

A Comprehensive Guide to Payroll in Malaysia:
COMPLIANCE, CONTRIBUTIONS & HR SOLUTIONS

Managing payroll in Malaysia involves more than just paying employees—it requires strict compliance with labor laws, proper record-keeping, and the correct handling of deductions and contributions. Whether you're a small business or a growing enterprise, understanding payroll regulations is essential to avoid costly penalties.

This guide covers the key aspects of payroll in Malaysia, including employee rights, tax obligations, contributions, and how HR software can streamline payroll operations.



UNDERSTANDING PAYROLL IN MALAYSIA

Payroll refers to the employees of a company and the compensation they receive for their work. In Malaysia, payroll is governed by the **Employment Act 1995 (EA)**, which outlines employer and employee rights and obligations.

Regardless of business size, all employers must comply with payroll regulations, ensuring timely payments, accurate tax deductions, and proper contributions to statutory bodies. For small and medium-sized businesses, managing payroll can be challenging without dedicated HR professionals. However, with the right tools and knowledge, businesses can streamline payroll processes and remain compliant.

Employment Act 1995: Key Provisions

The Employment Act 1995 (EA) applies to all employees in Malaysia, though certain provisions do not apply to employees earning over **RM4,000 per month**. Some of these exemptions include:

- Overtime rates for work on rest days and outside regular hours
- Allowances for shift-based work
- Overtime pay on public holidays
- Termination, lay-off, and retirement benefits

Gig Workers and Employment Classification

The EA also covers gig workers under specific conditions, regardless of whether they have a written contract. An individual is legally classified as an employee if:

1. Their work and working hours are supervised or controlled by another person
2. They receive tools or equipment from another individual to perform tasks
3. Their work is essential to another business
4. They are compensated regularly, and this makes up the majority of their income

Wages, Minimum Wage & Working Hours

Wages & Payment Schedule Salaries are typically paid on a monthly basis, and if an employment contract does not specify a wage period, it is assumed to be monthly. Employers must ensure wages are paid no later than the **7th day of the following month**.



Minimum Wage
 As of **Feb 2025**, Malaysia increased the minimum wage to **RM1,700** across all sectors. However, businesses with fewer than five employees were given an exemption until **Aug 1, 2025**.

RM 1,700

Working Hours Employees should not work beyond:

- 8** hours per day
- 5** consecutive hours without a 30-minute break
- 45** hours per week
- 10** hour spread per day

Exceptions apply for emergencies, essential services, security, and industrial needs.

Tax Deductions & Contributions

Monthly Tax Deductions (MTD) / Potongan Cukai Bulanan (PCB) Employers must deduct income tax directly from employees' salaries and remit it to the Inland Revenue Board of Malaysia (LHDN) by the **15th of the following month**.

Income Tax & Tax Reliefs

Income tax rates vary based on salary levels. Employees must complete tax filing before April each year. Malaysia also provides over 20 tax reliefs, covering:

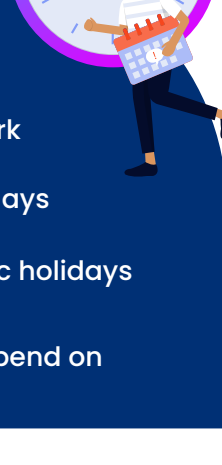
- Family and childcare expenses
- Medical expenses
- Charitable donations
- Education and training
- Employers should guide employees in declaring eligible tax reliefs for accurate deductions.

Overtime Pay Regulations

Under the EA, overtime is compensated at:

- 1.5 times the hourly rate for overtime work
- 2 times the hourly rate for work on rest days
- 3 times the hourly rate for work on public holidays

For non-EA employees, overtime policies depend on individual employment contracts.



MANDATORY CONTRIBUTIONS & LEVIES

Employers must provide statutory benefits and contributions for employees. These include:

01 | Employees Provident Fund (EPF/KWSP)

A mandatory retirement savings fund for Malaysian employees. Both employers and employees contribute based on statutory rates, varying by salary and age.

02 | Social Security Organisation (SOCO/PERKESO)

SOCO provides coverage for workplace injuries, disabilities, and death. Contributions are mandatory for all employees, including foreign workers.

- Employment Injury Scheme** - Covers workplace accidents and diseases.
- Invalidity Scheme** - Protects employees against total or partial invalidity.

From July 1, 2024, SOCSO coverage extends to both Malaysian and non-Malaysian employees.

03 | Employee Insurance System (EIS)

Managed by SOCSO, EIS provides financial aid for unemployed workers for up to six months. It is compulsory for Malaysian employees but does not apply to:

- Government workers
- Self-employed individuals
- Employees aged 57 and above without prior contributions

04 | Human Resources Development Fund (HRDF)

Employers with 10 or more employees must contribute 1% of monthly wages to HRDF for workforce training and upskilling.

LEAVE & HOLIDAY ENTITLEMENTS

Employers must provide statutory benefits and contributions for employees. These include:

01 | Sick Leave & Hospitalization Leave

- 14 days per year** | less than 2 years of service
- 18 days per year** | 2 to 5 years of service
- 22 days per year** | more than 5 years of service
- 60 days** | hospitalization leave per year, certified by a medical professional

02 | Annual Leave

- 8 days per year** | less than 2 years of service
- 12 days per year** | 2 to 5 years of service
- 16 days per year** | more than 5 years of service

03 | Parental Leave

- 98 days** | of paid maternity leave (since April 2022)
- 7 days** | paid, must be taken consecutively

Employers cannot terminate pregnant employees unless for misconduct or company closure.

Employees are entitled to paid leave on public holidays, per Malaysian law.

Payroll Compliance & Record-Keeping

Payslips & Payroll Records
 Employers must issue detailed payslips every payday, including:

- Employee details
- Wage breakdown
- Deductions & contributions
- Employer registration information

Under the Personal Data Protection Act 2010, payroll records must be retained for at least six years.

Yearly Reporting to IRBM/LHDN

Employers must submit:

Form E
 (summary of employee wages and deductions) – Due by March 31

Form EA (C.P.8A)
 (employee's annual income statement) – Due by February 28

Employers must also comply with monthly statutory reporting for new hires, terminations, and contribution updates.



AVOIDING PAYROLL NON-COMPLIANCE

Failure to comply with payroll regulations can result in penalties, fines, or imprisonment. Common causes of non-compliance include:

- Lack of payroll knowledge**: Employers managing payroll without expertise
- Poor record-keeping**: Missing payslips and employee data
- Incorrect payroll setup**: Miscalculating deductions and contributions

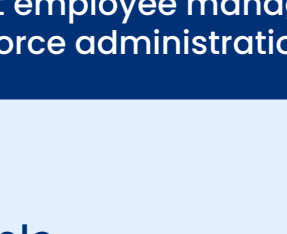
Payroll software automates tax calculations, statutory deductions, and compliance updates, ensuring accuracy and efficiency. Features include:

- Automated payroll processing
- Time & attendance tracking
- Digital record-keeping
- Up-to-date compliance with legal changes

HOW PAYROLL SOFTWARE HELP

ELEVATE YOUR PAYROLL WITH THE ULTIMATE HR SOFTWARE – BOSS HRMS

BOSS HRMS is revolutionizing Human Resource Management with its cutting-edge, cloud-based platform, tailored to meet the evolving needs of today's businesses. As a leader in HR solutions, BOSS integrates advanced technology with industry expertise to deliver seamless, efficient, and scalable HR functionalities. Leveraging the power of Artificial Intelligence (AI), our award-winning system streamlines workflows, enhances decision-making, and drives organizational growth.



BOSS HRMS GOES BEYOND PAYROLL

it encompasses the entire employer-employee relationship, from onboarding to offboarding. This innovative HR software is redefining what employee management should look like, offering a holistic approach to workforce administration.

Say goodbye to juggling multiple outdated systems and dealing with unnecessary complexity or costs. Our all-in-one platform provides a seamless, comprehensive solution that stands unmatched in the industry.

Transform your payroll process today. Book a demo with **BOSS HRMS** and experience seamless HR management!

BOOK A DEMO TODAY!