

DELOITTE TAX CHALLENGE

Individual Category - Semi-finals

Oral presentation (10 minutes)

Question 1

Pakatan Harapan's manifesto includes the pledge to provide more focus on the B40 and M40 groups to improve their standard of living and ensure that their welfare is safeguarded.

The B40 group refers to Malaysian households earning RM3,900 a month or less, while the M40 group is defined as households with income ranging from RM3,860 to RM8,319.

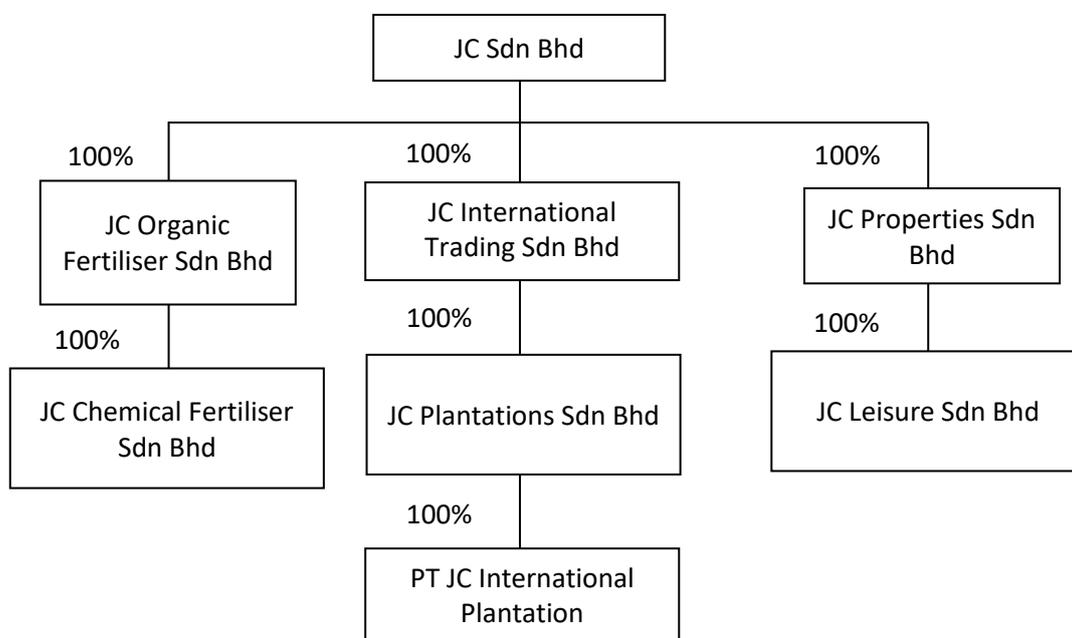
Required

You are required to present a proposal to the Government on suggestion(s) on how Malaysia could take measures to reduce the burden of Malaysians that fall within the B40 and M40 groups. Your suggestions may include both tax and non-tax measure(s).

Question 2

JC Sdn Bhd (“JC”) is principally engaged in the business of investment holding and provision of management services to subsidiaries engaged in the property holding, manufacturing and marketing of organic and chemical fertiliser.

The group structure of JC is depicted as follows:



JC

- 1) An investment holding company incurring annual expenses of RM1 million to provide management and administrative services to its subsidiaries.
- 2) JC has also incurred an annual interest expense of RM1.8 million on a term loan of RM60 million obtained for purposes of advances to all its subsidiaries companies for working capital purposes.
- 3) JC has no income other than dividend income.
- 4) JC plans to undertake aquaculture - shrimp farming business which has an investment cost of RM5 million. The group has a policy which allows new company(s) to be set up to undertake new business where necessary or uses any existing company(s) to carry out new business.

JC Organic Fertiliser Sdn Bhd (“JCOF”)

- 1) JCOF is engaged in the business of manufacturing organic fertilizer trading. It has been incurring losses for the past 5 years with unabsorbed losses brought forward of RM5 million and will continue to make losses in the next 5 years.

JC Chemical Fertiliser Sdn Bhd (“JCCF”)

- 1) JCCF, engaged in the business of manufacturing chemical fertilizer has been making annual profits of RM1 million from the local sales of chemical fertilizer and intends to expand its manufacturing plant.

The business of JCOF and JCCF are operated by the same management team and both companies have many common suppliers and customers.

JC International Trading Sdn Bhd (“JCI”)

- 1) JCI is incorporated in 20X0 under the Companies Act 2016 and has remained dormant.
- 2) JC intends to activate JCI to embark on new business of international trading of crude palm oil (CPO) which is likely to be profitable and part of the CPO will be procured from JC Plantations Sdn Bhd and PT JC Plantations.
- 3) JCI will also be used to procure fertilizer from its related companies, JCOF and JCCF. 80% of the products will be exported and JCI will provide qualifying activities to support its affiliated/ related manufacturing operations in Malaysia. It is expected that the intergroup sales and purchase of fertilizers would exceed RM100 million annually.

JC Plantations Sdn Bhd (“JCPL”)

- 1) JCPL is in the business of plantation of oil palm and operating a palm oil mill. JCPL has been the most profitable company in JC group. JCPL is currently not enjoying any tax incentives.
- 2) JCPL is the holding company of PT JC International Plantation (a company incorporated in Indonesia) which is undertaking the business of plantation of palm oil in Indonesia.
- 3) JCPL provides management and technical support services without charging any fee.

Required

- 1) State, with reasons, how JC group of companies can be reorganized to achieve greater group tax efficiency.
- 2) Please state all the related party transactions of JC group that have transfer pricing implications and explain how transfer pricing may reduce tax collection and hence may be a concern to the tax authority;
- 3) What are the tax incentive(s) available for the propose activity to be undertaken by JC
How best the proposed shrimp farming business can be structured to enjoy double incentives (i.e. income tax exemption from farming and deduction of investment cost) and which entity should be used?

Note: Visual aids is not required. However, you are required to submit a brief script (may be in bullet or point form).



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