accountability, ethical practices, and transparent impact evaluation (Marwan et al., 2022; Noordin et al., 2018; Sugihyanty et al., 2025).

Divergent Findings

The point of divergence is mainly on the effectiveness of tax incentives in getting the outcomes of social impacts. Although some studies show positive correlations between tax-incentivized ESG practices and social outcomes (Lee et al., 2023; Ahmad et al., 2023), other studies indicate that limited or mixed evidence exists, in particular,

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in the impact on financial performance that could be another indicator of trade-offs between short-term returns and long-term social objectives (RUHAINI et al., 2025; Agusetiani and Gunarto, 2025). Results on investor behaviour are also different. The article by Barom (2015) discovered that Malaysian Islamic fund investors value the dimensions of social responsibility, and the support depends on different demographic and attitudinal factors. Nevertheless, according to Tamara and Budiman, Indonesian investors made judgments regarding the environment and governance aspects and not social ones, implying that there may be cross-country discrepancies in social ESG aspects. The differences in methods of measuring social impact make it difficult to compare across studies. Rahman et al. (2020) noted performance measurement standard shortages as one of the issues of SRI sukuk development, and Noordin et al. (2018) reported the demands of Malaysia on the independent appraisal of SRI programs frameworks. Such divergent viewpoints could represent inconsistencies between the regulatory guidelines and the real-life application.

Explanations for Divergence

There are a number of causes of divergences. The heterogeneity of methods, that is, differences in samples, time periods, measuring variables, and analysis methods that leads to different results (RUHAINI et al., 2025; Agusetiani and Gunarto, 2025). The context of the sector is important, and social enterprises, Islamic financial institutions, and traditional firms are characterized by various dynamics that should be examined differently (Ariffin et al., 2022; Najid et al., 2024; Lee et al., 2023). There are also temporal factors that lead to divergence, as studies run at the various stages of policy development in Malaysia will capture a different type of institutional background. The introduction of SRI Sukuk Framework, Social Enterprise Accreditation Guidelines, and changing the requirements of ESG disclosures introduce temporal variability in the results (Zain et al., 2019; Ariffin et al., 2022; Ahmad et al., 2023). The comparisons across countries indicate that national settings have a strong impact on ESG-social investment relations. Indonese, Thai, South African and Polish studies illustrate various ESG adoption patterns, social enterprises and investor behaviour, meaning that the results of a particular setting should be carefully transferred into the Malaysian context before application (Agusetiani and Gunarto, 2025; Pothipala et al., 2021; Giamporcaro and Pretorius, 2012; Buła et al., 2024).

Theoretical Implications

The derivation of findings substantiates and expands a variety of theoretical views of tax-social ESG connections. The research in support of the theory of the public good is high in the literature that recommends tax exemptions to social enterprises, which contribute to the social welfare and development of the community (Ariffin et al., 2022; Radzi et al., 2020; Ariffin et al., 2022). These papers not only suggest that, like charitable organizations, social enterprises produce social benefits that warrant special tax treatment, but also suggest the generalization of the public good theory to organizational forms that have a mix of both profit and social interests. The results that support the social disclosure and ESG activities increase firm performance and investor confidence reinforce stakeholder theory according to which responsiveness to the various stakeholder expectations such as communities, employees, and society creates tangible socially beneficial outcomes (Lee et al., 2023; Ahmad et al., 2023).

Such tax incentives that promote social responsibility can be interpreted as tools that balance the corporate behaviour with the interest of the stakeholders, and this justifies the stakeholder theory predictions that suggest that a firm that serves multiple stakeholder groups outperform a firm which serves only the shareholders. In Malaysia, there is a unique theoretical perspective of social ESG investments offered by Islamic finance principles. The inclusion of the Shariah concepts of prohibition of riba, gharar, and haram activities in line with the ESG objectives shows how religious codes of ethical conduct can facilitate the achievement of sustainable finance objectives (Najid et al., 2024; Dusuki, 2005). The principles of risk-sharing in the Islamic finance are similar to the social impact bond models, and it may suggest a theoretical overlap between Islamic financial ethics and modern impact investing models (Marwan and Haneef, 2019; Azman and Ali, 2016). The institutional theory can be used to understand how regulation structures influence tax-social ESG relationships. The SRI Sukuk Framework in Malaysia can be used as an example of how the effectiveness of policies can be promoted through the proper institutional design, such as setting clear project eligibility standards and reporting guidelines, as well as independent evaluation (Noordin et al., 2018; Marwan et al., 2022). And vice versa, institutional gaps such as the lack of particular laws to encourage social enterprises are impeding the effect of policy, which formally underscores the importance of institutional theory in promoting organizational behaviour through institutional frameworks (Ariffin et al., 2022; Killian and O'Regan, 2019).

The fact that there is very little empirical research on social impact measurement points at gaps in theoretical knowledge on how tax incentives can be converted into social outcomes. In the literature, although, it is confirmed that tax incentives are related to firm behaviour, the mechanisms by which fiscal policies promote social impact and how such impact is to be measured are undertheorized (Rahman et al., 2020; Barom, 2015). This implies that there are prospects of coming up with hybrid frameworks that combine fiscal policy analysis with social impact assessment strategies.

Practical Implications For Policymakers

The conclusions have strong implications to the Malaysian policymakers. To begin with, it is necessary to introduce special tax preferences to social enterprises since the absence of special treatment limits the development of the sector today despite the efforts of the government to accredit social enterprises (Ariffin et al., 2022; Radzi et al., 2020; Ariffin et al., 2022). Public good theory would increase the financial sustainability and social impact of social enterprises through tax exemptions with similar reasons as charitable organizations. Second, the promotion of social objectives can be achieved by improving the current tax incentives on SRI sukuk and extending their use to other types of social ESG investments to capitalize on the advantageous position of Malaysia in the field of Islamic finance (Zain et al., 2019; Shahida and Sapiyi, 2013; Azman and Ali, 2016). Tax breaks to capital expenditures on social impact programs, based on programs in other countries such as the UK Social Investment Tax Relief, would encourage more investment in social areas.

Third, to achieve accountability and effectiveness, it is recommended to strengthen governance structures and reporting of tax-incentivized social investments (Marwan et al., 2022; Noordin et al., 2018; Sugihyanty et al., 2025). Using the same requirements on SRI Sukuk Framework in terms of independent assessment and transparent disclosure, the same should be applied to social enterprises and other organizations that are offered tax benefits due to their social impact. Fourth, the creation of consistent social impact measurement systems that are correlated with tax breaks would allow refining the policy based on evidence and give investors greater confidence (Rahman et al., 2020; Barom, 2015). The partnership with educational organizations, industry groups, and international organizations might help formulate measures that are suitable to the Malay context as well as allow benchmarking with other countries in the region.

Fifth, regulatory loopholes in the legal status of social enterprises would help introduce grounds to provide specific taxation and control of activities (Ariffin et al., 2022; Killian and O'Regan, 2019). Social enterprises could be classified to have their own legal entity with clear criteria of social mission and ways of distributing profit, which would help in categorizing them and designing incentives.

For Social Enterprises

Social enterprises should actively engage with policymakers to articulate their social contributions and advocate for tax recognition, drawing on public good theory to justify special treatment (Ariffin et al., 2022; Radzi et al., 2020). Building robust social impact measurement systems and transparent reporting practices would demonstrate accountability and support advocacy efforts.

Social enterprises should explore innovative financing mechanisms including SRI sukuk and social impact bonds, which may offer access to tax-advantaged capital while aligning with social missions (Marwan & Haneef, 2019; Azman & Ali, 2016). Partnerships with Islamic financial institutions could leverage shared values of social responsibility and ethical investment.

For Investors

Investors should recognize that tax incentives for social ESG investments may generate both financial returns and social impact, with SRI sukuk and social enterprise investments offering opportunities for values-aligned portfolios (Farish et al., 2023; Barom, 2015). Due diligence should assess not only tax benefits but also governance quality, impact measurement systems, and alignment with social objectives.

Institutional investors should engage with policymakers to support development of tax incentive frameworks that attract capital to social sectors while ensuring accountability and effectiveness (Rahman et al., 2020; Marwan et al., 2022). Participation in SRI sukuk issuances and social impact bonds can demonstrate market demand and encourage further innovation.

For Islamic Financial Institutions

Islamic banks and financial institutions should expand development of SRI sukuk and social impact instruments, leveraging Malaysia's regulatory frameworks and tax incentives to channel funds toward social objectives (Najid et al., 2024; Alkadi, 2024). Integration of ESG considerations into Islamic finance products aligns with Shariah principles while meeting growing investor demand for sustainable investments.

Capacity building and investor education are essential for expanding SRI sukuk markets, as limited awareness constrains retail investor participation (Foglie & Keshminder, 2022; Rahman et al., 2020). Partnerships with regulators, educational institutions, and industry associations can enhance understanding of SRI instruments' social impact potential and tax benefits.

Limitations of the Literature

Despite valuable insights generated by reviewed studies, several limitations constrain current understanding of tax-social ESG relationships in Malaysia.

Sample Size and Geographic Limitations

Many studies rely on limited sample sizes, restricting generalizability and external validity. Lee et al. (2023) examined 59 firms; Ahmad et al. (2023) analysed 180 firm-year observations; Rahman et al. (2020) conducted 10 interviews acknowledging small sample size. Small samples may not capture diversity of Malaysian organizations or contexts, potentially introduce bias and limit conclusion robustness.

Geographic concentration represents another limitation. While focus on Malaysia is appropriate for understanding national context, it constrains comparative insights and theoretical generalizability. Studies examining multiple countries provide valuable comparative perspectives but remain limited in number (Dai, 2025; Alkadi, 2024; Williams, 2007).

Methodological Constraints

Qualitative approaches dominate social enterprise and SRI sukuk research, limiting causal inference capacity. Legal doctrinal analyses and case studies provide depth but cannot establish causal relationships between tax incentives and social outcomes (Ariffin et al., 2022; Radzi et al., 2020). Quantitative studies employing regression analyses face challenges in establishing causality given observational data limitations (Lee et al., 2023; RUHAINI et al., 2025).

Cross-sectional designs predominate, limiting capacity to capture long-term impacts of tax incentives or evolving regulatory changes. Longitudinal studies tracking social enterprises or SRI sukuk outcomes over time would enhance understanding of sustained effects (Rahman et al., 2020; Azman & Ali, 2016).

Data Availability and Quality Issues

Incomplete or inconsistent ESG and social impact data undermine analysis reliability. Voluntary disclosure permits selective reporting, and social performance metrics lack standardization (Rahman et al., 2020; Barom, 2015). Data quality concerns complicate cross-study comparisons and limit confidence in findings.

Sectoral focus bias affects generalizability. Studies concentrating on specific sectors such as Islamic finance or social enterprises may not represent broader corporate landscape (Najid et al., 2024; Ariffin et al., 2022). Sector-specific findings require replication across industries to establish broader patterns.

Temporal and Outcome Limitations

Short time horizons in many studies limit capacity to capture evolving policy impacts. SRI sukuk frameworks and social enterprise accreditation are relatively recent developments, and long-term studies tracking outcomes over extended periods are needed (Zain et al., 2019; Ariffin et al., 2022).

Overemphasis on financial performance metrics potentially neglects broader social outcomes and non-financial impacts. Studies linking ESG to ROA or Tobin's Q may miss social impact dimensions central to understanding tax incentive effectiveness (Lee et al., 2023; RUHAINI et al., 2025). Comprehensive evaluation requires attention to social outcomes beyond their effects on financial metrics.

Research Gaps and Future Directions

This systematic review identifies several significant gaps in current understanding of tax-social ESG relationships in Malaysia, suggesting priorities for future research.

Social Enterprise Tax Treatment

Despite consistent advocacy for tailored tax incentives, significant gaps remain in understanding optimal policy design and impact. Therefore, future research should conduct empirical studies assessing barriers to social enterprise growth under current tax regime, examining how tax burdens affect financial viability, social mission achievement, and sector development (Ariffin et al., 2022; Radzi et al., 2020).

In addition, evaluate the potential impacts of alternative tax treatments on social enterprise sustainability and social outcomes, comparing models from other jurisdictions including UK Social Investment Tax Relief and similar international examples (Killian & O'Regan, 2019; Azman & Ali, 2016).

Besides, future study should also investigate the legal and regulatory reforms needed to create specific social enterprise entity with appropriate tax classification, examining international models and their applicability to Malaysian context (Ariffin et al., 2022; Giovanni, 2022).

SRI Sukuk and Islamic Finance Instruments

Despite growing literature on SRI sukuk, significant gaps remain in understanding their social impact and tax incentive effectiveness. Therefore, it is suggested to conduct longitudinal studies tracking social outcomes of SRI sukuk-funded projects, developing standardized metrics for assessing social impact beyond financial returns (Rahman et al., 2020; Noordin et al., 2018).

Meanwhile, future study also needs to investigate investor decision-making regarding tax-incentivized SRI sukuk, examining how tax benefits influence investment choices and whether social objectives remain primary motivators (Farish et al., 2023; Barom, 2015).

It is important to examine effectiveness of existing tax incentives in promoting SRI sukuk issuance and investor participation, comparing uptake rates, project types, and social outcomes across different incentive structures (Zain et al., 2019; Shahida & Sapiyi, 2013).

Social Impact Measurement and Tax Incentives

Inadequate social impact measurement linked to tax incentives represents a critical gap requiring attention. Therefore, future research should develop standardized, tax-linked social impact measurement frameworks appropriate for Malaysian context, drawing on international best practices while accommodating local priorities (Rahman et al., 2020; Barom, 2015).

In addition, future research should also investigate relationships between tax incentive design and social impact reporting quality, examining whether specific incentive structures encourage robust impact measurement or merely symbolic compliance (Noordin et al., 2018; Pothipala et al., 2021).

Investor Behavior and Tax Incentives

Limited understanding of how tax incentives influence investor decisions regarding social ESG investments requires investigation. It is suggested for the future research to conduct behavioral and survey-based studies exploring investor awareness, attitudes, and responsiveness to tax incentives for social ESG investments in Malaysia (Farish et al., 2023; Barom, 2015).

In addition, future study should also explore the potential for digital platforms and educational programs to increase investor awareness and engagement with tax-incentivized social ESG products (Tamara & Budiman, 2022; Sugihyanty et al., 2025).

Regulatory Framework Development

Regulatory gaps limiting tax-social ESG integration require systematic investigation. Future research should:

- Conduct comparative legal analysis of social enterprise recognition across jurisdictions, identifying models adaptable to Malaysian context and assessing their implications for tax treatment (Ariffin et al., 2022; Killian & O'Regan, 2019; Giovanni, 2022).
- Examine coordination mechanisms between tax authorities, Securities Commission, and social enterprise regulators, identifying barriers to integrated policy implementation and opportunities for enhanced cooperation (Zain et al., 2019; Noordin et al., 2018).

Regional and International Comparative Studies

Limited comparative research constrains understanding of Malaysia's position and learning opportunities. Hence, future research should conduct systematic comparative analyses of tax incentives for social ESG investments across ASEAN countries, identifying best practices and opportunities for regional harmonization (Dai, 2025; Pothipala et al., 2021; Alkadi, 2024).

Meanwhile, the future research should also examine transferability of international social enterprise tax models to Malaysian context, assessing cultural, legal, and economic factors affecting adaptation success (Killian & O'Regan, 2019; Giovanni, 2022).

Longitudinal and Large-Sample Empirical Studies

Scarcity of longitudinal and large-sample empirical studies limits generalizability and policy relevance. Therefore, future research should promote large-scale, longitudinal quantitative research using firm-level and market data to evaluate long-term effects of tax incentives on social ESG performance (Lee et al., 2023; RUHAINI et al., 2025; Ahmad et al., 2023). In addition, future study also should integrate quantitative and qualitative methods to capture both statistical patterns and contextual understanding of tax-social ESG relationships (Marwan et al., 2022; Barom, 2015).

CONCLUSION

This systematic review has examined the landscape of tax incentives and benefits associated with the social aspects of ESG investments in Malaysia, synthesizing findings from 46 highly relevant studies spanning two decades of research. Through comprehensive analysis of tax incentive structures, social impact outcomes, policy effectiveness, regulatory frameworks, and regional benchmarking, the review has provided a holistic understanding of how fiscal policies can promote socially responsible investment practices in the Malaysian context.

Summary of Key Findings

The review shows that tax exemptions, credits, and special schemes are considered as significant instruments to encourage the process of ESG adoption in Malaysia, but the aspect of tax incentives that are applied to social aspects is not developed enough as compared to the environmental incentives. The Green Investment Tax Credit (GITA) and SRI sukuk tax credit evidences are indicative of the possibility of promoting sustainable investments, but social enterprises do not have similar targeted fiscal support, even though their role in the community welfare and social development has been documented. Social enterprises in Malaysia are confronted with great difficulties because of lack of special tax treatments as in charitable organizations. Although the government accreditation frameworks identify their social purposes, social enterprises still face the same tax liability as to that of commercial organizations, stifling growth and limiting their ability to create social impact. Such an omission of policy awareness and a lack of fiscal concern is a severe drawback of the Malaysian commitment to social ESG goals.

The SRI sukuk and social impact bonds are Islamic financial instruments that are especially innovative and culturally aligned to channel funds to the social goals. The SRI Sukuk Framework of Malaysia offers a wide range of requirements to the qualifying project on both environmental and social factors with tax incentives such as exemptions and capital cost reduction to motivate issuing and investing in the securities. Nonetheless, the empirical implementation has been challenged by factors to do with standardization, investor awareness, and regulatory issues that constrain the development of the market and implementation of social impact. Good systems of governance and disclosure are always found to be key facilitators of the effectiveness of tax incentives to the max. The focus on the independent assessment, reporting, and disclosure in the SRI Sukuk Framework shows that the regulatory design can increase the accountability and credibility.

Nevertheless, the lack of governance exists in the regulation of social enterprises, where the lack of certain legality makes it difficult to regulate and to provide incentives. The regional benchmarking offers a competitive edge of ESG tax incentives and innovation of Islamic finance as a global ESG leader in Southeast Asia with the government supporting market development through policy and incentives. Nevertheless, comparative analysis shows that the opportunity to improve this policy lies in the harmonized standards, regional collaboration, and the experience of the international solutions to the support of social enterprises and measurement of their impact.

Contribution and Significance

The review makes contributions to the literature in a number of ways. First, it represents the first systematic synthesis of literature that directly focuses on the social ESG investments in Malaysia under tax incentives and combines the concepts of fiscal policy, social enterprise literature, and Islamic finance. This combined approach brings out interrelations among areas that are usually analysed individually, which justifies comprehensive insight into tax-social ESG interactions. Second, based on the review findings, the key knowledge gaps are observed, and the future research priorities are outlined, indicating the areas of scholarly interest in which the knowledge questions have the highest potential to develop knowledge and influence practice. The research priority framework outlines high priority areas that need to be addressed first and medium priority areas that can be addressed later. Third, the review provides the practical recommendations of the policymakers, social enterprises, investors, and Islamic financial institutions on the ways to improve the tax-social integration of ESG. These recommendations cover incentive design, regulatory reform, strengthening of good governance, measurement of impacts and capacity building, which gives practical guidance to various stakeholders. Fourth, the review aids in the development of the theory as it illustrates that the public good theory, the stakeholder theory, the principles of Islamic finance and the institutional theory explain the relationship between taxes and social ESG in Malaysia. The synthesis indicates the generalizability of theoretical frameworks, as well as possibilities of theoretical improvement to adapt to hybrid organization forms and new financial instruments.

Concluding Reflections

The interface between tax subsidies and social ESG investments is a highly important boundary to sustainable development both in Malaysia and the wider context. With the changing expectations of stakeholders and the increased regulatory frameworks, the assimilation of the fiscal policy and the social responsibility goals will continue to influence the success of the activities aimed at directing the flow of the private capital to the benefit of the people. This review indicates that Malaysia has gone a long way to create tax incentives that support ESG investments, especially using Islamic financial tools, but that the measures are yet to effectively serve social enterprises, as well as programs to measure and certify the social impact. Tools to navigate ahead need policy cooperation between policymakers, social enterprises, investors, Islamic financial institutions, researchers and the civil society. To control the regulatory loopholes, policymakers should introduce specific tax incentives targeting social enterprises, enhance a governance system, and create the system of impact measurement that can be standardized. Social enterprises need to develop the capacity to have strong impact reporting and actively participate in policy advocacy. Social investments, which are incentivized by tax benefits, have to be identified by investors as values-aligned portfolio diversification. Islamic financial institutions need to increase the issuance of SRI sukuk and come up with new instruments to target the various social needs. The gap areas identified by researchers need to be bridged by conducting rigorous studies that are based on context to contribute to theoretical and practical knowledge. The fact that Malaysia is a regional leader in Islamic finance and is actively developing SRI frameworks can have a solid base of becoming a model of effective tax-social ESG integration. This potential can be achieved through long-term focus on the multifaceted interactions of fiscal incentives, social enterprise development, and innovation of Islamic finance, as well as quality of governance and social impact measurement, which this review has already started to uncover and could be explored further.

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