



# GLOBAL EXPANSION

GLOBAL  
EMPLOYER  
GUIDE

**MALAYSIA**





## Basic Country Facts

### Full name

- Federation of Malaya

### Capital

- Kuala Lumpur

### Main Languages

- Malay
- English
- Cantonese

### Population

- 31.53 million

### Monetary unit

- Malaysian Ringgit

### Internet domain

- .my

### International dialing code

- +60

### Currency

- Malaysian Ringgit



# STATUTORY LABOR REQUIREMENTS

## Probation Period

- There is no legal requirement to put an employee on probation before they are hired, although this is recommended as a best practice.
- There is also no legal “minimum” or “maximum” probationary period that needs to be imposed although a probationary period in the range of 3 – 6 months is common.

## Annual Leave

- According to Section 60E(1) of the Employment Act 1955, you are entitled to paid annual leave as stated below:
  - Employed less than 2 years: Not less than 8 days per year.
  - Employed between 2-5 years: Not less than 12 days per year.
  - Employed for more than 5 years: Not less than 16 days per year.

## Public Holidays

- Chinese New Year (25th to 27th January)
- Thaipusam (8th February)
- Hari Raya Puasa (Eid al Fitr)
- Hari Raya Haji (Eid al Adha)
- Prophet Muhammad’s Birthday
- Labour Day (1st May)
- Vesak Day (7th May)
- Birthday of Seri Paduka Baginda Yang di-Pertuan Agong (8th June)
- Awal Muharram (20th August)
- Independence Day (Hari Merdeka) (31st August)
- Malaysia Day (Hari Malaysia) (16th September)
- Deepavali (14th November)
- Christmas Day (25st December)



## **Maternity Leave**

- Every female employee is entitled to at least 60 consecutive days' maternity leave which shall be paid leave in respect of each confinement.
- Maternity leave may commence anytime within 30 days prior to the expected birth date, but cannot be later than the day immediately following the birth.
- Female employees qualify for maternity allowance if they have fewer than 5 surviving children and have been employed for at least 60 days in the 3 months immediately preceding the birth.
- Employees paid on a monthly pay rate will receive a monthly allowance based on their monthly wages.
- Otherwise, the maternity allowance is the ordinary rate of pay for one day or RM6 per day, whichever is higher, for 60 consecutive days.

## **Paternity Leave**

- While there is no statutory paternity leave, in practice most companies allow fathers to take between one and 14 days off.

## **Sick Leave**

- Employees are entitled to paid sick leave in accordance to their length of service with the company
  - Less than 2 years of service: 14 days
  - More than 2 years, but less than 5 years of service: 18 days
  - More than 5 years of service: 22 days

- Employees may also be eligible for 60 days of paid sick leave per calendar year if hospitalization is necessary, but they must provide a medical certificate.

## **Work Hours**

- The Malaysia workweek is 40 hours, with a standard workday of 8 hours.
- Normal business hours in Malaysia are from 9 am. to 5 pm., Monday through Friday.
- Workers are entitled to one rest day for every 6 days worked, and cannot be compelled to work on that rest day.

## **Overtime**

- The Employment (Limitation of Overtime Work) Regulations 1980 provides that the limit of overtime work shall be a total of 104 hours in any 1 month.
- But, the employers must be mindful that they must not require any employee under any circumstances to work more than 12 hours in any one day.
- If employers request extra hours, they must pay 1.5 times the employee's regular wages.

## **Notice Period**

- If not stated differently in the contract, the periods according to which the notice of termination is related are:
  - employed for less than 2 years (4 weeks' notice)
  - employed for 2 – 5 years (6 weeks' notice)
  - employed for more than 5 years (8 weeks' notice)



## Severance

- There is no general right to severance pay upon termination of employment except when such termination is based on the following reasons:
  - cessation of activities for more than 6 months,
  - dissolution of the employer's business or downsizing,
  - criminal conviction which hinders the continuation of the work,
  - employee's refusal to be re-assigned to his/her previous position.
- Thus, employees who have been dismissed for other reasons (i.e. conduct or capacity based reasons) are not entitled to severance pay.
- The amounts to be paid vary according to the length of service, as follow:
  - if the length of service is 1 year: one month' salary
  - from 1 up to 5 years of service: 2 months' salary;
  - from 5 up to 10 years of service: 4 months' salary;
  - more than 10 years of service: 6 months' salary

## 13th Month

- 13th month pay is customary and is usually paid at the end of the year



## Income Tax

- Residents and nonresidents are subject to tax on Malaysian-source income only.
- Gross income from employment includes wages, salary, remuneration, leave pay, fees, commissions, bonuses, gratuities, perquisites or allowances (in money or otherwise) arising from employment.
- An individual employed in Malaysia is subject to tax on income arising from Malaysia, regardless of where the employment contract is signed or the remuneration is paid.
- Gross income also includes income for any period of leave attributable to employment in Malaysia and income for any period during which the employee performs duties outside Malaysia incidental to the employment in Malaysia.
- All profits accruing in Malaysia are subject to tax. Remittances of foreign-source income into Malaysia by tax residents of Malaysia are not subject to Malaysian income tax.

Taxable income (MYR)		Tax on column 1 (MYR)	Tax on excess (%)
Over	Not Over		
5,000	20,000	0	1
20,000	35,000	150	3
35,000	50,000	600	8
50,000	70,000	1,800	14
70,000	100,000	4,600	21
100,000	250,000	10,900	24
250,000	400,000	46,900	24.5
400,000	600,000	83,650	25
600,000	1,000,000	133,650	26
1,000,000	2,000,000	237,650	28
2,000,000		517,650	30



## Social Security

- Employer and employee contributions to the SOCSO of Malaysia are compulsory for Malaysian citizens only. Various rates are specified for these contributions.
- Effective from 1 January 2019, employers that hire foreign workers (excluding domestic servants) are required to register their employees with SOCSO and contribute to the Employment Injury Scheme.
- The employer incurs a 1.25% charge calculated on the worker's salary and other compensation, capped at MYR49,400 for wages exceeding MYR4,000.
- The contributions for a month are due by the 15th day of the following calendar month.
- The Employment Injury Scheme provides protection to an employee against an accident or an occupational disease arising out of and in the course of their employment as well as accidents that occur when commuting to and from work.
- Employees who are Malaysian citizens are required to contribute to the Employees' Provident Fund (EPF).
- The EPF is a statutory savings scheme to provide for employees' old-age retirement in Malaysia.
- Under the Employees' Provident Fund Act 1951, all employers and employees are required to make monthly contributions to the EPF.
- The statutory contribution rate is 23% or 24% of monthly wages.
- Employers pay at a rate of 12% if the employee's monthly wages are above MYR5,000 per month or 13% if the employee's monthly wages are below MYR5,000 per month.
- Employees contribute at a rate of 11% of monthly wages.
- Employers may increase their contributions up to 19% without restrictions by the Malaysian tax authorities, and still deduct the amounts for corporate tax purposes.
- Employees' contributions are deducted at source.
- No ceiling applies to the amount of wages subject to EPF contributions.
- Expatriates are not required to contribute to the EPF, but may elect to contribute to take advantage of the available tax relief.
- Self-employed persons may elect to contribute to the EPF.
- The individual may make voluntary contributions at a fixed monthly rate of any amount from up to MYR5,000.

Contribution	Employee	Employer
<b>Employment Injury Scheme</b>		1.5%
<b>Employees' Provident Fund</b>	11%	12% (if wages are above MYR 5000)  13% (if wages are below MYR 5000)



# Deductible Expenses

## Employment Expenses

- Employees are allowed a deduction for any expenditure incurred wholly and exclusively in the performance of their duties, but no allowance is given for tax depreciation.
- Expenses of a private or domestic nature are expressly excluded from deduction; for example, the cost of hiring domestic servants to help in housekeeping while one is away at work is not deductible.
- Subscriptions to associations related to the individual's profession are deductible.

## Personal Deductions

- Donations to approved institutions or organizations are deductible, subject to limits.
- Mortgage interest incurred to finance the purchase of a house is deductible only if income is derived from the house.

## Other Personal Deductions

Deduction (YA 2020)	Maximum (MYR)
<b>Medical expenses:</b>	
Parents, for medical treatment, special needs, and carer expenses.	<b>5,000</b>
Self, spouse, or child, for treatment of a serious disease, including medical examination fees subject to a limit of MYR 500 or expenses incurred on fertility treatment (w.e.f YA 2020)	<b>6,000</b>

Deduction (YA 2020)	Maximum (MYR)
Disability-supporting equipment for the use of a disabled individual, spouse, child, or parent.	<b>6,000</b>
<b>Pension/provident funds and insurance premiums:</b>	
Pension/provident fund contributions by an individual.	<b>4,000</b>
Insurance premiums for an individual and/or spouse's life.	<b>3,000</b>
Additional relief for contributions made to Private Retirement Scheme and Deferred Annuity Scheme (from YA 2012 to YA 2021).	<b>3,000</b>
Additional relief for premiums for insurance on education or for medical benefits incurred for the individual, spouse, or child.	<b>3,000</b>
Deposit under the National Education Savings Scheme (from YA 2012 to YA 2020).	<b>8,000</b>
Employee's contribution to SOCSO	<b>250</b>
<b>Education fees:</b>	
for a course of study in Malaysia up to tertiary level undertaken to acquire law, accountancy, Islamic financing, technical, vocational, industrial, scientific, or technological skills, or for a degree at Masters or Doctorate level for purposes of acquiring any skill or qualification.	<b>7,000</b>



## Other Personal Deductions (Cont.)

Deduction (YA 2020)	Maximum (MYR)
Lifestyle relief	2,500
Purchase of breastfeeding equipment once every two years.	1,000
Fees paid to child care center and kindergarten.	2,000

## Personal Allowance

- The following personal allowances are deducted in arriving at chargeable income of the resident individual for YA 2020:

Allowance (YA 2020)	MYR
<b>Self</b>	<b>9,000</b>
<b>Spouse (under joint assessment)</b>	<b>4,000</b>
<b>For each child:</b>	
Below 18 years of age	<b>2,000</b>
Over 18 years of age who is receiving full-time instruction at an establishment of higher education in Malaysia	<b>8,000</b>
<b>Disabled:</b>	
Self (additional)	<b>6,000</b>
Spouse (additional)	<b>3,500</b>
<b>Child:</b>	
For each physically or mentally handicapped child	<b>6,000</b>
Additional relief if that child is over 18 and receiving higher education or studying under articles or indentures in a trade or profession.	<b>8,000</b>
Parental care relief per parent for up to two parents (from YA 2016 to YA 2020).	<b>1,500</b>

## Immigration

- A Malaysian work permit is required for any person who wishes to enter Malaysia for work purposes, regardless of duration.
- The Employment Pass (EP) is the work permit required for any person who is taking up employment with a Malaysian company or firm.
- It is issued by the Malaysian Immigration Department.
- An EP is issued with the MEV for a duration of up to five years, subject to justification, and is renewable.
- An EP is granted on a case-by-case basis for positions that require special technical knowledge or experience not available locally or for positions that cannot be filled by Malaysian citizens.
- The Malaysian company applying for the EP must fulfill certain requirements including, but not limited to, the following:
  - Industry-specific requirements apply because different industries are governed by different ministries from which preapprovals may need to be obtained before the application can be submitted to the Malaysian Immigration Department. For certain industries, the approving authority for the initial stage of the EP application may also be a Malaysian ministry or appointed body with differing application processes and requirements.
- Malaysian companies involved in selected industries are also required to provide necessary licenses in order to submit EP applications. These licenses include the Wholesale, Retail and Trade License or the Unregulated Services License from the Ministry of Domestic Trade and Consumer Affairs and the G7 Grade License issued by the Construction Industry Development Board.
- Malaysian companies that wish to apply for an EP must meet the minimum paid-up share capital requirement, which is MYR500,000 for wholly foreign-owned companies, MYR350,000 for foreign companies in a joint venture with local companies and MYR250,000 for 100% Malaysian-owned companies. The authorities for the applicable license may increase the minimum paid-up share capital requirement as a condition for the license.
- The Malaysian sponsoring company of an EP in West Malaysia must be registered with the Expatriate Services Division of the Malaysian Immigration Department to which applications are submitted electronically. The only exception is for companies whose approving authority is the Malaysian Investment Development Authority or the Malaysia Digital Economy Corporation.

### Professional Visit Pass

- A person who intends to enter Malaysia for short-term assignments, such as to conduct training, attend training, or perform assembly, maintenance, repair or installation of machinery purchased from an overseas company, may apply for a Professional Visit Pass (PVP).
- A PVP is usually valid between 1 to 6 months and is renewable for a total maximum period of 12 months.
- No extensions are granted beyond the maximum duration allowed.
- The maximum duration allowed for a person who intends to do a student internship or serve as a trainee is six months and is non-renewable.
- To qualify for a PVP, the individual's salary must be paid by an overseas company.

### Residence Pass-Talent

- The Residence Pass-Talent (RP-T) is issued to highly qualified expatriates seeking to continue living and working in Malaysia on a long-term basis.
- Holders of the RP-T are eligible for many benefits, including the ability to live and work in Malaysia for up to 10 years.
- RP-T holders may change employers without having to apply for a new work permit.
- The spouse and children (under 18 years old) of the recipient are also awarded the RP-T and are allowed to work (spouse) or study (children) without having to apply for an EP or Permission to Study.

- In general, a foreign individual who has been living and working in Malaysia for at least three years on a continuous basis with a basic monthly salary of MYR15,000 may apply for the RP-T if all of the other requirements are met.
- Applicants need to be approved by the RP-T panel before they are recommended for the granting of the pass.
- Preference is given to applicants who qualify as experts and are able to contribute to key Malaysian industries in a significant way.



Type of Visa/ Permits	Documentation	Validity	Eligibility
<b>Employment Pass (EP)</b>	<ul style="list-style-type: none"> <li>• Employment Pass application form</li> <li>• Letter or approval for Expatriate Post from the relevant authority body.</li> <li>• A passport with a validity of at least 15 months</li> <li>• A contract from the Malaysian employer with a minimum monthly salary of MYR5,000.</li> <li>• Passport (3.5 cm x 5 cm) photograph with blue background.</li> </ul>	5 years	<ul style="list-style-type: none"> <li>• The Employment Pass (EP) is the work permit required for any person who is taking up employment with a Malaysian company or firm.</li> <li>• An EP is granted on a case-by-case basis for positions that require special technical knowledge or experience not available locally or for positions that cannot be filled by Malaysian citizens.</li> </ul>
<b>Professional Visit Pass</b>	<ul style="list-style-type: none"> <li>• A complete copy of your passport.</li> <li>• Passport-size picture of yourself.</li> <li>• Malaysia visa application forms (IMM.12 and IMM.38).</li> <li>• Letter of offer from Malaysian company/institution (your sponsor), including the reason for your employment/training.</li> <li>• A copy of your sponsor's company profile</li> <li>• Bank guarantee/personal security bond, if you are a Chinese citizen.</li> </ul>	1 to 6 months	<ul style="list-style-type: none"> <li>• A person who intends to enter Malaysia for short-term assignments, such as to conduct training, attend training, or perform assembly, maintenance, repair or installation of machinery purchased from an overseas company, may apply for a Professional Visit Pass (PVP).</li> </ul>
<b>Resident Pass-Talent</b>	<ul style="list-style-type: none"> <li>• Form IMM12 (Visit Pass application form)</li> <li>• Form IMM16 (Residence Pass application form)</li> <li>• Malaysia Sponsor Form (A declaration they support your Residence Pass application)</li> <li>• A No Objection Letter from current employer</li> <li>• Photocopies of all the pages on your passport</li> <li>• Three passport-size pictures of yourself taken in front of a light blue background</li> <li>• Photocopies of all your educational certificates</li> <li>• A copy of your work contract</li> <li>• Your CV</li> <li>• Copy of your salary slips from the last three months</li> <li>• Copy of Tax declaration slip from the past two years</li> <li>• Letters of recommendation (testimonials)</li> </ul>	Maximum 10 years	<ul style="list-style-type: none"> <li>• The Residence Pass-Talent (RP-T) is issued to highly qualified expatriates seeking to continue living and working in Malaysia on a long-term basis.</li> <li>• In general, a foreign individual who has been living and working in Malaysia for at least three years on a continuous basis with a basic monthly salary of MYR15,000 may apply for the RP-T if all of the other requirements are met.</li> </ul>



## Value Added Tax (VAT)

- VAT in Malaysia, known as Sales and Service Tax (SST), was introduced on September 1, 2018 in order to replace GST (Goods and Services Tax).
- The fixed rate is 6% and some types of goods and services can be exempt from this tax, while others are taxed at different rates.

### VAT Rates

Standard Rates	6%
Zero Rate	0%





## Withholding Tax

### Dividends

- Malaysia does not levy withholding tax on dividends

### Interest

- A withholding tax of 15% generally applies to interest paid to a nonresident, unless the rate is reduced under a tax treaty
- Interest paid to a nonresident by a bank operating in Malaysia is exempt from tax, except for interest accruing to the nonresident's place of business in Malaysia and interest paid on funds required to maintain "networking funds" as prescribed by the central bank

### Royalties

- A withholding tax of 10% generally applies to royalties paid to a nonresident, unless the rate is reduced under a tax treaty

### Fees for technical services

- A 10% withholding tax generally applies to the rental of moveable property and to service fees paid to a nonresident for services rendered onshore, unless the rate is reduced under a tax treaty

WHT	
Dividends	N/A
Interest	15%
Royalties	10%
Technical Service	10%



## Termination

- According to Department of Labor of Peninsular Malaysia, termination of employment means “cessation of service due to company closure and workers redundancy”.
- From the definition, “redundancy situation” happens due to several reasons such as corporate restructuring, a decrease in production, mergers, changes in technology, acquisitions, and others.
- However, termination of service due to disciplinary action and dismissal of employees have yet to be included.
- An employer must be able to prove that the dismissal was substantively and procedurally fair.
- Substantive fairness means that there must be a just reason which gave rise to the decision to dismiss the employee.
- Procedural fairness means the practical implementation of the dismissal process, which is the domestic inquiry.



## Statutory Benefits

- These are mandatory benefits as postulated by law
- These include annual leave, public holidays, sick leave, maternity leave, overtime pay, notice period, and severance pay
- Statutory benefits also include social security benefits

### Statutory Benefits

Annual Leave

Public Holidays

Maternity Leave

Sick Leave

Overtime Pay

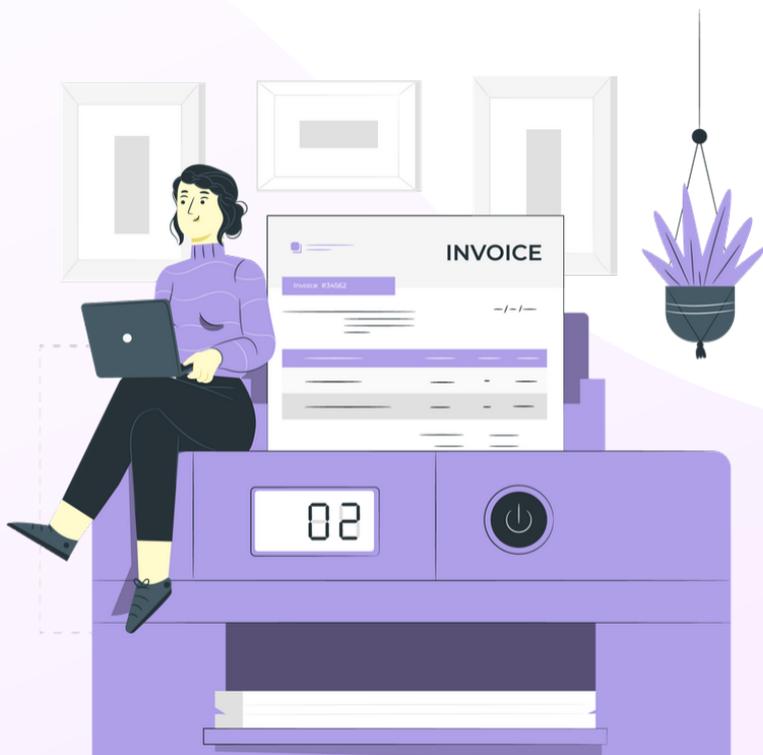
Notice Period

Severance Pay

Social Security Contributions

## Payments and Invoicing

- The Malaysian tax year is the calendar year (i.e. 1 January to 31 December).
- Separate returns are issued to husband and wife and filed separately by each spouse.
- The income of a wife who is living with her husband is assessed separately from that of the husband.
- However, a wife who is a resident or a Malaysian citizen can elect to be taxed jointly with her husband.
- A husband who has no income may also elect to be assessed jointly with his wife under the wife's name.
- Malaysia adopts the self-assessment system where the taxpayer is responsible for computing one's own chargeable income and tax payable, as well as making payments of any balance of tax due.
- The amount of tax payable for the year must be self-computed, and the tax return is deemed to be a notice of assessment upon its submission.
- The tax return is submitted not later than 30 April (without business income) and 30 June (with business income) in the following calendar year.
- Tax payments by employees are collected through compulsory deductions from salary. All deductions are made on a PAYE basis.



## Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Malaysia ranked 12th in the World in 2019 in terms of ease of doing business.



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