



**Deloitte Tax Challenge 2018**

**Team Category – Final Stage**

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

Goods and Services Tax ("GST") was introduced in Malaysia on 1 April 2015 at 6%. However, subsequent to the 2018 general elections, the new Government has abolished GST and re-introduced Sales Tax and Service Tax ("SST"), which took effect from 1 September 2018.

**Required**

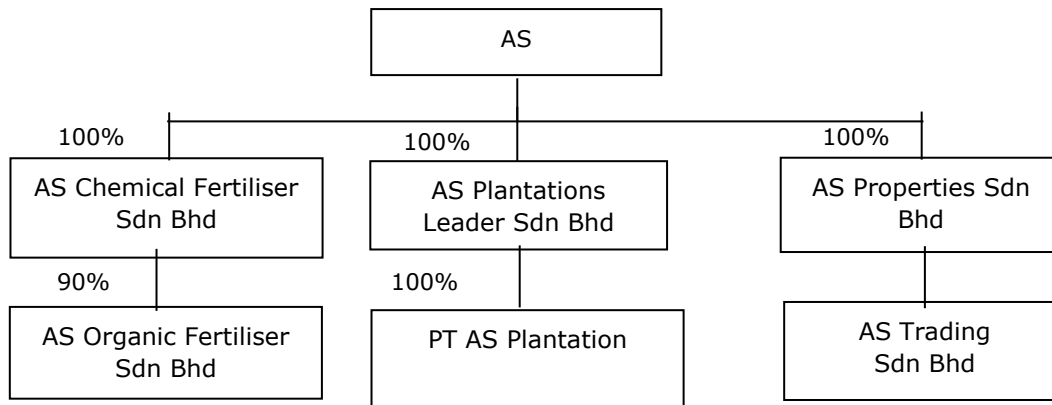
In your view, how does the abolishment of GST and re-introduction of SST benefit Malaysia? Consider your views from the perspective of implementation and impact to businesses, Government, and the Rakyat.

(40 marks)

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

**Question 2 (Oral Presentation) (60 marks)**

The Chief Financial Officer (“CFO”) of All Star Sdn Bhd (“AS”) has approached your team for tax advice. He shared the following information with your team:



**AS** is an investment holding company under Section 60F and has incurred annual expenses of RM1 million to provide management and administrative services to its subsidiaries. AS also gives interest free advances to subsidiaries amounting to RM60 million. AS has no income other than dividend income. AS plans to undertake cattle farming business which has an investment cost of RM2 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.

**AS Organic Fertiliser Sdn Bhd (“ASOF”)** is engaged in the business of manufacturing organic fertilizer. It has been incurring losses for the past 5 years with unabsorbed losses brought forward of RM5 million. **AS Chemical Fertiliser Sdn Bhd (“ASCF”)** is engaged in the business of manufacturing chemical fertilizer and it has been making annual profits of RM1 million. The business of ASOF and ASCF are operated by the same management team and both companies have many common suppliers and customers. The CFO is thinking of merging the two businesses to achieve greater operation efficiency.

Details of the assets of the ASCF manufacturing business are as follows:

	Acquisition Date	Acquisition cost RM'000	Sales consideration RM'000
Land	15 April 2010	1,000	5,000
Factory building	14 February 2011	2,000	3,000
Plant and machinery	18 October 2013	3,000	2,000

The sales consideration will be satisfied with the ordinary shares in ASOF.

**AS Trading Sdn Bhd (“ASI”)** is a commodity trading company dealing with local companies. The CFO informed that the owner intends to embark on new business of international trading of crude palm oil (CPO) where CPO will be procured from overseas including PT AS Plantations, a resident company in Indonesia for sale to the foreign customers. The CFO also heard that a Labuan entity is usually set up to carry on offshore trading activity.

**AS Plantations Leader Sdn Bhd (“ASPL”)** is in the business of plantation of oil palm and operating a palm oil mill. ASPL has been the most profitable company in AS group. ASPL is currently not enjoying any tax incentives. ASPL is the holding company of PT AS International Plantation (a company incorporated in Indonesia) which is undertaking the business of palm oil plantation in Indonesia. ASPL provides management and technical support services without charging any fee.

**AS Properties Sdn Bhd (“ASP”)** is a property investment holding company incorporated on 31 October 2015. On the even date, ASP had acquired a parcel of land with the intention for long-term investment. The land acquisition is financed by interest free advances from AS. With a third party, ASP established a joint venture company to develop an integrated tourism project on the said land. The tourism project did not take off due to the economy downturn and ABSB disposed the land on 2 November 2018 as there is an interested party offered to buy the land. ASP has done nothing to the land except for submission of development plan to the land office.

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

- 1) State, with reasons, how AS can achieve tax efficiency. How best the proposed cattle farming business can be structured to enjoy double tax incentives (i.e. income tax exemption from farming and deduction of investment cost) and which entity should be used?  
(8 marks)
- 2) State all the related party transactions of AS 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. Also, state which intercompany transaction(s) require preparation of full transfer pricing documentation based on the transfer pricing guidelines.  
(10 marks)
- 3) State with reason how would the transfer of business from ASCF to ASOF bring greater tax efficiency to the group.  
(8 marks)
- 4) Explain the income tax treatment, real property gains tax and stamp duty implications arising from the transfer of business assets from ASCF to ASOF.  
(10 marks)
- 5) State with reason whether ASFC is eligible for RPGT exemption under Paragraph 17, Schedule 2 of RPGT Act 1976 on the land and building transfer.  
(5 marks)
- 6) State with reason whether ASOF is eligible for stamp duty exemption under Section 15A of Stamp Duty Act 1949 on the purchase of land and building.  
(5 marks)
- 7) State how a Labuan entity would be beneficial to undertake the proposed international CPO trading and what are the conditions to be fulfilled?  
(5 marks)
- 8) Advise the tax treatment on the gain from the sale of land. You should present arguments for and against income tax and real property gains tax with reference to the badges of trade.  
(5 marks)
- 9) Discuss briefly the difference between tax planning, tax avoidance and tax evasion.  
(4 marks)

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