

Chandrawat  
& Partners

# Doing Business in Malaysia

A comprehensive guide

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# Introduction

Malaysia is a Southeast Asian country located on the Malay Peninsula and the island of Borneo. It is a multicultural and multilingual country with a population of over 32 million people. The capital city is Kuala Lumpur, and the official language is Malay, although English is widely spoken.

Malaysia is known for its diverse economy, which is supported by a strong manufacturing sector, robust service industry, and abundant natural resources. The country is one of the largest exporters of palm oil, rubber, and timber in the world, and has a growing electronics industry.

The Malaysian government has implemented various economic policies to attract foreign investors and stimulate economic growth. The country has a pro-business environment, and offers incentives to foreign investors, including tax breaks, investment allowances, and free trade zones.

Tourism is also a significant contributor to the Malaysian economy, with attractions such as the Petronas Twin Towers, Batu Caves, and Langkawi Island drawing in millions of visitors each year.

Overall, Malaysia offers a stable and growing economy, a skilled workforce, and a strategic location for businesses looking to expand their operations in Southeast Asia.



# Legal and regulatory environment

Malaysia's legal system is based on English common law and Islamic law. The country has a federal system of government, with power divided between the federal government and the 13 states.

In addition to the Companies Act, businesses in Malaysia are subject to a range of other laws and regulations, including:

- The Income Tax Act 1967, which sets out the rules for taxation of individuals and businesses in Malaysia.
- The Goods and Services Tax Act 2014, which governs the implementation of Malaysia's value-added tax system.
- The Employment Act 1955, which establishes the minimum requirements for employment contracts and working conditions in Malaysia.
- The Industrial Relations Act 1967, which regulates the relationships between employers and employees, including dispute resolution mechanisms.
- The Personal Data Protection Act 2010, which sets out the rules for collection, use, and disclosure of personal data by businesses in Malaysia.

Foreign businesses operating in Malaysia are subject to the same laws and regulations as domestic businesses. However, there are certain restrictions on foreign ownership in certain industries, such as banking and telecommunications.

# Legal system

The legal system of Malaysia is a mixed legal system, which draws on elements of common law, Islamic law, and customary law.

The common law system is based on the British legal system and is applied in Peninsular Malaysia and East Malaysia (Sarawak and Sabah). The Federal Court is the highest court in Malaysia, and its decisions are binding on all lower courts.

Islamic law, or Sharia, is applied in some aspects of family law, such as marriage and divorce, and is also used in the Islamic courts in Malaysia. The Sharia courts operate alongside the civil courts and have jurisdiction over Muslims in matters related to family law and personal status.

Customary law is still used in some indigenous communities in Malaysia, particularly in East Malaysia. These communities have their own traditional systems of law and dispute resolution, which are recognized by the Malaysian legal system.

Overall, the legal system of Malaysia is complex and diverse, with different legal systems and courts operating alongside each other. Businesses operating in Malaysia should seek legal advice to ensure compliance with all relevant laws and regulations.





# Business registration

In Malaysia, all businesses must be registered with the Companies Commission of Malaysia (SSM) under the Companies Act 2016. The registration process varies depending on the type of business entity.

**Sole Proprietorship:** This is the simplest and most common form of business registration in Malaysia. It is suitable for small businesses with a single owner. To register a sole proprietorship, the owner must apply for a business registration certificate from the SSM.

**Partnership:** A partnership is suitable for businesses with two or more owners. The registration process involves registering the partnership with the SSM and obtaining a business registration certificate.

**Limited Liability Partnership (LLP):** An LLP is a hybrid between a partnership and a company. It offers the benefits of limited liability to its partners while allowing them to manage the business directly. To register an LLP, the partners must submit an application to the SSM and obtain a registration certificate.

**Private Limited Company (Sdn Bhd):** This is the most common form of company registration in Malaysia. To register a private limited company, the owners must first reserve a company name with the SSM. They must then submit the necessary documents, such as the memorandum and articles of association, to the SSM for approval.

Once the business is registered, it is required to comply with various statutory requirements, such as filing annual returns and maintaining proper accounting records. It is also important to obtain the necessary business licenses and permits, depending on the nature of the business.

# Employment law

Employment law in Malaysia is governed by various legislation, including the Employment Act 1955, the Industrial Relations Act 1967, and the Minimum Wages Order 2020. The main features of employment law in Malaysia are as follows:

**Minimum Wage:** Employers are required to pay their employees a minimum wage as set out in the Minimum Wages Order 2020. The current minimum wage is RM1,200 per month for Peninsular Malaysia and RM1,100 per month for East Malaysia.

**Working Hours:** The maximum working hours for employees are 48 hours per week. Employees are entitled to at least one rest day per week.

**Termination:** Employers can terminate an employee's employment for various reasons, such as misconduct, poor performance, or redundancy. However, employers must follow the correct procedures and provide reasonable notice or payment in lieu of notice.

**Annual Leave:** Employees are entitled to a minimum of 10 days paid annual leave per year, and this entitlement increases with length of service.

**Statutory Benefits:** Employers are required to contribute to statutory benefits such as the Employees Provident Fund (EPF), Social Security Organization (SOCSO), and Employee Insurance Scheme (EIS).

**Discrimination:** Discrimination on the basis of gender, race, religion, or disability is prohibited under Malaysian law.

# Taxation

In Malaysia, taxation is governed by the Inland Revenue Board of Malaysia (IRB). The main types of taxes in Malaysia are as follows:

**Income Tax:** Income tax is levied on both individuals and companies. The tax rate varies depending on the level of income or profits earned. For individuals, the tax rates range from 0% to 30%, while for companies, the tax rate is a flat rate of 24%.

**Goods and Services Tax (GST):** The GST was introduced in Malaysia in 2015, but it was replaced by the Sales and Service Tax (SST) in 2018. The SST is a consumption tax that is levied on the sale of goods and services in Malaysia.

**Real Property Gains Tax (RPGT):** The RPGT is a tax on the gain made from the disposal of real property. The tax rate varies depending on the holding period of the property, with higher rates applied to properties held for shorter periods.

**Withholding Tax:** Withholding tax is deducted at source from payments made to non-residents for services rendered in Malaysia.

**Stamp Duty:** Stamp duty is levied on various instruments such as property transactions, share transfers, and loan agreements.

**Import and Export Duties:** Import and export duties are levied on goods imported into and exported from Malaysia.



# Market analysis

Malaysia is a middle-income country with a developing economy. It is the third-largest economy in Southeast Asia and the 39th largest economy in the world by nominal GDP. The Malaysian economy is driven by exports, particularly of electronics, petroleum, and palm oil, and is heavily reliant on foreign investment.

Malaysia has a diverse economy, with a mix of agriculture, manufacturing, and services. The services sector is the largest contributor to the economy, accounting for over 50% of GDP, followed by manufacturing at around 25% and agriculture at around 8%.

The Malaysian government has implemented various economic policies over the years to promote economic growth and development, including the New Economic Policy, which aimed to reduce poverty and promote ethnic balance in the economy, and the National Development Policy, which focused on improving infrastructure and human capital development.

In recent years, Malaysia has faced challenges such as a high level of household debt, low productivity growth, and a widening income gap. The government has implemented various measures to address these challenges, including a comprehensive tax reform program, efforts to attract foreign investment, and initiatives to promote digitalization and innovation in the economy.

Overall, Malaysia's economy has shown resilience and stability, and the country has a strong potential for growth and development.



# Key industries & sector

**Electronics:**

Malaysia is a major producer and exporter of electronics, including semiconductors, computers, and telecommunications equipment.

**Petroleum and Natural Gas:**

Malaysia is a major oil and gas producer, with petroleum and natural gas accounting for a significant portion of the country's exports.

**Palm Oil:**

Malaysia is one of the world's largest producers and exporters of palm oil, a key ingredient in many food and household products.

**Tourism:**

Malaysia is a popular destination for tourism, with attractions such as beaches, wildlife, cultural heritage sites, and shopping.

**Automotive:**

Malaysia has a well-established automotive industry, with local production and assembly of vehicles and parts.

**Healthcare:**

Malaysia has a growing healthcare industry, with increasing demand for medical services and products.

**Education:**

Malaysia has a strong education sector, with a large number of international students and a growing demand for higher education.

# Foreign exchange control

Here are some key foreign exchange control regulations in Malaysia:

**Approval for Currency Exchange:** Any person or entity that wants to exchange Malaysian Ringgit (MYR) for foreign currency must obtain prior approval from BNM.

**Reporting Requirements:** Individuals and entities that conduct foreign currency transactions in Malaysia are required to report such transactions to BNM.

**Limits on Overseas Investments:** Malaysian residents are subject to limits on overseas investments, which are determined by BNM.

**Limits on Withdrawals:** There are limits on the amount of foreign currency that can be withdrawn from Malaysian bank accounts.

**Limits on foreign currency transactions:** There are limits on the amount of foreign currency that can be bought or sold by individuals and companies.

**Restrictions on transfer of funds:** There are restrictions on the transfer of funds out of Malaysia, including requirements for approval and limitations on the amount that can be transferred.

**Repatriation of capital and profits:** Foreign investors are allowed to repatriate capital and profits subject to certain conditions and approval by the central bank.

**Investment restrictions:** There are restrictions on foreign ownership of certain industries, such as telecommunications and media.



# Energy and utilities

Here is an overview of energy and utilities in Malaysia:

**Electricity:** The electricity sector in Malaysia is dominated by Tenaga Nasional Berhad (TNB), which is the main utility provider in the country. TNB generates and distributes electricity to customers throughout Malaysia.

**Renewable Energy:** Malaysia has set a target of achieving 20% renewable energy in its energy mix by 2025. The country has significant potential for renewable energy, including solar, wind, hydro, and biomass.

**Natural Gas:** Malaysia is a significant producer of natural gas and has several natural gas fields located offshore. The country has several natural gas-fired power plants that generate electricity.

**Water:** The water sector in Malaysia is overseen by the National Water Services Commission (SPAN). SPAN regulates the supply and distribution of water throughout the country, and several water treatment plants and dams provide clean water to customers.

**Waste Management:** Waste management in Malaysia is managed by the national solid waste management authority, the Solid Waste and Public Cleansing Management Corporation (SWCorp), as well as several state-level authorities. The government is also promoting the development of waste-to-energy technologies to address the issue of waste disposal and promote sustainable energy.

# How we can help?

Our team of professionals can assist clients in developing a comprehensive business plan that outlines their goals, target market, products or services, financial projections, and marketing strategies which can help them articulate their vision and make informed decisions about their company setup.

Our experts can conduct market research to help clients understand their industry, competition and potential customers and can provide insights into market trends, customer preferences and competitive advantages to support their business strategy.

Our team can guide clients in choosing the appropriate legal structure for their company, such as sole proprietorship, partnership, limited liability company or corporation and can explain the benefits and drawbacks of each option based on their specific needs and circumstances.

Our professionals can assist in facilitating connections between clients and potential business partners, suppliers or industry experts and assist them in expanding their network and explore collaborative opportunities.



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