

## DELOITTE TAX CHALLENGE

### Team Category – Grand Finals

#### **Question 1 (Written Assessment) (40 marks)**

Due to the fast changing global business environment, many multinational companies (“MNCs”) are looking at locating their principal hub in this region to optimize operating efficiency. Malaysia aspires to be the host country for the principal hub set up by the MNCs.

#### **Required**

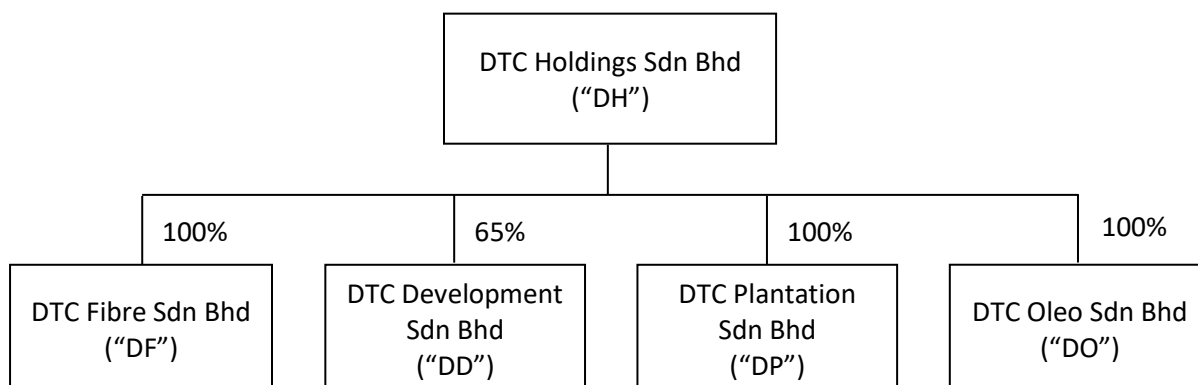
Articulate the strengths of Malaysia as compared to other countries in terms of attracting the MNC to locate their principal hub in Malaysia. Also state the incentives available and the conditions required to be fulfilled in order to qualify for principal hub incentives.

[40 marks]

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

**Question 2 (Oral Presentation) (40 marks)**

Your tax partner had attended a meeting with the finance director-cum-owner of DTC group today to discuss on the possible ways to improve the tax efficiency of DTC Group of Companies appended below:



All the companies close its financial year end accounts 31 December annually and have a paid up ordinary share capital more than RM2.5 million except for DD which has a paid up ordinary share capital of RM2.3 million.

DH

DH is an investment holding company.

Currently, DH owns 8 acres vacant commercial land with high potential for property development which was purchased in the year 20W0 at cost of RM2 million and the current market value to date is RM6 million.

DH has obtained 2 bank credit facilities for the following purposes:

|   | RM'm |
|---|------|
| - Share subscription in DD  | 5    |
| - Extend interest free advance to DF for working capital purposes | 2    |

The shares in DD were acquired in June 20X5. Interest expense incurred by DH is not tax deductible.

DF

DF is principally engaged in the business of manufacturing palm pellets. The business is expected to incur substantial tax losses for the years of assessment 20X6 and 20X7 due to the declining crude oil price has resulted in the power plant and boiler users opt to use oil fuel rather than palm pellet to produce heat and power.

DD

DD is principally engaged in the business of property development. It is highly profitable with a retained earnings and cash balance of RM20 million and RM15 million respectively.

DP

DP is principally engaged in the business of palm oil cultivation, processing and marketing of oil palm products. It has been the most profitable company in the group.

DO

DO is currently enjoying investment tax allowance incentive on the manufacturing of oleochemical products. It has come to knowledge that a similar company in Malaysia, Solaris Oleo Sdn Bhd (“SO”) is for sale because it has incurred losses of RM10 million and unabsorbed capital allowance of RM20 million.

SO has the following assets and liabilities:

|                                       | <b>RM’m</b> |
|---------------------------------------|-------------|
| Freehold land @ market value          | 2           |
| Factory building @ market value*      | 8           |
| Plant and machinery @ net book value* | 10          |
| Inventory                             | 1           |
| Accounts receivable                   | 2           |
| Accounts payable                      | 2           |
| Bank loan                             | 5           |
| <b>Net assets value</b>               | <b>16</b>   |

The business operation of SO is still active.

**Required**

Your team is required to prepare a presentation to address the following:

- a) Identify ways to improve on the tax position of DH arising from non-deductibility of interest expense. [5 marks]
  
- b) State with reasons whether DF and DD qualify for group relief in years of assessment 20X6 and 20X7. If not, propose how they can meet the requirements. [5 marks]
  
- c) The finance director has identified two pieces of land located adjacent to each other. The first piece of land is a bare land whilst the second piece of land is a 5 years old oil palm plantation land. Both piece of land have potential for future property development activity in 10 year time.

**Scenario 1** – DD would purchase the bare land now for property development in 10 year time.

**Scenario 2** – DP would purchase the oil palm plantation land for its plantation business expansion purposes. In 10 year time, if there is any development potential, the land may be transferred to DD for development.

Other relevant information for both piece of land is as follows:

|  | RM’m<br>each land |
|--|-------------------|
| Land cost                                  | 1                 |
| Estimated land market value in 20Y6        | 100               |
| Estimated gross development value          | 200               |
| Estimated property development expenditure | 75                |

Where DH group has sufficient fund to purchase only one of the two pieces of land, please explain which scenario would give rise to greater tax efficiency. You should support your explanation with the calculation of corporate tax and real property gains tax exposure (if any).

[10 marks]

- d) The finance director intends to embark into the deep sea fishing business activity and wonder if he should undertake the business in his personal capacity or incorporate a new company ("NewCo") under DTC group to embark on the deep sea fishing business. The total capital requirement for this project is estimated to be RM10 million.

Advise the finance director on the tax incentive available for deep sea fishing business and which of the above investment structure he should adopt. Where incorporation of NewCo is preferred, state which entity in DTC group should invest into NewCo to optimize the tax incentive.

[10 marks]

- e) For purposes of expanding its oleochemical business, the finance director is considering on whether–

**Option 1** - DO should acquire the business of SO; or

**Option 2** - DO should acquire the ordinary shares in SO.

From corporate tax efficiency perspective, advise which option should DO choose by quantifying the tax benefits derived. Tax benefits include claiming industrial building allowance, capital allowance, tax incentives, utilization of unabsorbed losses and capital allowance. Assumed assets indicated with (\*) can qualify for investment tax allowance claim.

[8 marks]

- f) In the case of business acquisition, quantify the stamp duty payable by DO.

[2 marks]

**Question 3 (Oral Presentation) (20 marks)**

Triple A Sdn Bhd (“AAA”) was incorporated in January 20X5 to carry on plantation business. On 14 February 20X5, AAA acquired its first real property, a 30-acres plantation at a bargain price of RM1,000,000. The only available assets other than the real property was cash of RM300,000. The business is yet to be commenced.

Triple B Sdn Bhd (“BBB”) has a profitable manufacturing business. BBB acquired 1,000,000 shares of AAA for a consideration of RM2m on 15 May 20X5 while the total issued shares of AAA were 2,000,000. On the date of acquisition, BBB has the following financial position:-

|   | RM'000 |
|---|--------|
| Land and factory building (market value)      | 5,800  |
| Plant and machinery                           | 1,000  |
| Goodwill                                      | 2,000  |
| Inventories                                   | 600    |
| Trade receivables                             | 500    |
| Cash and cash equivalent (before acquisition) | 3,200  |

BBB further acquired 1 piece of commercial land with a market value of RM1,100,000 on 30 August 20X5.

Triple C Sdn Bhd (“CCC”) was incorporated in Malaysia ten years ago to carry out trading business. CCC acquired 1,000,000 shares of BBB for a consideration of RM2,000,000 while the total issued shares of BBB were 3,000,000 on 22 June 20X5. CCC has the following financial position:-

|  | 22 March 20X5 | 30 June 20X5 |
|--|---------------|--------------|
|  | RM'000        | RM'000       |
| Shoplots (market value)                      | 8,000         | 10,000       |
| Plant and machinery                          | 3,000         | 3,500        |
| Goodwill                                     | 3,500         | 8,000        |
| Cash and cash equivalent (after acquisition) | 2,500         | 500          |

CCC dispose of 500,000 shares in BBB with a market consideration of RM2,000,000 to Triple D Sdn Bhd (“DDD”) on 12 October 20X6.

All the above-mentioned companies are controlled companies and not engaged in property development.

**Required**

a) Determine whether AAA, BBB and CCC is RPC.

[13 marks]

b) Compute the amount of RPGT payable by CCC on the disposal of 500,000 shares in BBB, if any.

[7 marks]



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