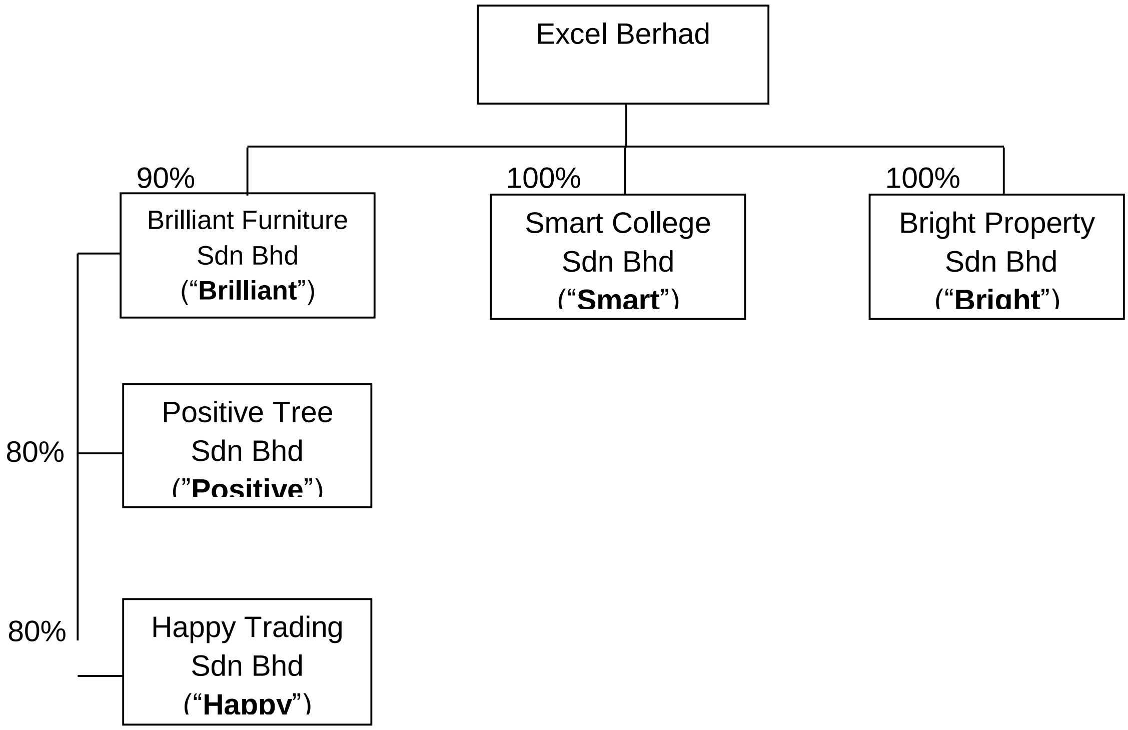
Deloitte Tax Challenge 2014 – Individual Category Final Stage

Excel Berhad ("Excel") is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad. Excel is principally engaged in the business of investment holding and provision of management services to subsidiaries engaged in the manufacturing and marketing of contemporary and classic high end furniture, higher education and properties holding.

The group structure of Excel is depicted as follows:



Excel

During the year ended 31.10.2014, Excel had the following transactions:

1) Incurred annual operating expenses of RM500,000 which include staff salary, directors' remuneration, office premise rental etc for the provision of management services to its subsidiaries.

2) Incurred an annual interest expense of RM1.8m on a term loan of RM60m obtained for purposes of advances to Brilliant for working capital purposes.

3) Excel has not received any income from its subsidiaries.

Brilliant

1) Engaged in the business of manufacturing contemporary and classic high end furniture in Sabah. Furniture are sold to its trading arm, Happy. Brilliant charges sales tax of 10% on the sale of furniture to Happy.

2) Intends to reinvest to expand its factory plants as demand for such furniture is increasing in European countries. Brilliant had enjoyed reinvestment allowance of 15 years.

3) Sourced supply of rubber wood for manufacturing of its furniture from its subsidiary company, Positive which is involved in the business of planting rubber trees.

4) 10 tonnes of wood sawdust, being by-product of the furniture would be generated on a monthly basis.

Positive

1) Involved in the business of planting rubber trees and 90% of its rubber wood are supplied to Brilliant. The sales to Brilliant may reach to RM30 million in a year.

2) Has been making substantial profit.

Happy

1) Involved in the furniture trading business, buying from Brilliant and sell to external customers. The purpose of interposing Happy is to reduce the sales tax exposure.

Smart

1) Engaged in the business of provision of higher education in Cyberjaya and has been incurring losses consistently in the past 5 years and it is likely that the business will breakeven in 2 years. Smart currently rents a college campus and land from Bright.

   Given that provision of higher education is an exempt supply, any GST cost incurred will not be claimable as input tax under the GST regime and as such, GST levied on rental charged by Bright will become a sunk cost to Smart.

Bright

1) Engaged in the business of property holding. Under the GST regime, Bright will charge 6% GST on the rental charges to Smart.

All the companies in Excel group have a paid up ordinary share capital of more than RM2.5 million except for Positive and Smart with paid up share capital of RM1m and RM2m respectively.

Required:

Excel board of directors is aware of the following:

a) Excel is not tax efficient. State, with reasons how Excel can reorganize its related party transactions to achieve greater group tax efficiency. Also, how can Smart and Positive improve further on their tax efficiency?

b) Explain how interposing Happy would reduce the sales tax exposure. When GST comes in, would the existence of Happy still be relevant to reduce the GST exposure?

c) Given Brilliant had exhausted the reinvestment allowance incentive, are there any tax incentive for its reinvestment to expand its factory plants and machinery? If so, please explain the type and eligibility of tax incentive(s).

d) There is business opportunity to manufacture biomass wood pellets from the heaps of wood sawdust currently gathered in the warehouse of Brilliant. They wish to know the type of tax incentive available for manufacturing of biomass wood pellet.

e) GST will be a sunk cost to Smart. They were told that corporate restructuring exercise may be undertaken to eliminate the inefficiency. Elaborate how this work.

f) In the circumstances where the business of Bright and Smart are merged, RPGT and stamp duty may arise and exemption may be applicable. Please explain how exposure may arise and conditions for exemption.