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Malaysia's Labour Law & Employment Regulations

Overview

Malaysia is a vibrant Southeast Asian nation known for its rich cultural diversity, economic resilience, and strategic geographic location. The country is home to a multi-ethnic population, primarily consisting of Malays, Chinese, and Indians, contributing to a unique blend of traditions, languages, and cuisines.

With a well-developed infrastructure, business-friendly policies, and a skilled workforce, Malaysia continues to attract global investors and businesses. Malaysia's economy demonstrated resilience in 2024, achieving a 5.1% growth rate ([IMF, 2024](#)). The Malaysian government projects economic growth between 4.5% and 5.5% in 2025 with this optimistic outlook supported by factors such as a healthy labour market, ongoing infrastructure projects, and sustained private consumption ([Reuters, 2024](#)).

In this issue, we explore Malaysia's employment landscape in order to navigate your business in Malaysia.

Basic Country Facts



Capital
Kuala Lumpur



Population
33.85 million
[IMF](#)



Currency
Ringgit (MYR, RM)



GDP per Capita
USD 13,140 (as of 2024)
[IMF](#)

Business Landscape in Malaysia

Top 4 Sectors Driving the Malaysian Economy

The French Legal Framework is based on the following sources set out in order of priority:

Sector	Key Highlights
Manufacturing & Industrial Production 23% of total GDP	<ul style="list-style-type: none">Major industries: Electronics, semiconductors, automotive, and petrochemicals.Key player in the global supply chain for electrical and electronic products.
Services & Tourism 58% of total GDP	<ul style="list-style-type: none">Includes banking, finance, telecommunications, and retail.Tourism is a key economic driver, with Malaysia known for its natural beauty, cultural heritage, and modern cities.
Agriculture & Palm Oil 7% of total GDP	<ul style="list-style-type: none">One of the largest global producers of palm oil.Other key exports: Rubber, cocoa, and tropical fruits.
Oil & Gas Industry 5% of total GDP	<ul style="list-style-type: none">Major exporter of oil, natural gas, and petroleum products.Home to PETRONAS, one of the world's leading energy companies.

Malaysia's economy is well-diversified, with strong contributions from manufacturing, services, energy, and agriculture. The country's strategic policies and investment-friendly environment continue to drive growth and global partnerships.

Hiring Strategies for New Entity in Malaysia

Key Considerations Before Hiring

- Business Structure:** Sole Proprietorship, Private Limited Company (Sdn. Bhd.), or Representative Office
- Legal & Compliance:** Employment laws, tax regulations, and statutory contributions (EPF, SOCSO, EIS, PCB)
- Talent Availability:** Access to local talent, foreign worker restrictions, and industry-specific workforce demands
- Payroll & HR Management:** Setting up payroll systems, work permits (if hiring expatriates), and employee benefits administration

Hiring Models for New Entities

Hiring Method	Specifications
Direct Hiring (In-House Employment)	<p>Overview: Employees are hired directly under the newly established entity.</p> <p>Pros:</p> <ul style="list-style-type: none">Full control over business operations and workforce managementBuilds long-term employee loyalty and company cultureAligned with long-term growth and expansion plans <p>Challenges:</p> <ul style="list-style-type: none">Requires company incorporation and legal entity setupMust comply with local labour laws and HR regulationsInvolves HR administration, payroll setup, and tax filings

Hiring Method	Specifications
Employer of Record (EOR) – Fast Market Entry	<p>Overview: A third-party service provider legally employs staff on behalf of the entrepreneur while managing compliance and payroll.</p> <p>Pros:</p> <ul style="list-style-type: none"> • Quick market entry without setting up a local entity • Ensures full compliance with labour laws and statutory obligations • Reduces administrative burden, allowing focus on core business <p>Challenges:</p> <ul style="list-style-type: none"> • Less direct control over employee management • Service provider fees apply • Not ideal for companies seeking full operational independence
Outsourcing – Flexible Hiring Solution	<p>Overview: Workforce is managed by a third-party staffing provider for specific roles or projects.</p> <p>Pros:</p> <ul style="list-style-type: none"> • Cost-effective for temporary or non-core business functions • Reduces HR, payroll, and compliance complexities • Quick access to skilled professionals <p>Challenges:</p> <ul style="list-style-type: none"> • Limited control over workforce and business integration • May not be suitable for strategic roles • Quality depends on the service provider

Choosing the Right Hiring Approach

Factor	Direct Hiring	EOR	Payroll Outsourcing
Legal Setup	Requires entity formation	Not required	Not required
Control	High	Medium	Limited
Compliance	Self-managed	Fully managed	Managed by provider
Payroll & HR Management	Requires in-house payroll & HR setup	Fully managed by EOR provider	Payroll services managed by outsourcing provider
Best for	Long-term operations	Market entry testing	Long-term operations/ Short-term projects

Entrepreneurs entering Malaysia must carefully evaluate their hiring approach based on business objectives, compliance requirements, and operational flexibility.

- Direct Hiring is ideal for companies planning long-term operations with full control over their workforce but requires entity setup and in-house payroll & HR management.
- Employer of Record (EOR) provides a fast, compliant market entry without the need for entity formation, with payroll & HR fully managed by the provider.
- Outsourcing is a cost-effective and flexible solution for short-term or project-based needs, with payroll and HR services available as selected options.

By selecting the right hiring model, businesses can optimise costs, ensure compliance, and build a strong presence in Malaysia efficiently.

Malaysia Employment Overview

Employment Contract Format

In Malaysia, employment contracts must be in **writing** for any employment exceeding one month.

The contract should include:

- Employee & employer details
- Job title & description
- Salary & benefits
- Working hours & days
- Leave entitlements
- Probation & termination clauses
- Renewal terms (if applicable)

Contracts must comply with the **Employment Act 1955** (for Peninsular Malaysia).

Malaysia Labour Regulations

Aspect	Key Regulations
Contract Period & Renewal	<ul style="list-style-type: none">• Can be permanent, fixed-term, or temporary• Fixed-term contracts should state renewal terms• Employees on fixed-term contracts should not be continuously renewed without justification
Wages	<ul style="list-style-type: none">• Minimum wage: RM 1,700 per month (as of latest update)• Paid monthly and must be within 7 days after the wage period ends• Overtime pay is required for work beyond standard hours
Work Hours	<ul style="list-style-type: none">• Maximum 8 hours per day, 45 hours per week• Overtime is paid at 1.5x normal rate on regular workdays, 2x on rest days, and 3x on public holidays
Probation Period	<ul style="list-style-type: none">• Typically, 3 to 6 months, but can be extended based on performance.• Probationers are entitled to statutory benefits
Termination	<ul style="list-style-type: none">• Notice period: Depends on contract (usually 1 month)• Dismissal must be based on valid reasons (misconduct, redundancy, performance issues, etc.)• Unlawful termination can be challenged under Industrial Relations Act 1967
Leave Types	<ul style="list-style-type: none">• Annual Leave: 8–16 days (based on years of service)• Sick Leave: 14–22 days (with medical certificate)• Hospitalisation Leave: Up to 60 days per year• Maternity Leave: 98 days (fully paid for eligible employees)• Paternity Leave: 7 days (for private sector employees)• Compassionate Leave: Usually 1–3 days (based on company policy)

Aspect	Key Regulations
Public Holidays	<ul style="list-style-type: none"> Mandatory: 11 days (including National Day, Malaysia Day, Labour Day, King's Birthday, etc.) Additional state and company-declared holidays apply
Bonus	<ul style="list-style-type: none"> Not mandatory but commonly given based on company performance Types: Fixed annual bonus, performance-based bonus, profit-sharing bonus

Malaysia's labour laws ensure fair wages, reasonable work hours, and statutory leave benefits to protect employees. Employers must comply with employment regulations to maintain a fair and productive workplace.

Malaysia Payroll Statutory Compliance Overview

In Malaysia, employers must comply with various **statutory payroll obligations** to ensure compliance with labour laws and government regulations. These statutory requirements include **salary payments, tax deductions, social security contributions, and reporting obligations**.

Payroll Calendar & Payment Deadlines

Employers in Malaysia typically follow a **monthly payroll cycle**, and payments must be made within **7 days after the end of the wage period**.

Component	Payment Deadline
Salary Payment	By 7 th of the following month
EPF (Employees Provident Fund)	By 15 th of the following month
SOCSSO & EIS (Social Security & Employment Insurance System)	By 15 th of the following month
PCB (Monthly Tax Deduction - MTD)	By 15 th of the following month
HRDF (Human Resources Development Fund) if applicable	By 15 th of the following month

Failure to meet these deadlines may result in penalties and fines imposed by respective statutory bodies.

Key Statutory Contributions

Malaysia's payroll statutory contributions ensure employees are covered for **retirement savings, social security, employment insurance, and taxation compliance**.

Statutory Contribution	Employer Contributions	Employee Contributions	Remarks
EPF (Employees Provident Fund)	12% – 13%	9%	Mandatory retirement savings for Malaysian citizens and PR holders
SOCSSO (Social Security Organization)	1.75%	0.5%	Covers injury & disability benefits
EIS (Employment Insurance System)	0.2%	0.2%	Provides temporary financial aid for retrenched employees

Statutory Contribution	Employer Contributions	Employee Contributions	Remarks
PCB/MTD (Monthly Tax Deduction)	Based on tax bracket	Based on tax bracket	Income tax deduction on salary before disbursement
HRDF (Human Resource Development Fund)	1% (for eligible employers)	N/A	Applies to companies with 10 or more employees in selected industries

Statutory Requirement for Payroll Processing

Employers must adhere to various statutory payroll regulations under Malaysian labour laws:

Item	Statutory Requirement
1	Salary Payments <ul style="list-style-type: none"> Employees must be paid in Malaysian Ringgit (MYR) Payments must be deposited into employees' bank accounts
2	EPF Contribution <ul style="list-style-type: none"> Mandatory for Malaysian employees and permanent residents Expatriates are not required to contribute but may opt-in voluntarily
3	SOCSO & EIS Contribution <ul style="list-style-type: none"> Covers occupational injuries, disabilities, and unemployment benefits Mandatory for Malaysian and PR employees Expatriates are exempted from SOCSO & EIS
4	Monthly Tax Deduction (PCB/MTD) <ul style="list-style-type: none"> Employers must deduct and remit employees' income tax based on LHDN (Inland Revenue Board) tax rates Employers must provide EA Forms to employees by 28th February each year for tax filing
5	Annual & Compliance Reporting <ul style="list-style-type: none"> Form E submission (Employer's declaration of employee earnings) is due by 31st March CP 8A / EA Form for employees must be issued by end of February Final PCB (MTD) tax clearance is required for employees leaving the company

Payroll statutory compliance is **critical for employers** to ensure legal and financial responsibility. Failure to comply can lead to **penalties, fines, and legal consequences**. Employers must keep up-to-date with regulations to maintain accurate payroll processing and compliance.

Key HR Regulatory Changes in Malaysia (2022-2025)

The HR regulatory changes between 2022-2025 in Malaysia focus on increasing employee protection, improving working conditions, and ensuring fair treatment in the workplace. Employers must stay updated on these legislative changes to ensure compliance and create a fair and supportive working environment for all employees.

Item	Regulatory Change
1	Maternity Leave <ul style="list-style-type: none">• Maternity leave for female employees has been increased to 98 days (from 60 days).• Employers are required to provide full pay for this leave, ensuring financial protection for employees during their recovery period.
2	Paternity Leave <ul style="list-style-type: none">• Paternity leave entitlement was introduced for the private sector in 2022, allowing male employees to take 7 days of paid leave upon the birth of their child.• This applies to employees who have worked for the employer for at least 12 months.
3	Flexible Work Arrangement <ul style="list-style-type: none">• As of 2022, the Employment (Amendment) Act 2022 mandates that employers with more than 10 employees must allow employees to request flexible work arrangements (FWAs).• This includes options such as telecommuting, adjusted work hours, or compressed workweeks.• Employers are required to provide written reasons if they deny a request, ensuring transparency and fairness in the process.
4	Pregnancy Protection <ul style="list-style-type: none">• The Amendment to the Employment Act 1955 includes specific protections for pregnant employees, ensuring they are not subjected to discriminatory dismissal or detrimental treatment during and after pregnancy.• Employers must ensure that employees on maternity leave are not terminated during the leave period unless justified by other lawful grounds.
5	Sexual Harassment Awareness <ul style="list-style-type: none">• As of 2022, employers are required to take proactive measures to prevent sexual harassment in the workplace, including:<ul style="list-style-type: none">○ Implementing a Sexual Harassment Policy and educating employees about appropriate workplace conduct.○ Employers must conduct sexual harassment training for employees to ensure awareness of what constitutes harassment and how to report it.○ Employers should establish clear internal reporting mechanisms for affected employees.
6	Overtime Wages <p>Under the Employment Act 1955, employees earning RM 4,000 and below per month or manual labourers regardless of salary are entitled to overtime pay when working beyond standard hours.</p> <ul style="list-style-type: none">• Overtime Pay Rates<ul style="list-style-type: none">○ Normal working days: 1.5 times the hourly wage○ Rest days: 2 times the hourly wage○ Public holidays: 3 times the hourly wage• Overtime Limits<ul style="list-style-type: none">○ Maximum overtime hours: 104 hours per month○ Maximum working hours per day (including overtime): 12 hours• Exemptions<ul style="list-style-type: none">○ Employees earning above RM 4,000 may not be automatically entitled to overtime unless stated in their employment contract

Item	Regulatory Change
7	<p>Minimum Wage</p> <ul style="list-style-type: none"> In 2025, Malaysia raised its minimum wage to RM 1,700 per month for employees in Peninsular Malaysia. This new rate applies to both full-time and part-time employees, regardless of whether they are local or foreign workers.
8	<p>SOCSSO (Social Security Organization)</p> <ul style="list-style-type: none"> Starting from 2022, the contribution rate for SOCSSO (Social Security) was revised for self-employed individuals, particularly for those in the gig economy. Employers and employees still contribute towards SOCSSO for work-related injuries, disabilities, and pensions. Expats are exempt from contributing to SOCSSO but may opt into voluntary schemes.
9	<p>EIS (Employment Insurance System)</p> <ul style="list-style-type: none"> The EIS scheme, introduced in 2018, saw enhanced benefits in 2022 and 2023, with higher payouts for laid-off employees. Contributions to EIS are mandatory for all employees (including local and foreign workers), and both employees and employers must contribute at 0.2% of the employee's wages. The scheme provides temporary financial aid, training opportunities, and job search assistance for retrenched employees.
10	<p>Foreign Employee Employment Report</p> <ul style="list-style-type: none"> In 2023, Malaysia introduced stricter foreign employee employment reporting requirements. <ul style="list-style-type: none"> Employers must submit regular reports detailing the employment status and contributions of foreign workers, ensuring compliance with work permit regulations. This includes reporting on employee's wage details, type of contract, working hours, and social security contributions.
11	<p>Contractor Labour</p> <ul style="list-style-type: none"> New regulations in 2023 aimed to enhance the welfare of contractor labour. <ul style="list-style-type: none"> Employers must provide written contracts outlining terms of employment, including wages, working hours, and benefits. Contractor labour must be entitled to certain statutory rights like work injury compensation and retirement savings (EPF), even though they are hired on short-term contracts. A minimum wage has been set for contract workers in certain sectors to ensure fair compensation.

Key Labour Regulations

1. **Employment Act 1955:**
Governs employee rights, working hours, wages, and termination policies.
2. **Minimum Wages Order 2024:**
Sets the minimum wage at RM 1,700 per month nationwide.
3. **Employees Provident Fund Act 1991:**
Requires employers to contribute at least 12-13% of employees' salaries to EPF.
4. **Employees' Social Security Act 1969:**
Employers must register employees under SOCSO for workplace injury and disability protection.
5. **Employment Insurance System (EIS) Act 2017:**
Provides financial support for retrenched employees.
6. **Industrial Relations Act 1967:**
Governs dispute resolution and unfair dismissal claims.

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14 Feb

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Malaysia

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