

DELOITTE TAX CHALLENGE

Individual Category – Grand Finals

Question 1 (Written Assessment) (40 marks)

Small & Medium-sized enterprises (“SME”) are accorded some tax benefits in Malaysia.

Required:

For corporate tax purposes:

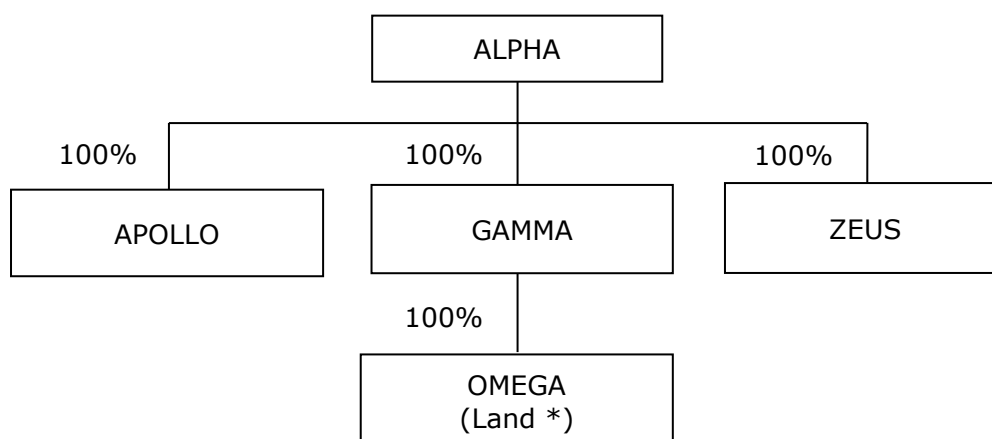
1. List down the criteria that needs to be met for a company to qualify as an SME;
2. State/explain the tax benefits available to SMEs; and
3. In your view, what other tax benefits can the Government make available to SMEs? Please provide at least 3 and explain clearly how they will benefit the SMEs.

(40 marks)

Note: Your answer should not be longer than 250 words.

Question 2 (Oral Presentation) (60 marks)

The holding structure before the disposal of GAMMA shares on 17 December 2019 is as below:



* Land – 12 parcels and 4 parcels of land transferred from GAMMA and ALPHA respectively on 31 March 2016.

Facts:

- ALPHA acquired 2 units of GAMMA’s shares from 2 individuals at RM1/unit on 10 June 2010.
- ALPHA transferred 12 parcels of land to GAMMA at RM4.2 billion on 16 December 2013 (based on SPA signed).
- Written consent from the lessees of the land, i.e. Federal Lands Commissioner (“FLC”) and Tenaga Nasional Berhad have been obtained prior to the transfer of land to GAMMA.
- GAMMA has never acquired any real property prior to 16 December 2013.
- OMEGA was incorporated on 26 December 2014.
- GAMMA acquired 2 units of OMEGA’s shares at RM1/unit on 1 March 2016.
- On 31 March 2016 (based on SPAs signed), OMEGA acquired 12 parcels of land from GAMMA and another 4 parcels of land from ALPHA at RM11.47 billion and RM880 million respectively.
- GAMMA has never acquired any land or shares subsequent to 31 March 2016.
- On 30 June 2016, GAMMA increased its paid-up share capital by 99,998 units. ALPHA subscribed to these 99,998 units of shares at RM17,000/unit.
- ALPHA disposed of 60% of its shares in GAMMA (i.e. 60,000 units) to a third party on 17 December 2019 for RM6.45 billion.
- Please refer to the table below for the respective “Other Tangible Assets” information of GAMMA and OMEGA:

Date	Other tangible assets in the books of GAMMA	Other tangible assets in the books of OMEGA
10 June 2010	RM Nil	-
16 December 2013	RM2.7 million	-
1 March 2016	RM4.8 million	RM Nil
31 March 2016	RM12.36 billion	RM Nil
30 June 2016	RM14 billion	-

- ALPHA has 2 other wholly-owned subsidiaries – APOLLO AND ZEUS. The background of both entities are as follow:

	APOLLO	ZEUS
Principal Activity	Manufacturing and marketing of paints	Marketing and trading of paints, adhesives, and other related products
Commenced business	1 April 2017	1 July 2008
Financial year end	31 December	31 December
Paid-up share capital	RM3,000,000	RM1,500,000
Assets (FYE 31 December 2020)	<ul style="list-style-type: none"> • Factory building – RM5million • Plant & machinery – RM2million • Office equipment – RM800,000 • Furniture & fittings – RM600,000 • Trade receivables – RM1,750,000 • Cash & bank balance – RM600,000 	<ul style="list-style-type: none"> • Plant & machinery – RM300,000 • Office equipment – RM200,000 • Furniture & fittings – RM40,000 • Trade receivables – RM800,000 • Cash & bank balance – RM360,000
Assets acquired / to be acquired in 2021	<ul style="list-style-type: none"> • Plant & machinery – RM3million (includes payment to contractor for installation of RM400,000) • Warehouse (to store raw materials & finished goods) – RM1.2million • Computers – RM420,000 	<ul style="list-style-type: none"> • Plant & machinery – RM200,000 • Hostel accommodation to house workers of both APOLLO and ZEUS – RM1.3million

- A restructuring exercise was done in 2021 whereby the marketing function of APOLLO was transferred to ZEUS. The following assets were transferred from APOLLO to ZEUS in 2021:
1. Office Equipment of RM300,000 (NBV). Cost @ RM500,000 and Tax Written Down Value @ RM200,000;
 2. Furniture & Fittings of RM90,000 (NBV). Cost @ RM100,000 and Tax Written Down Value @ RM70,000; and
 3. Trade Receivables of RM800,000.
- APOLLO also undertook an expansion project in 2021.

Required:

- a) Calculate RPGT payable by ALPHA upon disposal of 60% of its shares in GAMMA (i.e. 60,000 units) to a third party on 17 December 2019. (15 marks)
- b) There was tax planning done prior to the disposal by ALPHA of its 60% shares in GAMMA. Explain the tax planning that was done. (5 marks)
- c) Do you see any issue with the tax planning that was done? Explain your answer. (5 marks)
- d) In relation to the transfer of the 2 fixed assets from APOLLO to ZEUS, please calculate the balancing charge / allowance for APOLLO and the 1st year capital allowance claimable by ZEUS [assume initial allowance (“IA”) of 20% and annual allowance (“AA”) of 10%]. (10 marks)
- e) In relation to the transfer of trade receivables from APOLLO to ZEUS, please explain the tax implications from both the acquirer and disposer perspective? Give recommendation to minimise the tax impact, if any. (10 marks)
- f) Please calculate the Industrial Building Allowance (“IBA”) that can be claimed by ZEUS in relation to the Worker’s Hostel [assume IA 20% and AA 10%]. If IBA is not claimable, please explain why and give recommendations as to how the Group could avail itself to the IBA claim. (5 marks)
- g) Can APOLLO claim Reinvestment Allowance (“RA”) in 2021? If yes, please calculate the RA claim. If RA is not claimable, please explain why not. (10 marks)



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