Malaysia Payroll and Employment Law Guide 2026

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An operational reference for employers covering three regional labour regimes and federal tax and social security obligations

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Scope: Private-sector employers engaging workers in Malaysia

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Contents

- Setting Up and Doing Business
- Working Conditions and Leave
- Tax and Social Security
- Payroll Operations
- Hiring and Termination
- Compensation and Benefits
- Visas and Work Permits
- Practical Notes and Points to Watch
- Incentives and Employer Support Schemes

Scope of This Guide

This guide is for companies establishing an entity in Malaysia, hiring through a local employer or managing Malaysia payroll within a cross-border workforce. It describes general private-sector rules as of October 22, 2026. Malaysia does not have one national labour statute. The Employment Act 1955 applies in Peninsular Malaysia and Labuan, the Labour Ordinance Cap. 67 applies in Sabah, and the Labour Ordinance Cap. 76 applies in Sarawak. Income tax, EPF, SOCSO, EIS and HRD Corp obligations are federal.

1. Setting Up and Doing Business

The structure most commonly used by foreign investors is the private limited company, or Sendirian Berhad, Sdn Bhd. The Companies Act 2016 does not set a general foreign ownership ratio or statutory minimum capital. Sector licences and expatriate sponsorship may impose additional requirements.

Structure or step	Current rule	Operational note
Sdn Bhd	1 to 50 members, at least 1 resident director	No statutory minimum paid-up capital
Company secretary	Within 30 days of incorporation	Must be a qualified Malaysian citizen or permanent resident

Structure or step	Current rule	Operational note
Incorporation fee	RM1,000	RM50 for a 30-day name reservation
Foreign company branch	RM5,000 to RM70,000 registration fee	Resident agent required
LLP	At least 2 partners	No minimum capital
ESD capital band	RM250,000 to RM1,000,000	By ownership and sector

ESD bands are RM250,000 for a local company, RM350,000 for a joint venture with at least 30% foreign ownership and RM500,000 for a wholly foreign company. The threshold is RM1,000,000 for at least 51% foreign-owned WRT and unregulated services companies. Incorporation is followed by LHDN, EPF, SOCSO/EIS, applicable HRD Corp and regional JTK registrations. MyInvois does not replace payroll filings.

> **EOR note:** No standalone and general Employer of Record status was confirmed in Malaysian law. A local-employer model must be reviewed together with private employment agency and labour-supply rules. An agency licence does not by itself create a general EOR authorization.

2. Working Conditions and Leave

The standard week is 45 hours under all three regional regimes. The Peninsula and Labuan generally use 8 hours a day, a 10-hour spread and a 12-hour absolute daily limit. A 30-minute break is required after 5 hours.

Topic	Current entitlement or limit	Main rule
Standard work	45 hours/week	All 3 regions
Overtime	104 hours/month	Peninsula and Labuan
Overtime premium	1.5x, 2x or 3x	Normal day, rest day, public holiday
Annual leave	8, 12 or 16 days	2-year and 5-year service bands
Sick leave	14, 18 or 22 days	Plus 60 days of hospitalisation leave
Maternity leave	98 consecutive days	All 3 regions
Paternity leave	7 paid days	12 months' service, maximum 5 births
Public holidays	11, 15 or 18 days	Peninsula/Labuan, Sabah, Sarawak

A flexible-work request may cover hours, days or place, with a written employer decision in 60 days. There is no statutory nursing-break duration. Employees above RM4,000 may fall outside overtime and some holiday and termination rights unless they are manual workers or another Schedule exception.

3. Tax and Social Security

The principal tax residence threshold is at least 182 days in a calendar year. Nonresident employment income is generally taxed at 30%. Employment below 60 days may qualify for a conditional exemption.

YA 2026 Resident Individual Income Tax Schedule

Chargeable income	Rate
RM0 to RM5,000 / RM5,001 to RM20,000	0% / 1%

Chargeable income	Rate
RM20,001 to RM35,000 / RM35,001 to RM50,000	3% / 6%
RM50,001 to RM70,000 / RM70,001 to RM100,000	11% / 19%
RM100,001 to RM400,000 / RM400,001 to RM600,000	25% / 26%
RM600,001 to RM2,000,000 / above	28% / 30%

2026 Payroll Contributions

Item	Employer	Employee	Base or coverage
EPF, citizen or permanent resident	13% or 12% below age 60, 4% at 60+	11% below age 60, 0% at 60+	No ceiling
EPF, non-citizen employee	2%	2%	From October 1, 2025
SOCSO	1.75%	Total 1.25% with LINDUNG 24	RM6,000 monthly ceiling
EIS	0.2%	0.2%	RM6,000 monthly ceiling
HRD Corp	1% or optional 0.5%	None	Covered sector and Malaysian-employee headcount

EIS does not generally cover ordinary foreign work-pass holders. The HRD Corp threshold is 10 employees, with voluntary registration at 5 to 9. Listed education codes may be exempt from January 15 to December 31, 2026. Payments are generally due by the 15th of the following month, Form E on March 31 and the EA Form at February-end. EPF uses official wage bands up to RM20,000.

4. Payroll Operations

A wage period may not exceed one month. Base wages are paid within 7 days after the wage period ends. Overtime, rest-day and public-holiday pay may be paid by the end of the following wage period.

Operation	Rule	Control point
Payment method	Bank or financial institution is the default	Employee account and payment file should reconcile
Cash or cheque	Written request and DG approval in the Peninsula and Sabah	A written employee request is sufficient in Sarawak
Pay statement	Itemised record at the payment date	Show gross pay, additions and deductions separately
PCB	15th of the following month	Reconcile MyTax and payroll totals
EPF, SOCSO, EIS	15th of the following month	Check employee status and each wage ceiling separately
Record retention	Employment Act 6 years, tax 7 years, EPF 6 years	Preserve any longer special record period

A single percentage table is not suitable for a foreign employee. A nonresident worker is generally subject to 30% PCB, EPF at 2% for employer and employee, and SOCSO at 1.75% for the employer and 1.25% for the worker. EIS and HRD Corp generally do not apply. PCB changes if the employee becomes tax resident.

The 2026 minimum wage is RM1,700 a month or RM8.72 an hour. The daily equivalent is RM65.38 for a 6-day week, RM78.46 for a 5-day week and RM98.08 for a 4-day week. It has applied to all employers since August 1, 2025. Domestic servants are excluded.

5. Hiring and Termination

A specified-term or piecework contract lasting more than one month must be in writing and include a termination clause. The e-CP22 notification for a new employee is filed through MyTax within 30 days after employment begins. SOCSO and EIS registration is also generally completed within 30 days.

Malaysian law does not establish a general maximum probation period. The period, assessment criteria and confirmation method should be stated clearly in the contract. Absence for more than 2 consecutive working days without leave may amount to breach where there is no reasonable excuse and timely notice.

Notice and Termination Benefits

Length of service	Minimum notice	Minimum termination or lay-off benefit
Less than 2 years	4 weeks	10 days' wages for each year of service
2 years to less than 5 years	6 weeks	15 days' wages for each year of service
5 years or more	8 weeks	20 days' wages for each year of service

Notice must be the same for employer and employee. Either party may pay equivalent wages in lieu of notice. A termination benefit requires at least 12 months of continuous service and is paid within 7 days together with a written calculation. Employees earning above RM4,000 are generally outside this benefit. Manual workers and other Schedule exceptions require separate review.

Dismissal for misconduct should follow a due inquiry. Suspension during the inquiry is limited to 2 weeks at no less than half pay. Employer-driven retrenchment, closure or workforce reduction also triggers the Borang PK notification calendar. An unfair dismissal representation is generally filed within 60 days after dismissal.

The minimum retirement age is 60. Statutory exceptions include non-citizen employees, employees on probation and certain fixed-term contracts. Age 60 should therefore not be treated as an automatic termination event without reviewing the contract category.

6. Compensation and Benefits

There is no general statutory annual salary increase or 13th-month salary in the private sector. A bonus and benefit may arise from the employment contract, company policy or collective agreement. A regular and unconditional payment may be treated as wages for tax or contribution purposes.

Benefit	2026 tax treatment	Main condition
Official-duty travel, petrol and tolls	Exempt up to RM6,000 a year	Business use and records
Parking	Exempt at actual amount	Receipt or verifiable expense
Meal allowance	Exempt where provided on the same terms to all staff	Reasonable amount and written policy
Childcare allowance	Exempt up to RM3,000 a year	Eligible care cost

Benefit	2026 tax treatment	Main condition
Telephone and broadband	One device or line in each category	Employer policy and ownership record
Cash support for technology purchase	Up to RM5,000 a year	Eligible device or equipment
Medical, dental, traditional treatment and maternity	Exempt within the rules	Invoice and eligible provider
Service or achievement award	Up to RM2,000 a year	At least 10 years for a service award
Housing, education or car-loan interest support	Aggregate principal up to RM300,000	Statutory calculation method applies

Some exemptions are unavailable to employees with control over the employer, sole proprietors or partners. Private medical insurance is not a general statutory obligation. Official and insurer sources conflict between RM10,000 and RM20,000 for foreign-worker hospital and surgical cover, so the current plan document must be checked when selecting a policy.

7. Visas and Work Permits

Employment Pass thresholds changed on June 1, 2026. Only basic monthly salary taxable in Malaysia counts.

Category	Basic monthly salary	Cumulative employment period	Family
Category I	RM20,000 and above	Up to 10 years	Yes
Category II	RM10,000 to RM19,999	Up to 10 years	Yes
Category III	RM5,000 to RM9,999	Up to 5 years	Yes for applications from June 1, 2026

The Category III floor is RM7,000 for manufacturing and related MIDA services. One pass may run for 1 to 60 months. A succession plan for Categories II and III becomes mandatory on January 1, 2027. A new role generally requires at least 7 days of MYFutureJobs advertising and PERKESO localisation. Official exemptions include basic salary of at least RM15,000.

Pass	Use	Main limit
Employment Pass	Skilled work with a Malaysian employer	Category and approval based
Professional Visit Pass-Expert	Temporary service or training for an overseas employer	Maximum 12 months, no extension
PLKS or VP(TE)	Foreign worker in approved sectors	12 months, renewable
Residence Pass-Talent	Long-term skilled professional	10 years, not tied to one employer
Investor Pass	Business visit and investment assessment	6 months plus 6 months, no work right

PLKS requires age 18 to 45, FOMEMA screening and eligible sector and source-country status. Since August 1, 2026, 14 days of advertising generally apply. Official sources conflict between a 5-year and 10-year maximum. Sabah and Sarawak require separate state approval.

8. Practical Notes and Points to Watch

The most common payroll mistake is to assume federal contributions also make labour law uniform. The Employment Act 1955 Act 265, Sabah Cap. 67 and Sarawak Cap. 76 apply as separate regimes.

Control	Why it matters	Application
Region code	There are 3 separate labour regimes	Tag each worker as Peninsula/Labuan, Sabah or Sarawak
Employee class	The RM4,000 line does not remove every right	Review duties, manual work and driving separately
Payment method	Cash and cheque approvals differ by region	Use bank transfer as the default process
Data breach	Significant harm and affected-person count may trigger notice	Classify incidents under PDPA criteria
Accommodation	Act 446 applies only in the Peninsula and Labuan	Check local rules in Sabah and Sarawak separately
Foreign-currency pay	Creates exchange-control and contract risk	Treat ringgit payroll as the default
Foreign employee	Federal and state approvals may differ	Make the start date conditional on final approval

The Employment Act permits the Director General to hear employment discrimination disputes. Forced labour is a separate offence. Employers must maintain a sexual-harassment complaint process and display awareness information in the workplace. Sabah and Sarawak use different section numbers and some different offence definitions.

Under the PDPA, breach notification depends on likely significant harm and the number of affected people. No general 72-hour rule was confirmed in the research, so that number should not be placed in a payroll incident plan as an absolute deadline. In relevant cases, requested particulars must be completed within 30 days after the initial notification.

9. Incentives and Employer Support Schemes

As of 2026, Malaysia has no general EPF, SOCSO, EIS or HRD Corp contribution discount available to every employer. There is also no live general cash hiring incentive or employer-paid short-time work subsidy. Support is concentrated in training, targeted tax deductions and employee-side programmes.

Mechanism	2026 status	Employer impact
HRD Corp training fund	Active	Eligible training cost may be claimed from the levy account
Education-industry HRD levy exemption	January 15 to December 31, 2026	Only listed MSIC codes
Returning Expert Programme	Applications open to December 31, 2027	15% tax for an eligible returning Malaysian expert for 5 YAs
Targeted employment tax deductions	Conditional	Tied to eligible senior or vulnerable-group workers
EIS job-search and training benefits	Active	Paid to the worker after job loss, not an employer subsidy
Daya Kerjaya cash hiring support	No open programme in 2026	Earlier budget programmes have ended

An employer paying the HRD Corp levy should not assume that the same training expense also qualifies for a general double tax deduction. The current application window, eligible provider and claim cap should be checked in the HRD Corp portal before a transaction.

The 7-day or 14-day MYFutureJobs advertising and local-candidate interview process is a compliance cost, not an incentive. Malaysia has no Gulf-style nationalisation quota applying to every employer. A particular investment incentive may impose its own Malaysian-employee ratio.

Managing Malaysia Payroll with Datassist

Malaysia payroll requires 3 regional labour regimes, the federal tax and contribution calendar, employee-class entitlements and foreign-worker approvals to operate within one control plan. Datassist helps international employers set up Malaysia payroll and employment processes with current parameters and monitor periodic controls from one centre.

Let us review your Malaysia payroll structure together.

Schedule a Meeting (https://datassist.com/en)

This document is prepared for general information only. Local professional advice should be obtained before making a definitive legal, tax or payroll decision.