

THE COMPLETE

Payroll Guide

2023

Includes updates from revised Budget 2023



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bríoHR

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WELCOME TO Payroll Guide 2023



Welcome to BrioHR's Payroll Guide 2023! As the title implies, this free ebook is a handy guide to running payroll in 2023 for Malaysia.

With talent being more important than ever, being able to run payroll and compensate your employees accurately is a basic building block of managing a successful organization.

What This Guide Is About

BrioHR's Payroll Guide 2023 includes:

- What you need before starting payroll
- Sample calculations
- Statutory compliance requirements
- Updates for assessment year 2023 (YA2023)

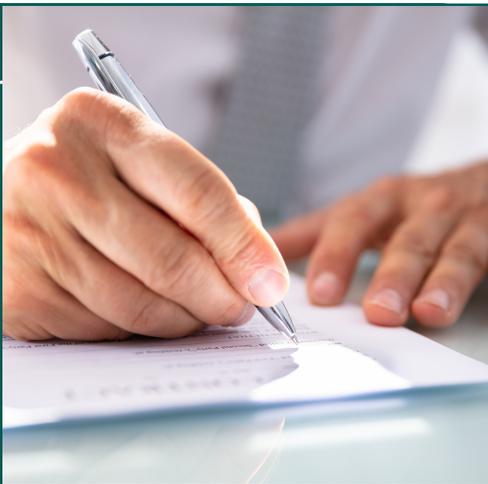
By following this guide, you should be able to gain an understanding of Malaysian payroll processing as well as all attendant statutory and tax requirements.

Who This Guide Is For

If you're new to HR and payroll, this guide is for you. It is also useful if you are planning to operate in Malaysia and want to set up an appropriate business and employee structure.

Even if you're an experienced HR practitioner, we hope that the 2023 update can serve as a refresher to best payroll practices.

**This guide is general in nature and not to be relied on as professional advice.*



GETTING STARTED

Employee Information



Before You Get Started

Before starting anything, all the data that's needed for payroll processing has to be in place. This includes employee details, income tax, and statutory information.

Employee Details

All the information related to an employee needs to be collected. This is to correctly identify and pay each employee.

- Name
 - Must be their legal name used on official documents such as the identity card (for Malaysians) or passport (for foreigners).
- ID number
 - This is the IC number (for Malaysians) or passport number (for foreigners).
- Nationality
 - This should include the nationality of non-Malaysian employees.
- Bank Details
 - This should include the bank account number, name of bank, and name on the bank account.



GETTING STARTED

Income Tax



Income Tax

You need to collect the income tax number of every employee, regardless of their tax bracket. The income tax number can be checked on the LHDN website.

The income tax number should begin with the characters "IG" followed by 10 or 11 digits, e.g. IG12345678901.

The following forms also need to be prepared for income tax purposes.

- Form TP1
 - This form ensures that the monthly tax deductions (PCB) take into account the necessary rebates and reliefs that employees are entitled to.
- Form TP3
 - This form is for new hires who have previously been employed in the current year. Form TP3 allows the new employer to continue accurately calculating the PCB amount in payroll, based on previous employment income in the same year. New hires without previous income (e.g. fresh graduates) do not need to fill this form.



GETTING STARTED

Statutory Information



EPF Details

An employee's Employees' Provident Fund (EPF) details are contained in an 8-digit number issued by the EPF. It is the same for both Malaysians and foreigners.

Example: 19493164

EIS/SOCSO Details

Since both the Employment Insurance System (EIS) and social security are administered by SOCSO, they share a common identifier number.

The EIS/SOCSO number for Malaysians is equivalent to the IC number, e.g. 890101-43-1919.

Foreigners will receive a 12-digit Social Security Foreign Worker (SSFW) number upon registration with SOCSO, e.g. 201900872938.



PAYROLL PROCESSING

Types of Employment



Employment Types

Employees can broadly be classified into three types of employment for payroll processing purposes. Their wages are subject to statutory deductions.

Full-Time

Full-time employees are employed on a permanent basis, working normal hours.

Part-Time

Part-time employees are defined as employees who work between 30% to 70% of the normal working hours of a full-time employee. They may be employed on a permanent or contractual basis.

Fixed Term

Such employees are employed for a fixed period of employment, e.g. 12 months. They are sometimes known as 'contract' employees.



PAYROLL PROCESSING

Payroll Cycles



Payroll Cycles

The payroll cycle refers to the frequency with which an employer pays their employees. This can range from weekly to monthly.

The payroll cycle not only includes processing salary, but also processing any other funds due to the employee such as overtime, allowances, and expense claims. Ad-hoc payments like bonuses are not normally included in the payroll cycle.

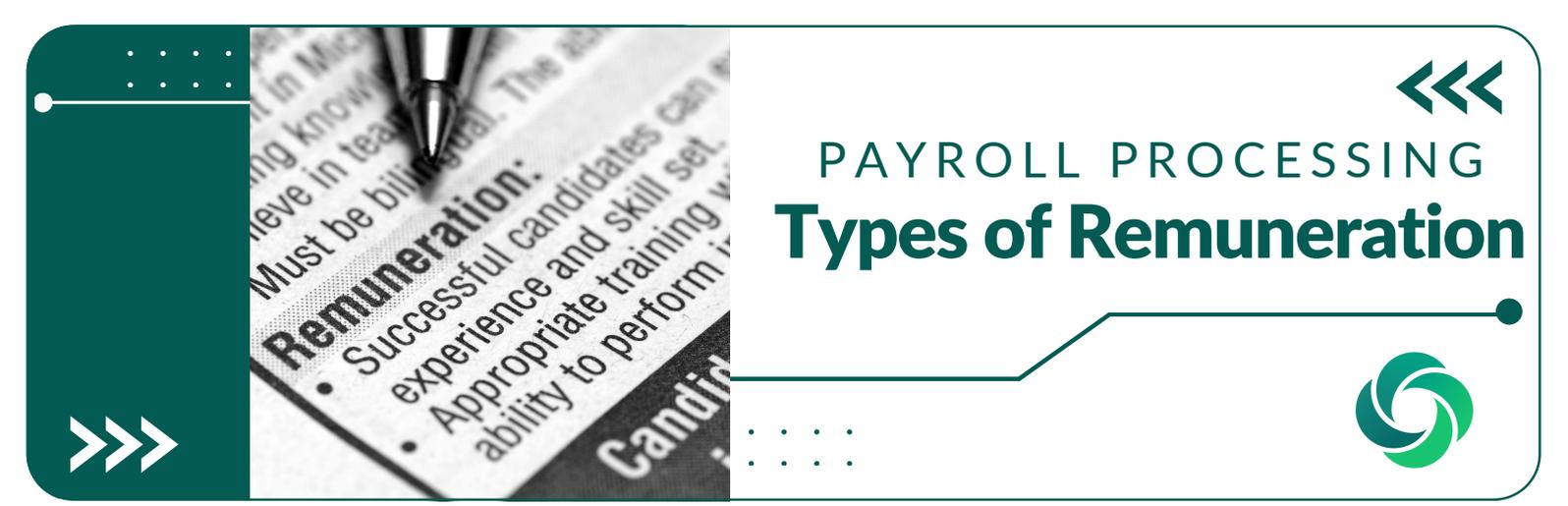
Types of Payroll Cycles

- Weekly payroll cycle: Typically running from Monday to Sunday, and used mainly for hourly or part-time workers who earn a set wage each week.
- Bi-weekly payroll cycle: Occurring every two weeks, it isn't used as much as the weekly payroll cycle, but some employers prefer it as it doesn't require as much processing.
- Monthly payroll cycle: The most popular payroll cycle for salaried employees. Under Malaysian law, wages must be paid before the 7th day of the following month, or earlier.

Multiple Payroll Cycles

Some use cases include:

- Different groups of employees paid at different times of the month, for example sales personnel paid commission sooner than salaries of other employees.
- Businesses that have a mix of full-time employees paid monthly and part-time employees paid weekly.
- The ability to pay expense claims separately from monthly salaries.



PAYROLL PROCESSING

Types of Remuneration

Employee Remuneration

In general, remuneration is the payment or compensation that an employee receives in return for their services.

Salary

Salaries are normally paid monthly. According to Malaysian employment law, salaries must be paid no later than the seventh day of the following month.

Overtime

Overtime payments are made in addition to an employee's normal hours of work.

Bonuses

A bonus is an optional, non-contractual payment paid to employees based on the individual and/or the company's performance.

Commission

Commissions are paid based on sales targets as part of gross salary. Sales personnel are normally paid on a commission basis, but any employee that brings in a sale may be entitled to a commission payment.



PAYROLL PROCESSING

Allowances and Benefits



Allowances/Perquisites

Allowances are considered additional pay on top of an employee's regular salary. They add up to the gross pay amount and can either be paid on a recurring or non-recurring basis.

Non-Monetary Benefits/Benefits-In-Kind

Non-monetary benefits or benefits-in-kind aren't included in an employee's salary or wages. Instead, such benefits or perks are provided for the employee's comfort, e.g. health insurance or provision of a company car.

It is important to distinguish such benefits from allowances or perquisites. Benefits-in-kind are generally not convertible into money. This means that when the items are provided to the employee, they cannot be sold, assigned, transferred or convertible into cash.



PAYROLL PROCESSING Important Deadlines



Payment Deadlines and Channels

When processing payroll, you need to take note of the following payment deadlines for salary and statutory deductions. To pay, you can use software (like BrioHR) to generate a text file, then upload to the statutory body's website for payment.

Payment	Deadline	Payment Channel
Salary	7th of the following month	Direct transfer, cheque
EPF	15th of the following month	i-Akaun (employer), online banking, in person at any EPF branch
SOCSSO/EIS	15th of the following month	PERKESO ASSIST, online banking, in person at any SOCSSO office (cheque or money/postal order only)
Income Tax (PCB)	15th of the following month	LHDN e-Data PCB, online banking, in person at any major bank branch
HRD Corp	15th of the following month	Online banking via HRD Corp website



STATUTORY CONTRIBUTIONS

Employees' Provident Fund



About the Employees' Provident Fund (EPF)

The EPF, or Kumpulan Wang Simpanan Pekerja (KWSP) as it is known in Bahasa Malaysia, is an appointed statutory body under the Ministry of Finance that manages mandatory retirement funds for private sector employees in Malaysia.

EPF contribution is mandatory for both employer and employee according to eligibility. Each contribution is meant as savings for an employee's retirement, but may be eligible for partial withdrawal for purposes such as:

- Early retirement planning at the age of 50
- Home purchase
- Medical expenses
- Performing the hajj

The collected contributions by EPF will be used for investments to ensure members are able to enjoy a minimum, government-guaranteed 2.5% dividend rate per annum.

Wages Subject to EPF Contribution

- Salary
- Commission
- Bonuses
- Allowance
- Leave encashment
- Arrears of wages

Wages Not Subject to EPF Contribution

- Service charge (i.e. tips)
- Overtime payment
- Retirement benefits
- Termination benefits



STATUTORY CONTRIBUTIONS

EPF (cont.)



EPF Contribution Rate

In general, EPF classifies employees into five categories according to the Third Schedule of the Employees Provident Fund Act 1991. You can refer to the [EPF website](#) for the latest rates, but here are the minimum rates of contribution.

Category	Details	Employer Contribution	Employee Contribution
A	Malaysians, permanent residents, and non-Malaysians contributing before 1 August 1998, below age 60, earning RM5,000 or less per month	13%	11%
A	Malaysians, permanent residents, and non-Malaysians contributing before 1 August 1998, below age 60, earning RM5,000 or more per month	12%	11%
B	Non-Malaysians registered as members from 1 August 1998, below age 60	RM5.00	11%
C	Permanent residents and non-Malaysians contributing before 1 August 1998, above age 60, earning RM5,000 or less per month	6.5%	5.5%
C	Permanent residents and non-Malaysians contributing before 1 August 1998, above age 60, earning RM5,000 or more per month	6%	5.5%
D	Non-Malaysians registered as members from 1 August 1998, above age 60	RM5.00	5.5%
E	Malaysians above age 60	4%	0%



STATUTORY CONTRIBUTIONS

Social Security (SOCSCO)



About Social Security Organisation (SOCSCO)

SOCSCO, or Pertubuhan Keselamatan Sosial (PERKESO) in Bahasa Malaysia, is the statutory body that provides social security via the Employment Injury Scheme, Invalidity Scheme, and Employment Insurance Scheme.

The Employment Injury Scheme provides protection upon suffering a work-related injury, while the Invalidity Scheme protects against invalidity or death not related to employment.

In contrast, the Employment Insurance Scheme (EIS) which was introduced in 2018 acts as a safety net for retrenched employees by giving temporary financial assistance and providing opportunities for reskilling and upskilling.

Wages Subject to SOCSCO Contribution

- Salary
- Overtime payment
- Commission
- Service charge (i.e. tips)
- Allowance
- Leave encashment

Wages Not Subject to SOCSCO Contribution

- Annual bonuses
- Retirement benefits
- Termination benefits



STATUTORY CONTRIBUTIONS

SOCSO (cont.)



SOCSO/EIS Contribution Rates

SOCSO and EIS contribution rates are published on the [SOCSO website](#).

In general, contributions to SOCSO are divided into two categories:

- First category:
 - Employees less than 60 years of age.
 - Contributions payable to Employment Injury Scheme and Invalidity Scheme.
 - Contribution rates are 1.75% by the employer and 0.5% by the employee of their monthly wages.
- Second category:
 - Employees over the age of 60 OR hired after the age of 55.
 - Contributions payable only to Employment Injury Scheme.
 - Contribution rates are paid only by the employer, at a rate of 1.25% of the employee's monthly salary.

For EIS, the following rules apply:

- Employees aged between 18 to 60 are required to contribute.
- Contribution rates are 0.2% by the employer and 0.2% by the employee of their monthly wages.
- Contribution rates are capped at an assumed monthly salary of RM5,000.



STATUTORY CONTRIBUTIONS

HRD Corp



About the Human Resources Development Corporation

The Human Resources Development Corporation (HRD Corp), previously known as the Human Resources Development Fund (HRDF), is tasked with developing Malaysian talent through training programmes and initiatives. This is partly funded by collecting a levy from employers.

Employers can claim back the funds paid to this levy by enrolling their employees in a HRD Corp-approved training course.

Who Must Contribute to HRD Corp

The following businesses must contribute to the HRD Corp levy:

- Employs 10 or more Malaysian employees, and
- Scope of business is listed in the First Schedule to the Human Resources Development Act 2001. In practice, this means that most businesses need to contribute.

Rate of Levy Payment

The HRD Corp levy is contributed by the employer. The rate of contribution is 1% of the monthly gross salary and fixed allowances of the employee.



INCOME TAX

Monthly Tax Deduction



The Monthly Tax Deduction (PCB)

Although it is the responsibility of the individual to declare their income to LHDN, income taxes are largely raised through monthly tax deductions to a salaried employee's paycheck.

The monthly tax deduction, or Potongan Cukai Bulanan (PCB) in Bahasa Malaysia is the mechanism by which this is done. The employer will withhold the required amount of tax each month automatically and pay it to LHDN.

Calculating PCB

In general, PCB calculation is done using a set of formulae. These formulae are prescribed by LHDN and [can be found here](#).

Most, if not all HR software (including BrioHR) use these to automatically calculate PCB along with the other statutory deductions.



INCOME TAX

Taxable Income



What is Taxable?

Aside from salary, the following forms of remuneration are taxable:

- Overtime
- Bonuses
- Commissions
- Allowances and/or perquisites
- Arrears of salary
- Employee share option scheme (if employee opts for salary deduction)
- Tips or other gratuities
- Compensation for loss of employment
- Ex-gratia payments
- Any other payment in addition to normal remuneration for current month

What is Claimable?

Employees are able to claim several types of tax relief, including:

- Medical treatment, special needs and carer expenses for parents
- Basic supporting equipment for use by the disabled employee, spouse or parents
- Self-education fees
- Purchase of books, magazines and journals
- Purchase of personal computer, smartphone or tablet
- Net deposit in Skim Simpanan Pendidikan Nasional (SSPN)
- Purchase of sports equipment
- Alimony payment to ex-spouse
- Life insurance
- Education/medical insurance
- Deferred annuity
- Zakat payment (only if not deducted through PCB already)



INCOME TAX

The PCB Formula



The Formula

$$\frac{[(P - M)R + B] - (Z + X)}{n + 1}$$

Where:

P = Total chargeable income for the year

M = First chargeable income for every range of chargeable income in a year

R = Tax rate percentage

B = Amount of tax on M after deduction of tax rebate for individual and spouse, if so qualified

Z = Accumulated zakat paid in the current year, other than zakat for the current month

X = Accumulated PCB paid for the previous month in the current year, including payment from previous employment. This does not include additional PCB requested by the employee and payment of installments

n + 1 = Balance of months in a year (including the current month)



INCOME TAX

The PCB Formula (cont.)



Deriving Total Chargeable Income for the Year

$$\frac{[(P - M)R + B] - (Z + X)}{n + 1}$$

To begin the PCB calculation, first derive P using the following formula:

$$\sum (Y - K) + (Y1 - K1) + [(Y2 - K2)n] + (Yt - Kt) - (D + S + Du + Su + QC + \sum LP + LP1)$$

It may look like a long formula, but let's break it down from left to right:

Σ = Sum for the current year

Y = Total accumulated gross normal remuneration and gross additional remuneration for the current year, paid to an employee prior to the current month, including gross normal remuneration and gross additional remuneration paid by previous employer, if any

K = Total contribution to EPF or other approved scheme paid in respect of Y, if any, subject to the total qualifying amount per year

Y1 = Gross normal remuneration for the current month

K1 = Contribution to EPF or other approved scheme paid in respect of Y1, subject to the total qualifying amount per year

Y2 = Estimated remuneration as Y1 for the subsequent months

K2 = Estimated balance of total contribution to EPF or other approved scheme paid for the balance of qualifying months

n = Balance of months in a year (excluding current month)

Yt = Gross additional remuneration for the current month

Kt = Contribution to EPF or other approved scheme paid in respect of Yt, subject to the total qualifying amount per year



INCOME TAX

The PCB Formula (cont.)



Deriving Total Chargeable Income for the Year (cont.)

$$\sum (Y - K) + (Y1 - K1) + [(Y2 - K2)n] + (Yt - Kt) - (D + S + Du + Su + QC + \sum LP + LP1)$$

D = Deduction for individual

S = Deduction for spouse (this is only applied if spouse is not working)

Du = Deduction for disabled person

Su = Deduction for disabled spouse

Q = Deduction for qualifying children

C = Number of qualifying children

$\sum LP$ = Accumulated allowable deductions in the current year, including from previous employment, if any

LP1 = Allowable deductions for the current month



INCOME TAX

The PCB Formula (cont.)



The Formula (cont.)

$$\frac{[(P - M)R + B] - (Z + X)}{n + 1}$$

Having derived the value of P, the values of M, R, and B can then be obtained from the following table as prescribed by LHDN for YA2022.

P (RM)	M (RM)	R (%)	B (Category 1 & 3)	B (Category 2)
5,001 – 20,000	5,000	1	-400	-800
20,001 – 35,000	20,000	3	-250	-650
35,001 – 50,000	35,000	8	600	600
50,001 – 70,000	50,000	13	1,800	1,800
70,001 – 100,000	70,000	21	4,600	4,600
100,001 – 250,000	100,000	24	10,900	10,900
250,001 – 400,000	250,000	24.5	46,900	46,900
400,001 – 600,000	400,000	25	83,650	83,650
600,001 – 1,000,000	600,000	26	133,650	133,650
1,000,001 – 2,000,000	1,000,000	28	237,650	237,650
Over 2,000,000	2,000,000	30	517,650	517,650



INCOME TAX

Zakat



The Obligation to Pay Zakat

Zakat is a religious obligation for Muslims to make contributions towards the less fortunate. All adult Muslims whose income exceeds a certain threshold must pay zakat.

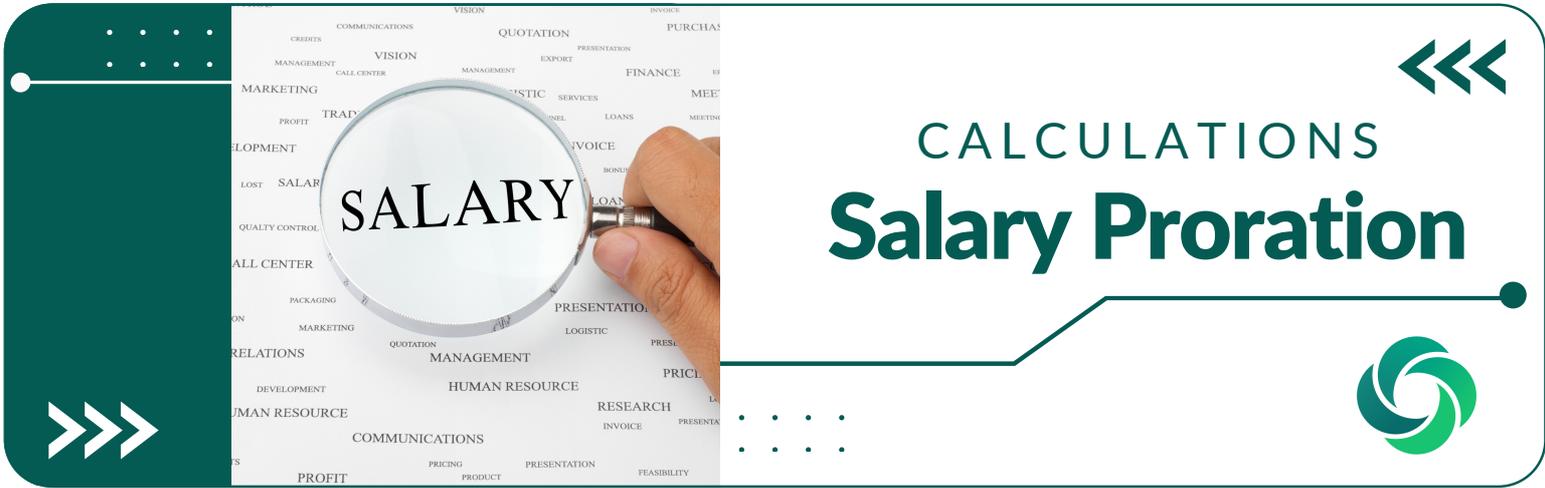
In Malaysia, zakat payments are treated as a tax rebate.

Paying Zakat

Zakat can be paid by the Muslim person themselves through a zakat collection centre or through online banking.

Alternatively, the person can also opt for a monthly zakat deduction of their salary. Employers can only act on this if the employee specifically requests it, as monthly zakat deductions from salary are not mandatory.

If an employee's zakat deduction is made from their salary, the amount has to be included in the monthly payslip and yearly EA form for tax declaration purposes.



Prorating Salary for an Incomplete Month of Work

The following formula is used for prorating salary for an incomplete month of work.

Proration by Calendar Days

Salary is prorated by the number of days in the month, e.g. 30 or 31 days. Weekends and public holidays are included.

$$\frac{\text{Monthly salary} \times (\text{Days of the month} - \text{Days before employment})}{\text{Total days of the month}}$$

Example Calculation

Alice joined Acme Sdn Bhd on 8 January 2023. Her monthly salary is RM5,000. She works normal hours, five days a week.

$$\frac{5000 \times (31 - 7)}{31} = 3870.97$$

Prorating Statutory Deductions (EPF, SOCSO, PCB)

Statutory deductions like EPF, SOCSO, and PCB are also prorated according to the actual salary paid. Using the above example, if Alice's salary is prorated using the calendar days method, she will earn RM3870.97. Accordingly, her EPF contribution (assuming at 11% rate) will be RM427.



Calculating Overtime

Under the newly amended Employment Act 1955, employees who earn up to RM4,000 per month are entitled to overtime payments.

Employers need to be aware that:

- The maximum working hours per week is 45 hours. Any work done beyond that is considered overtime.
- If an employee works more than 8 hours in one day (for normal working hours), it shall also be considered overtime.
- Shift workers cannot be made to work in excess of a spread over period of 10 hours in one day. Any work done beyond that is overtime.
- No employee shall work more than 12 hours a day, inclusive of overtime.
- Lunch time or break times of more than 30 minutes are not included in working hours.

The Overtime Formula

The formula for calculating overtime as derived from the Employment Act is as follows:

$$\frac{\text{Monthly salary}}{26 \text{ days}} \div \text{Normal hours} \times \text{Overtime hours} \times \text{Overtime rate}$$

Let's break down the formula:

- Monthly salary: the employee's monthly rate of pay.
- 26 days: regular working days per month
- Normal hours: regular hours worked per day (maximum being 8 hours)
- Overtime hours: number of hours worked overtime
- Overtime rate: rate at which overtime is multiplied, e.g. on off days, rest days etc.



CALCULATIONS

Overtime (cont.)



Example Calculation

Bob is an employee of Acme Sdn Bhd. His monthly salary is RM2,000. He is a full-time employee working normal hours. He worked three hours overtime on Monday.

Applying the overtime formula:

$$\frac{RM2000}{26 \text{ days}} \div 8 \text{ hours} \times 3 \text{ hours} \times 1.5$$

Bob earned RM43.30 (rounded up) of overtime wages.

Note the overtime rate, i.e. the rate at which overtime is multiplied. It is defined in the Employment Act 1955 as follows:

Work Done On		Overtime Rate
Normal Day	Hours after normal hours of work (max. 4 hours)	1.5x
Off Day	Normal hours (first 8 hours)	1.5x
	Subsequent hours (next 4 hours)	1.5x
Rest Day	First 4 hours	0.5x
	Next 4 hours	1.0x
	Subsequent hours (next 4 hours)	2.0x
Public Holiday	Normal hours (first 8 hours)	2.0x
	Subsequent hours (next 4 hours)	3.0x



2023 UPDATES

Latest Changes

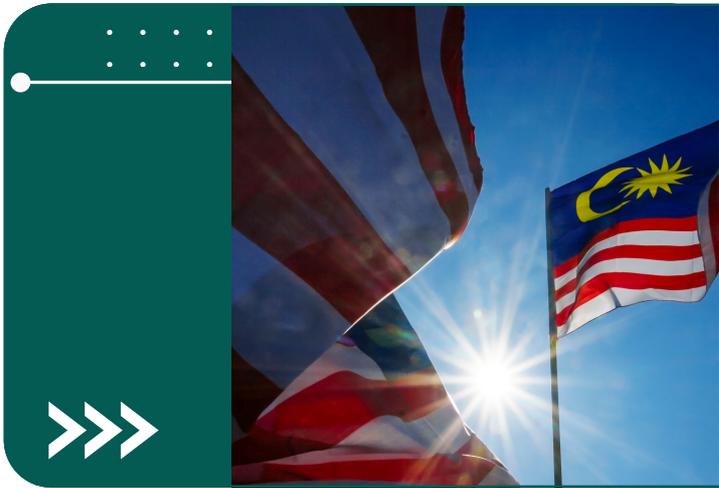


Changes to Individual Income Tax Rate

The tax structure for middle class earners (those earning between RM35,000 to RM100,000) will be reduced by 2 percentage points, while high income earners (those earning between RM100,001 to RM1 million) will see a progressive tax increase effective YA2023.

A comparison between the old and new tax rate is as follows.

Chargeable Income (RM)	Old Tax Rate (%)	New Tax Rate (%)
0 - 5,000	0	0
5,001 – 20,000	1	1
20,001 – 35,000	3	3
35,001 – 50,000	8	6
50,001 – 70,000	13	11
70,001 – 100,000	21	19
100,001 – 250,000	24	25
250,001 – 400,000	24.5	25
400,001 – 600,000	25	26
600,001 – 1,000,000	26	28
1,000,001 – 2,000,000	28	28
Over 2,000,000	30	30



2023 UPDATES

Latest Changes (cont.)



Increased Relief for Medical Expenses

The scope of income tax relief for medical expenses is expanded to ease the financial commitment on early intervention for children with learning disabilities. From YA2023 onward, it will include intervention expenditure for autism, attention deficit hyperactivity disorder (ADHD), global developmental delay (GDD), Down syndrome, and specific learning disabilities:

- diagnostic assessment certified by a medical practitioner registered with the Malaysian Medical Council (MMC); and
- early intervention and rehabilitation programmes conducted by health profession practitioners registered under the Allied Health Profession Act 2016.

Relief covering such treatment will be covered up to RM4,000.

In addition, the amount of tax relief limit on general medical treatment is raised from RM8,000 to RM10,000.

Tax Relief on Voluntary EPF Contribution

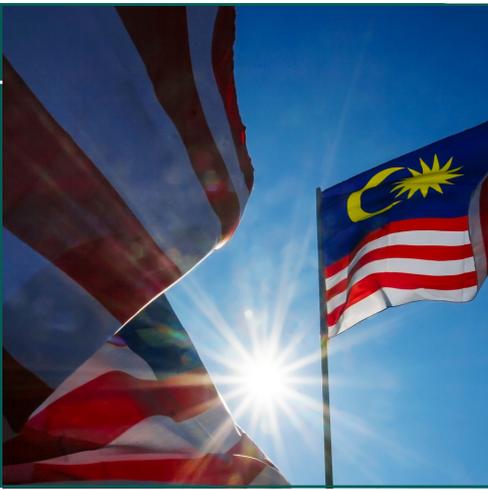
From YA2023 onward, tax relief for life insurance, takaful, and voluntary EPF contributions will be restructured as follows:

- Relief of up to RM4,000 for mandatory contribution to approved schemes or voluntary contribution to EPF (not including private retirement schemes) or contribution under any written law.
- Relief of up to RM3,000 for life insurance premium or takaful contribution or additional voluntary contribution to EPF or both.



2023 UPDATES

Latest Changes (cont.)



Tax Deductions for Employing Senior Citizens, Ex-Convicts, and Other Underemployed Groups

Tax deductions will be extended to YA2025 for employers who hire senior citizens, ex-convicts, ex-drug dependents and convicts who are categorised as parolees and supervised persons subject to the following conditions:

- The employment is on a full-time basis.
- Monthly remuneration does not exceed RM4,000.
- The employer and employee are not the same person.
- The employer is not a relative of the employee.

This tax incentive will be expanded to include remuneration paid to inmates and ex-inmates of:

- Henry Gurney School under the Malaysian Prison Department.
- protection and rehabilitation institutions and non-government care centres registered under the Social Welfare Department.





SIMPLIFY YOUR HR

Meet BrioHR



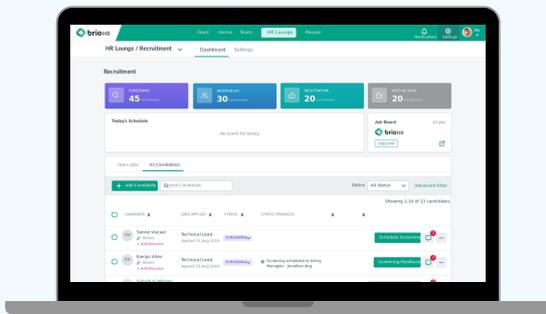
We Are BrioHR

We are BrioHR, a HR technology specialist. We enable HR teams and business owners from over 1,000 organizations to focus on what matters – people.

Recognized as the most comprehensive and user-friendly all-in-one HR software. BrioHR automates repetitive tasks – including payroll to ensure your employees are engaged for maximum productivity. Let us help you do the same.

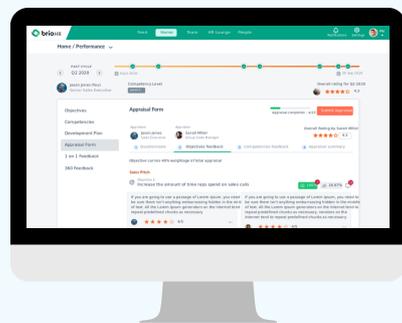
RECRUITMENT

Full visibility on candidate pipeline for all stakeholders



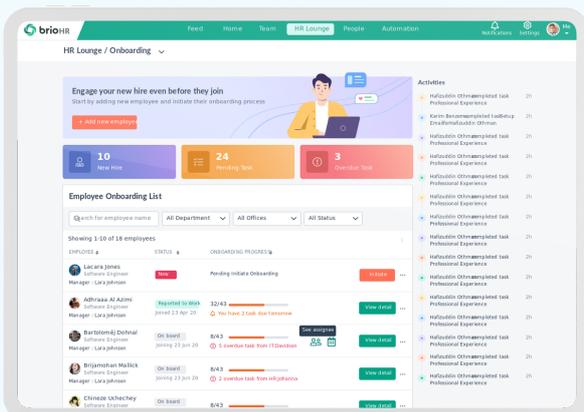
PERFORMANCE

Create your own KPIs, pick weightings and monitor employee performance



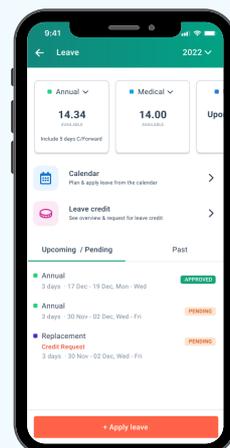
ONBOARDING

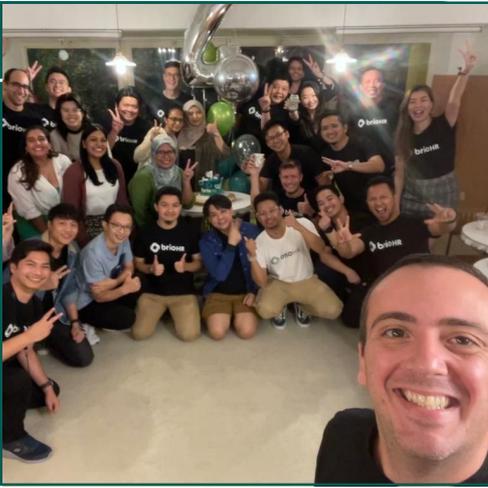
Get your new joiners engaged from Day 1



PAYROLL, CLAIMS, LEAVE

Automate payroll, claims, leave with 100% accuracy





SIMPLIFY YOUR HR Our Customers



Meet Our Happy Customers

We serve over 1,000 happy organizations across the globe. But don't just take our word for it – here's what our customers have to say about BrioHR!



“More organizations should get BrioHR to help align employers and employees.”

– Marcus Low, restaurateur and co-founder, Table & Apron

“I personally believe that performance management is a good feature that I would recommend to NGOs.”

– Zulfirdaus Abu Hassan, Head of Program Management, NAMA Foundation



“The support we receive along the way makes it as though we had a full-time senior HR professional on staff.”

– Rami Aladdin, Managing Partner, Twine



“If more people can see what BrioHR can do, they will want to adopt it as well.”

– Refilwe Seitej, HR Specialist, Brastorne Enterprises, Botswana



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SCAN ME

