

New levels of growth with a Sdn Bhd

This post covers essential steps for owners of sole proprietorships or conventional partnerships to convert their sole proprietorship or enterprise into a private limited company known as a Sdn Bhd.



Before looking at the process, **bear in mind that running a Sdn Bhd comes with its own challenges.**

Let's quickly verify that the unique benefits of a private limited company align with your entrepreneurial goals and vision. (Click [here](#) to skip to the conversion steps)

Benefits of a Sdn Bhd vs an Enterprise

The table below shows key benefits of a Sdn Bhd over an Enterprise.

We've bolded the most frequently cited advantages.

Benefits	Sole Proprietorship (Enterprise)	Private Limited Company (Sdn Bhd)
Liability	Unlimited personal liability	Limited liability
Perpetual Existence	Depends on owner's lifespan	Continued existence regardless of members
Ownership Transferability	Harder to transfer ownership	Easier to transfer ownership
Capital Raising	Harder to attract investors	Easier to raise capital and attract investors
Taxes	Personal income tax of owner	Taxed separately at corporate tax rate
Public Perception	Seen as less credible	Seen as more trustworthy

Broadly speaking, these differences mean a Sdn Bhd is the ideal structure for entrepreneurs who value:

We've identified key milestones in a business owner's journey that indicate it's time for a Sdn Bhd:

1. Your annual profits from the business exceeds RM70,000
2. Your total personal income tax bracket exceeds 17%
3. You have or plan to have more than 5 employees
4. You foresee having over 20 business partners

If that describes you, then you have a strong case for making the conversion.

However, there is no free lunch; it's only right that we also lay out the drawbacks of a Sdn Bhd compared to an Enterprise.

Drawbacks of a Sdn Bhd vs an Enterprise

The table below, shows key **drawbacks of running a Sdn Bhd compared to an Enterprise.**

Drawbacks	Sdn Bhd	Enterprise
Setup & Maintenance Costs	Higher due to compliance requirements and annual audit fees	Lower - just annual license renewal
Paperwork	More paperwork and administrative tasks	(a lot) Less paperwork
Transparency	More transparent, which may invite greater scrutiny from the public and investors	Less transparent, which provides more privacy
Decision making	Can be less flexible with more stakeholders	More freedom with just one decision-maker

As you can see, the price you pay for having a higher potential for growth and expansion is tighter government regulation and sacrificing the total autonomy that comes with owning an enterprise.

Put it this way: Would you prefer shared decision-making in a large corporation or complete control of a smaller one?



If you're still here, we'll assume you're certain a Sdn Bhd is the ideal business structure for you.

In that case, time to clarify the frequent misconception regarding 'upgrading' or 'converting' an Enterprise to a Sdn Bhd - **it doesn't work that way!**

You cannot 'convert' or 'upgrade' a business entity

The shift from enterprise to private limited company requires **incorporating a new company**, renegotiating contracts, transferring assets to the new entity, and closing down your existing enterprise.

For a full guide on the various requirements to incorporate a company, check out our **guide to incorporating a Sdn Bhd in Malaysia**.

Meanwhile, here is an overview of the steps to 'upgrade' your Enterprise into a Sdn Bhd:

8 Steps to transition from Enterprise to Sdn Bhd

Step 1: Adopt a constitution (Optional)

A constitution is an agreement made by the corporation, its directors, and its shareholders that directs the organisation's operations and future development.

Since the Companies Act 2016 already outlines the overall clauses, your new Sdn Bhd does not need to adopt a constitution if you want to start simple fast. This is more important if your company will already involve multiple shareholders and directors.

Step 2: Open a corporate bank account

Your new Sdn Bhd will need its own **corporate account** to handle all company transactions. This new banking setup helps keep your business finances separate from your personal ones and is a key part of presenting a trustworthy image.

Step 3: Transfer assets & liabilities to new Sdn Bhd

This involves buying the assets and transferring liabilities from your Enterprise. Be sure to properly record all your assets in a balance sheet so the 'sale' between the Enterprise Sdn Bhd 'buying' them, is carried out at the assets' correct book value.

A lawyer may be required to persuade the creditor to change their debtors to the new Sdn Bhd.

And no, don't even *think* of running away from the debt!

Step 4: Re-sign contracts with stakeholders

To maintain continuity, reestablish contracts with your stakeholders — including suppliers, clients, and customers. **This means they'll now be doing business with your new Sdn Bhd**, not you as an individual.

Step 5: Register with Lembaga Hasil Dalam Negeri (LHDN)

Your new Sdn Bhd must meet its tax obligations and filing returns under its own entity. You can register for an account via **MyTax**, LHDN's online portal.

Within three months of operating, your new Sdn Bhd will have to begin

submitting tax estimates. For a full list of Sdn Bhd tax obligations, check out LHDN's [**Tax File Registration**](#) page.

Step 6: Register with EPF, SOCSO, EIS, & HRDF

If your enterprise already employed staff, this should come as no surprise. employees. Your Sdn Bhd must **register as an employer with the EPF within 7 days and SOCSO within 30 days** of hiring the first employee.

Additionally, if you employ more than ten staff, you must also register with the HRDF.

Step 7: Apply for necessary business licenses

Depending on the nature of your business, you may need to **obtain specific licenses or permits** to operate. This is especially important if your expansion plans involve new business activities that will require new business licenses.

Step 8: Close down the Enterprise

After moving all assets and liabilities, fulfilling all contracts and licenses, and registering with all necessary government bodies, it's time to shut down the old business.

This can be done online via SSM's [**EzBiz portal**](#) and costs **RM200**.

SSM will email you about your Enterprise's successful termination, and you will have completed the 'upgrade'!

Additional considerations for your Sdn Bhd

As you're set on transitioning from a sole proprietorship to a Sdn Bhd, there are three additional points to keep in mind.

Appoint a Company Secretary

Under the Companies Act 2016, you have a maximum of 30 days upon incorporation to **appoint a Company Secretary**. This is a company officer who ensures a company's compliance with regulatory requirements.

Engage an independent auditor

This auditor conducts detailed examinations of your company's financial statements. Again under the Companies Act 2016, every Sdn Bhd must submit to annual audits from a professionally certified and independent auditor.

Consider a Shareholders' Agreement

A **shareholders' agreement** is a contract between the shareholders of a company detailing their rights, responsibilities, and obligations. This agreement sets out rules about how the company should be run and provides a clear framework for decision-making and conflict resolution processes.

Ok, there are actually way more than just these three things to consider,

but you know what, take it one step at a time - and take those steps with MISHU!

Let MISHU help transition your enterprise upgrade

Adrian's pic

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Short blurb