The First Time Entrepreneur’s Complete Guide to Malaysian Business Structures

There are several types of business entities available in Malaysia, each with specific legal, financial, and operational implications. In this article, we outline the different entities available, their advantages and disadvantages, and the kind of businesses they lend themselves best to.

By the end, **you will have clarity on what structure will serve your specific needs**. Before we dive deeper, here’s a simple overview for you to compare the various structures at a glance.

	Sole Proprietorship	General Partnership	Company (Sdn Bhd)	Limited Liability Partnership (LLP)
Legal & Compliance Obligations	7 year's Record Keeping Register with SST & payroll	7 year's Record Keeping Register with SST & Payroll	Annual Returns Audited Financial Statements 7 year's Record Keeping Appoint Company Secretary Register with SST & Payroll	Annual Returns Audited Financial Statements 7 year's Record Keeping Appoint Compliance Officer Register with SST & Payroll
Ownership	Direct ownership by one person	Direct ownership by two or more persons	Ownership by up to 50 persons via shares	Direct ownership by two or more persons
Taxation of business income	Personal income tax (0-30%)	Personal income tax (0-30%)	Corporate tax (17 - 24%)	Corporate tax (17 - 24%)
Liability	Unlimited liability for owner	Unlimited liability for partners	Limited liability for shareholders & director	Limited liability for partners
Setup & Yearly Renewal Costs	Registration: RM30 - 70 Renewal: RM30 - 70	Registration: RM30 - 70 Renewal: RM30 - 70	Registration: RM1000 Annual Returns: RM150 Lodgement of Financial Statement: RM50	Registration: RM500 Annual Declaration: RM200
Yearly Professional Fees (estimates for startup)	RM0 - 1,000, consisting of Accountant + Tax Agent	RM0 - 1,000, consisting of Accountant + Tax Agent	RM4,000, consisting of: • Company Secretary • Auditor & Tax Agent • Accountant	RM500-2000, consisting of Compliance Officer, Accountant + Tax Agent

Click here to expand.

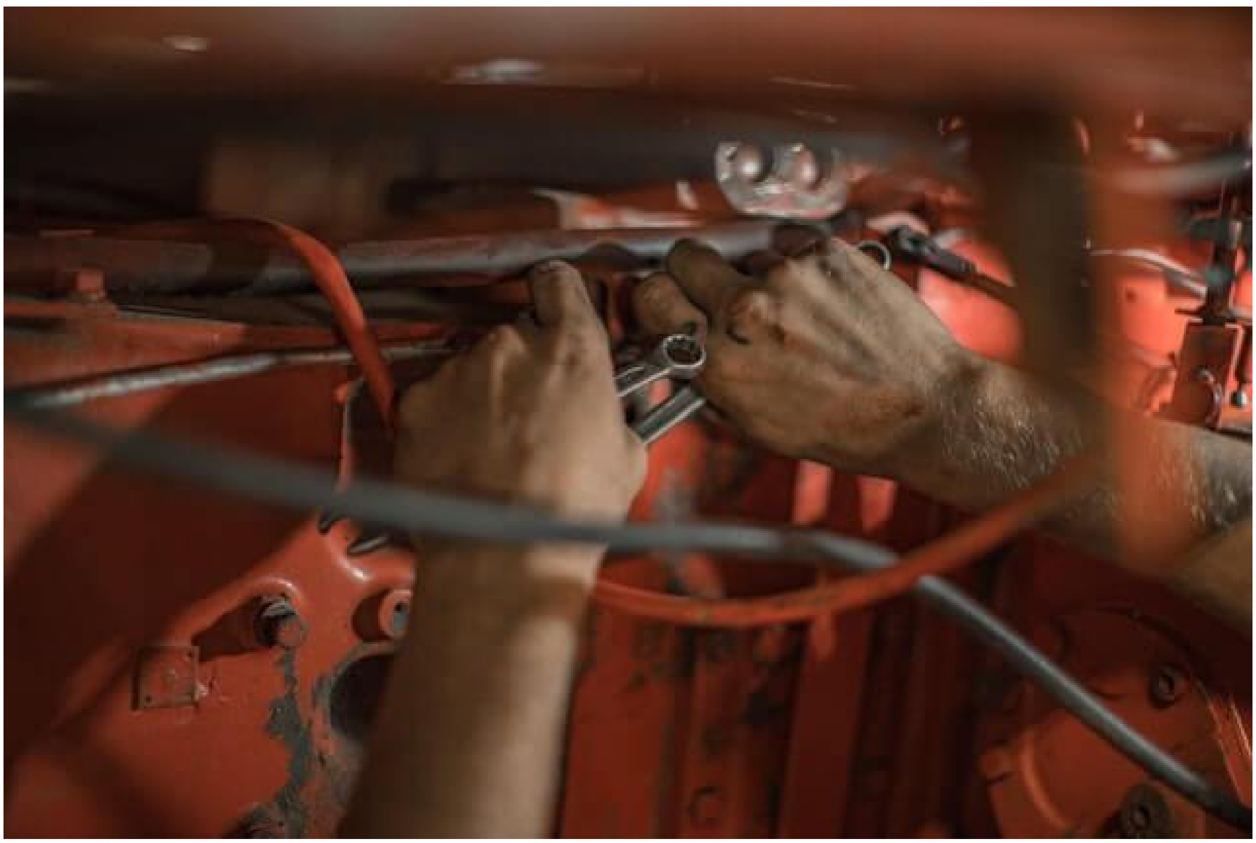
Types of business entities in Malaysia

Technically, there are several more, but for new entrepreneurs, here are the structures you need to know:

- Sole proprietorship

- Partnership
- Limited liability partnership (LLP)
- Private limited company (Sdn Bhd)

1. Sole Proprietorship



A sole proprietorship is the simplest and most straightforward form of business ownership, as it doesn't require any registration or legal formalities.

It is owned and operated by a single individual who is also personally liable for all aspects of the business, including its debts and obligations – this means they call the shots, but if the business is unable to pay its debts, the owner's personal assets can be seized to settle them.

Advantages:

- Simplicity: A sole proprietorship is easy to set up and manage with no legal formalities
- Low cost: Setting up a sole proprietorship is inexpensive compared to other business entities
- Tax benefits: Sole proprietors can deduct business expenses from their personal income taxes
- Flexibility: Sole proprietors can decide without the need for approval from partners or directors

Disadvantages:

- Unlimited liability: The owner's personal assets can be seized to pay business debts
- Limited external funding: Banks are often hesitant to invest in businesses with no formal structure
- Limited growth potential: As the owner will be leading the company alone, they may not have access to resources and expertise needed to expand

- Difficulty transferring ownership: Selling can be challenging as the business is often tied to the owner's skills, knowledge, and personality,
- Lack of continuity: If the owner dies or becomes incapacitated, the business cannot continue
- Limited perks: Certain benefits like health insurance are only offered to employees of larger companies

Suitable for:

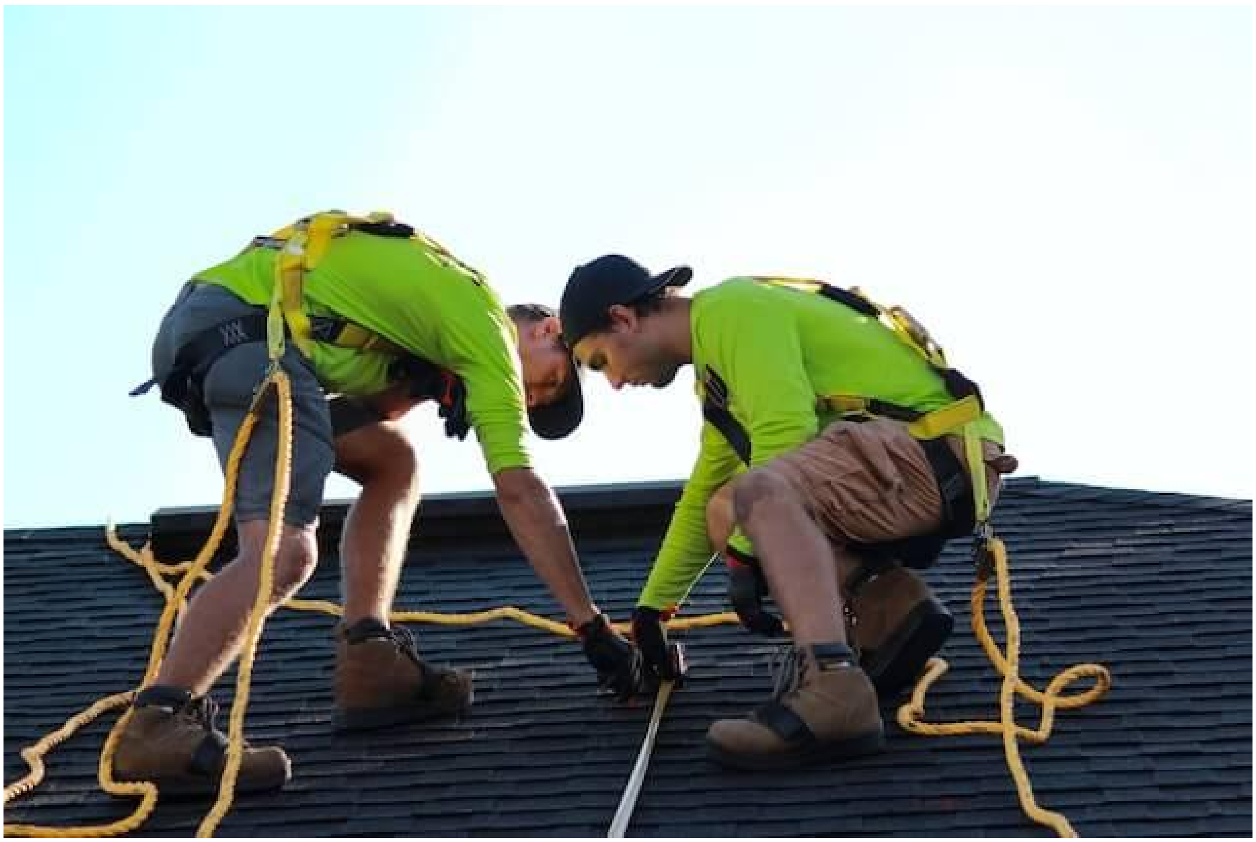
- Small businesses and freelancers, such as consultants, contractors, and self-employed professionals without business partners or co-owners

Inadvisable for:

- High-risk businesses: If your business involves a high degree of risk, such as construction, consider structures with more liability protection
- Businesses requiring funding: Investors and lenders feel safer working with businesses that have a clear organisational structure, such as an LLC or a corporation
- Equal partners: A partnership structure may be more appropriate to ensure equal power distribution

If it sounds like a sole proprietorship is what you need, head to our **SSM Enterprise registration page**.

2. General Partnership



Governed by the **Partnership Act 1961**, a partnership is where two or more partners come together to conduct business. Each partner contributes capital, labour, or skill and shares in the profits and losses of the business.

Partnerships can be formed without a written agreement, but it is recommended to have a partnership agreement to avoid disputes and clarify the rights and responsibilities of each partner.

Generally, there can be a maximum of 20 partners, with the following two exceptions:

- Partnerships falling under the Limited Liability Partnerships (LLP) Act 2012 can have unlimited partners
- Professions regulated by their respective professional bodies such as lawyers, accountants, and architects

Advantages:

- Shared responsibility: Responsibilities and workload (aka burden and stress!) are shared among partners
- More resources: With more partners comes access to more capital, expertise, and networks
- Tax benefits: Profits and losses are shared among the partners and taxed at their individual tax rates
- Flexibility: Partnerships and partnership agreements are relatively easy to set up and adapted to suit the needs of the partners and the business

Disadvantages:

- Unlimited liability: Personal assets of partners are at risk if the business is unable to pay its debts
- Shared profits: Each partner may receive a smaller portion of the profits compared to other structures
- Shared decision-making: This can sometimes lead to disagreements or delays when priorities clash
- Personal differences: Any personal conflicts between partners can negatively impact conduct
- Dependency on partners: If partners are unable to contribute or leave the partnership, this can create instability and affect the success of the business

Suitable for:

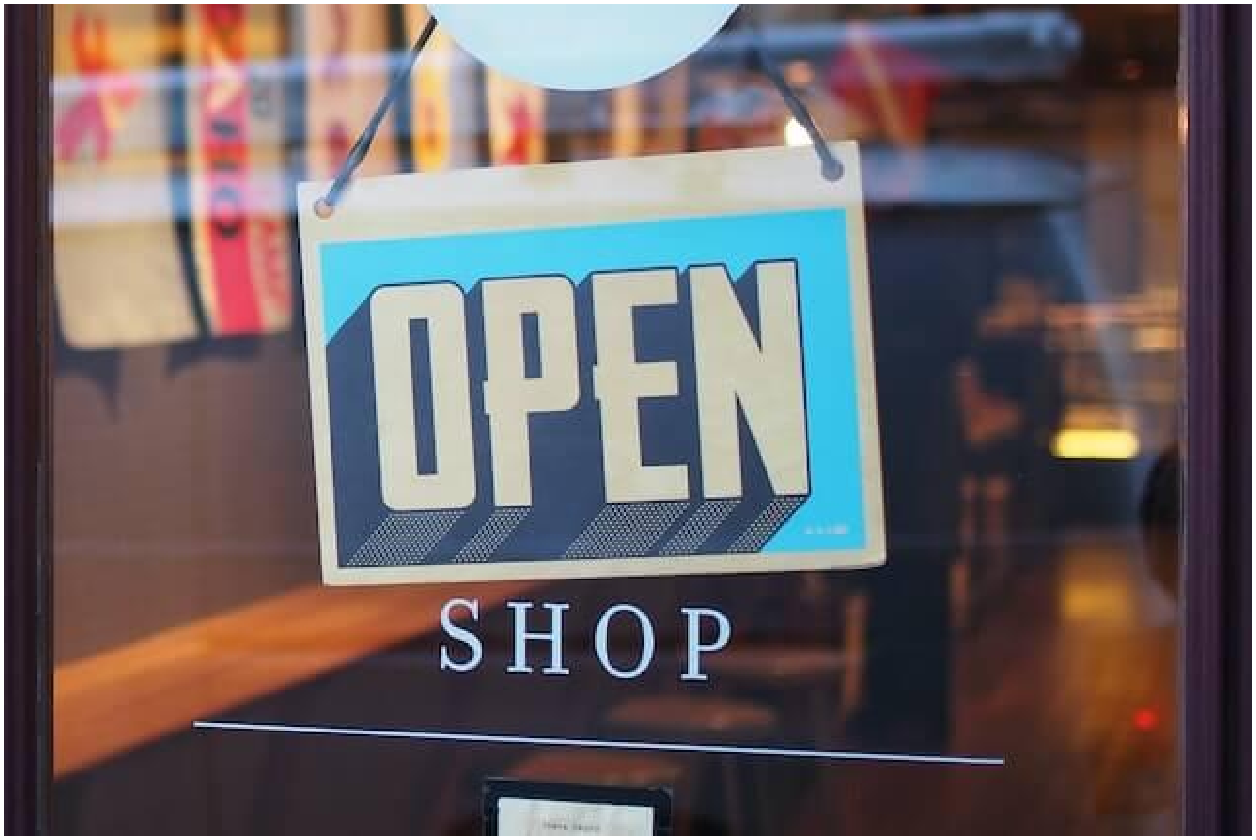
- Professional services: Partnerships can be a popular choice for professionals who want to pool their resources and expertise to offer specialised services
- Businesses with complementary skills and shared goals: For example, one partner may have strong sales skills while the other has strong technical skills, and both are working towards the same vision.

Inadvisable for:

- Businesses with significant financial risk: Partners have unlimited liability for the debts and obligations of the business, which means that their personal assets are at risk if the business is unable to pay its debts
- Businesses with high growth potential: They may require more resources than a partnership can provide
- Partners with different priorities: This can lead to conflicts, which can negatively impact the business.
- Complex ownership structures: Multiple layers of ownership will make it difficult to manage and equitably distribute profits among partners
- Large number of co-owners: Many voices makes it hard coordinate decision-making

If it sounds like a general partnership is what you need, head over to our **SSM Enterprise registration page**.

3. Private Limited Company (Sdn Bhd)



Governed by the **Companies Act 2016**, a Sdn Bhd company is a separate legal entity that has its own rights and liabilities, separate from its owners.

This means that **the owners, known as shareholders, are not personally liable** for the debts and obligations of the company beyond the amount of their capital contribution. Also, instead of being managed directly by shareholders, a director is appointed to lead short and long-term decision making in the best interests of the company.

For those two reasons, Sdn Bhd companies are the most popular choice. Of course, they are not perfect, but in general, most entrepreneurs understand that a Sdn Bhd provides the most net benefits compared to other business structures (just look at the list below!).

Advantages:

- Limited liability for owners: Personal shareholder assets are shielded from business liabilities and debt
- Limited liability for directors: They are generally not personally liable for the company's debts and liabilities, except in circumstances involving negligence or fraud.
- Foreign ownership: A Sdn Bhd can be 100% foreign-owned, subject to certain additional conditions
- Ability to raise capital through the sale of shares, which allows the company to self-fund its growth
- Perpetual succession: that the company can easily continue even if shareholders or directors change
- Separate legal entity: Allows the company to enter into contracts, sue, and be sued in its own name
- Multiple shareholders and directors: Wider pool of skills and expertise in the company management
- Credibility and prestige: May be beneficial for attracting customers, investors, and business partners
- Tax benefits and incentives: Lower corporate tax rates and tax deductions for business expenses

Disadvantages:

- Higher Incorporation Costs: Setting up a Sdn Bhd requires more paperwork and fees than other business structures, and the incorporation process itself is time-consuming and costly
- Higher Operation & Maintenance Costs: The various compliance requirements means more qualified expertise needs to be appointed
- Stricter Compliance Requirements: A Sdn Bhd must comply with various legal and regulatory requirements, such as submitting annual financial statements, appointing a Company Secretary, and holding annual general meetings or risk fines and/or legal action
- Complex Management Structure: The additional internal policies and procedures to follow can be time-consuming and difficult to implement
- Limited Flexibility: Shareholders may not be able to sell their shares freely, and the company's articles of association may restrict certain actions or decisions

Suitable for:

- **Most SMEs and startups that hope to employ staff and operate from business premises.**

Inadvisable for:

- Solo entrepreneurs: If you plan to stay as a one-man business, avoid the complex management structure and higher compliance requirements of a Sdn Bhd
- Those with limited capital: The additional paperwork and fees needed for a Sdn Bhd can be a significant financial burden to a startup

If it sounds like a Sdn Bhd is what you need, head over to our **Sdn Bhd Incorporation**.

4. Limited Liability Partnership (LLP)

Governed by the **Limited Liability Partnerships (LLP) Act 2012**, this structure combines the flexibility and tax benefits of a partnership with the limited liability protection of a Sdn Bhd.

An LLP must have at least two partners and can have an unlimited number of partners, who are responsible for managing the business and making decisions, and who share the profits and losses of the business according to the terms of the partnership agreement.

Advantages:

- Limited liability protection: Partners’ personal assets are protected from the business’s liabilities and debts, and they are only liable for the amount of their investment in the partnership
- Flexibility: LLPs are not subject to the same strict formalities and regulations of Sdn Bhds and the management structure can be further customised to suit the needs of the business
- Tax benefits: Profits and losses of the business are passed through to partners, who report them on their individual tax returns
- No minimum capital requirements: They can be set up with a relatively low amount of capital
- Foreign ownership: Foreign individuals / companies can own and operate LLPs in Malaysia
- Less strict compliance requirements: LLPs have relatively few compliance requirements compared to a Sdn Bhd. For example, they do not need to file audited financial statements with the Companies Commission of Malaysia (CCM)

Disadvantages:

LLPs generally do not have any disadvantages unique to them, but their drawbacks are addressed two sections below under ‘inadvisable for’.

Suitable for:

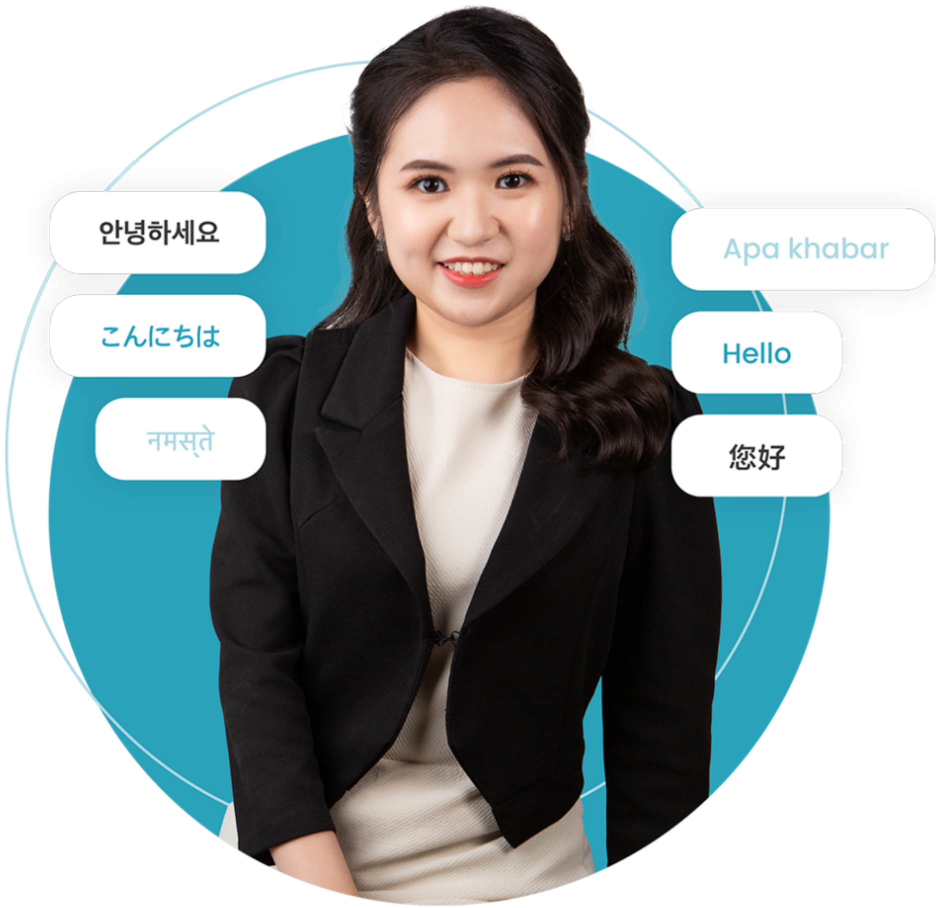
- Professional services sector: LLPs are particularly popular for law firms, accounting firms, and consulting firms as they offer the benefits of a partnership structure and limited liability protection to the partners

Inadvisable for:

- Businesses planning to crowdfund: An LLP cannot issue shares the way a Sdn Bhd can.
- Businesses requiring continuity: LLPs are dissolved upon the death, retirement, or insolvency of a partner, and the remaining partners may need to form a new LLP or change the business structure
- Businesses requiring central management: All partners have the freedom to manage the business according to their own agreement

If it sounds like an LLP is what you need, head over to our **LLP Registration page** to find out the requirements for setting one up.

Outsource incorporation and registration!



A professional firm specialising in company incorporation can help you manage registration formalities and advise you on how to avoid common mistakes. Business owners can clarify matters pertaining to structure, taxes, and compliance from professionals before deciding which business structure to form.

There are many documents to be prepared and filed with the relevant authorities after incorporation which are unfamiliar and time consuming. It is best to leave those to professionals so that you can focus on your core business activities.

MISHU has resources and partnerships in many key areas and would love to help you set up your next business entity! **Get in touch with us today**.