

DELOITTE TAX CHALLENGE

Individual Category - Semi-finals

Oral presentation (10 minutes)

Question 1

Many economists around the world have predicted that recession will hit the global economy in the year of 2020. Inevitably, it would bring detrimental impacts to Malaysia, being the third largest economy in Southeast Asia.

As such, it is necessary for the government to come up with contingency measures to cushion the adverse impact from the anticipated economic downturn in the upcoming Budget 2020 that is scheduled to be tabled in parliament on 11 October 2019.

Required

You are required to present a proposal to the Government on suggestion(s) on how Malaysia could take measures to cushion the adverse impacts arising from the foreseeable economic crisis. Your suggestions may include both tax and non-tax measure(s).

Question 2

M Coatings Sdn Bhd (“MC”) is in the business of manufacturing paint coatings. The company was performing well but in the recent years, business has been stagnant due to its operational inefficiency.

The board of directors (“BOD”) has decided to embark on a plan to restructure its business operation. In February 20X7, they engaged several foreign service providers to provide related consultancy services. As the tax manager of Distinguished Tax Sdn Bhd, you are required to advise the withholding tax implications of the following projects:-

IT Consultation

MC received complaints from customers frequently on the delay of their existing sales order system in processing orders.

The BOD would like to seek consultation from the IT specialists to resolve the matters. Two foreign entities have tendered for this project:

- i) AUS Tech Pty Ltd, a resident company in Australia; and
- ii) SPA Tech S.R.L., a resident company in Spain.

Both the foreign entities agreed that the contract price is RM100,000, which comprises of the following:-

	RM
- System assembly services (Wholly performed in Malaysia for 4 weeks)	70,000
- Online IT helpdesk (Wholly performed in overseas)	30,000

Specialized Technical Solutions for Coatings Production

The BOD realized that the significant variance in the production report was due to high wastage. MC has engaged Agile Solution (HK) Co. Ltd, a resident company in Hong Kong to provide specialized technical solutions for coatings production.

The contract price comprises of the following:-

	RM
- Supply of technical equipment	50,000
- Technical labour cost	60,000

The project will be carried out in Malaysia. It is estimated that the duration to complete the project is approximately 5 months. However, the completion of project might prolong to 8 months depending on availability of resources from Agile Solutions (HK) Co. Ltd.

Leasing of Coatings Production Equipment

To increase its production capacity, MC will enter into a leasing agreement with a company resident in the United Kingdom to lease coating production equipment for an annual fee of RM600,000.

Required

To discuss the withholding tax implications arising from the above transactions and compute the applicable withholding tax amount by making reference to the following (whichever is applicable):

- a) Malaysian Income Tax Act 1967 (You may refer to Section 4A, Section 12, Section 15A, Section 107A, Section 109B and Schedule 1);
- b) Public Ruling No. 1/2014 on Withholding Tax on Special Classes of Income and Practice Note 2/2017 issued by the Malaysia Inland Revenue Board;
- c) the double taxation agreement between Malaysia and
 - Australia (You may refer to Article 5);
 - Spain (You may refer to Article 5 and Article 12); and
 - Hong Kong (You may refer to Article 5, Article 7 and Article 13).

In relation to leasing of coatings production equipment, the BOD is keen to know if you have any tax planning structure / ideas that could mitigate the withholding tax exposure.

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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