

DELOITTE TAX CHALLENGE

Individual Category – Grand Finals

Question 1 (Written Assessment) (40 marks)

Malaysia has been fairly successful in attracting multi-national corporations (“MNCs”) to establish regional shared service centres (SSC) here.

Required

Research on **three** Asian countries which place great emphasis in offering attractive tax regime to MNCs to set up the SSC in their countries and compared that to the tax incentives offered by Malaysia.

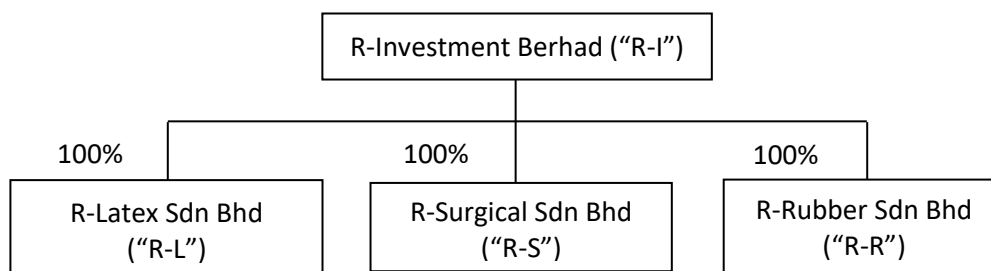
In your view, how can the existing SSC tax incentive framework be improved in order to enhance our country’s competitiveness.

[40 marks]

Note: Your comment should not be longer than 250 words.

Question 2 (Oral Presentation) (60 marks)

The CEO of R-Group has approached you to seek for advice to improve the group tax efficiency for its businesses. The group structure and the details of the companies are appended as follows:



R-L

R-L is in the business of manufacturing latex examination gloves. R-L was performing well but in recent years, it has experienced slump in its business. Hence, it incurred substantial unabsorbed business loss and capital allowance of RM5 million and RM3 million. Recognizing the futility of continuance, the minority shareholder has an intention to sell-out.

R-S

R-S is in the business of manufacturing surgical gloves and has been profitable.

R-R

R-R has two business sources, business of manufacturing rubber used for gloves manufacturing and research and development for gloves solutions.

It has just started its business of a potentially highly profitable gloves manufacturing. R-R will also supplies rubber used for gloves manufacturing at market price to R-L and R-S.

R-R plans to conduct research and development for the group. With rapid technology advancements, innovation is crucial for future success in the intensely competitive glove manufacturing industry. The group considering to make R-R specializes in research and development which accelerates the product development.

R-R has the following assets:-

	RM'm
Land and factory building	12
Inventories:	
- Cost	4
- Market value	6
Other debtors (gross)*	1.5
Trade debtors (gross)*	1
Cash	8
Retained earnings	25

*No doubtful debts provision has been made although RM500,000 of other debtors and RM400,000 of trade debtors are doubtful of collection.

R-I

R-I is principally engaged in business of investment holding. It owned a factory building in Johor, financed by a loan that is still substantially un-repaid, which is let out to R-S for its manufacturing business. There are plans to transfer the factory building to R-S at the market value of RM8 million.

All the companies except for R-R are registered under GST Act 2014 and each has a paid up ordinary share capital of more than RM2.5 million.

Proposals and Matters in Considerations

In the recent board of director (BOD) meeting, there is a proposal to restructure the group in order to achieve operational efficiency either by:

- a. transferring the business of manufacturing rubber of R-R to R-L ; or
- b. transferring the business of manufacturing rubber of R-R to R-S.

In relation to the transfer of factory from R-I to R-S, the BOD is also pondering whether the consideration should be made in cash by R-S to R-I or in shares to be issued by R-S to R-I. If it is in cash, R-I will have to obtain a bank loan.

Required

In respect of the above proposed restructuring, make a presentation to the BOD covering the following:

1. whether option (a) or (b) of business transfer would be more beneficial from corporate tax efficiency perspective.
2. the tax implication of the transfer of the following assets of R-R and action(s) to be taken, if any, before the transfer to enhance the overall group tax efficiency:
 - a. trade receivables
 - b. other debtors
 - c. inventories
3. deduction on interest on bank loan obtained to finance the purchase of business.

As far as the transfer of business from R-R to another entity within the group is concerned, the BOD is aware that there are possibilities that real property gain tax (RPGT) exemption and stamp duty exemption may be applicable. State the conditions to be met in order to qualify for each of these tax exemptions and if any of the condition(s) is not fulfilled, what action(s) to be taken in order to qualify for each of them.

[60 marks]



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