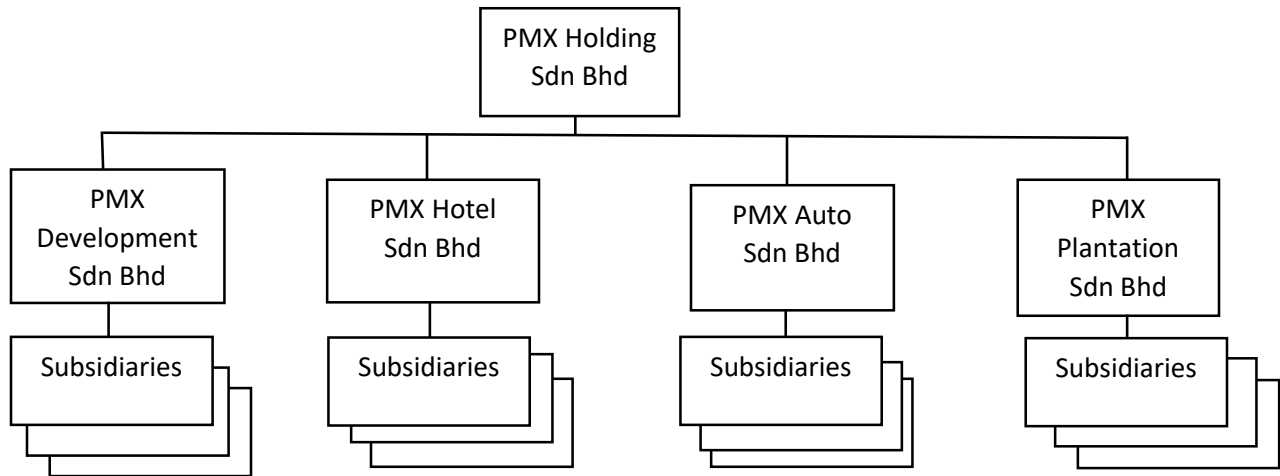


(Oral Assessment) (100 marks)

PMX Holding Sdn Bhd is a huge multinational company in Malaysia. Its group revenue is approximately RM10billion each year. It has 4 sub-groups and they are in different businesses, namely property development, hospitality, automotive and plantation. The simplified group structure is as follows:-



The Group has operations in more than 20 countries and has more than 100 subsidiaries. All the subsidiaries are 100% owned.

David has just been appointed as the Head of Tax and he would like to have a quick discussion with the tax agent to discuss some of the tax challenges faced by the group as follows:-

Property development segment

A Development Sdn Bhd (a subsidiary of PMX Developments Sdn Bhd) was incorporated in year 2000 and is a property developer. It acquired 2 pieces of land, i.e. Land A” and “Land B”, in year 2000 and year 2010 respectively. At the point of acquisitions, the company’s balance sheet position was as follows:-

	Year 2000	Year 2010
	RM	RM
Freehold land	15,000,000	20,000,000 (15m + 5m)
Amount due from related company	2,500,000	NIL
Other assets	NIL	NIL
Share capital	2,000,000	2,000,000
Loan payable	15,500,000	18,000,000

The acquired lands were recognised as current asset in the book of the company as the company is a property developer.

In year 2016, the company sold Land A. At the point of disposal Land A, the company's balance sheet position was as follows:-

	2016
	RM
Freehold land	5,000,000
Amount due from related company	3,000,000
Other assets	NIL
Share capital	2,000,000
Loan payable	6,000,000

At the beginning of this month, it was proposed that the shares in A Development Sdn Bhd would be transferred to a related company (B Development Sdn Bhd) within the group at RM1.

Hospitality segment

The management is considering listing PMX Hotel Sdn Bhd and its subsidiaries on BURSA by end of next year. However, the companies have just been subject to tax audit recently. Based on the tax audit findings from the Inland Revenue Board, the companies are required to pay additional tax of RM5million and incorrect return penalty of RM5million for years of assessment 2016 to 2020.

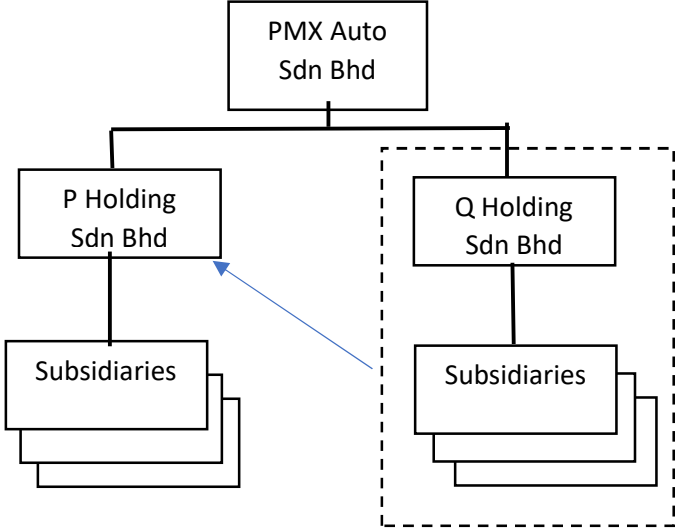
Given the recent tax audit, the management has concern that the proposed listing exercise would be impacted.

Automotive segment

The group is a car distributor of Brand P and Brand Q. Currently, the distribution right of Brand P and Brand Q are owned by P Holding Sdn Bhd and Q Holding Sdn Bhd (subsidiaries of PMX Auto Sdn Bhd) respectively. Apart from car distribution, P Holding Sdn Bhd and Q Holding Sdn Bhd also have other subsidiaries that in other businesses

The Group CEO is considering merging the 2 sub-groups with a view to achieving better synergy. In this regard, the management is considering that

- a) PMX Auto Sdn Bhd sells the shares of Q Holding Sdn Bhd to P Holdings Sdn Bhd at the value of RM380million
- b) The consideration would be satisfied by shares (i.e. P Holding Sdn Bhd would issue shares to PMX Sdn Bhd)



Plantation segment

Issue -1

The plantation sub-group is currently changing its accounting system. The group has acquired the software from a Singapore company at a price of RM1million. All the cost would be absorbed by PMX Plantation Sdn Bhd.

The Singapore vendor would travel to Malaysia and install the software for the Malaysian companies. In this regard, a service fee of RM800,000 would be charged and all the disbursement would be recharged to PMX Plantation Sdn Bhd. It is expected that the installation would take about 5 months to complete. In the agreement, it is stated that all Malaysian tax is to be borne by PMX Plantation Sdn Bhd.

Issue - 2

One of Malaysian subsidiaries within the plantation group has recently rented an office in Singapore. It is proposed that a local marketing manager (a Singaporean) would be recruited and based there.

His roles include meeting with potential clients and signing contract for the Malaysian company.

Questions

Prior to the meeting, David has sent an email to you and listed down the questions that he would like to discussed as follows:-

- 1) As the A Development Sdn Bhd is a property developer, David is not sure whether it could be a real property company. If so, what are the potential real property gains tax implications arising from the transfer of shares in A Development Sdn Bhd to B Development Sdn Bhd. You are expected to explain the RPGT implications on both disposer and acquirer. **(25 marks)**
- 2) David is aware that the Inland Revenue Board has introduced a few measures/programs recently to
 - a. encourage taxpayer to declare their outstanding taxes; and
 - b. improve the taxpayer's tax control/governance

David is considering participating in such programs prior to the listing of PMX Hotel Sdn Bhd but he is not sure what are the benefits and hence would like to have a discussion with you. **(12.5 marks)**

- 3) What would be the stamp duty implications arising from the transfer of shares in Q Holding Sdn Bhd to P Holding Sdn Bhd? Can the transaction qualify for any relief provided under the Malaysian Stamp Act (i.e. can the conditions be met)? **(25 marks)**
- 4) What would be withholding tax implications arising from the acquisition of software and installation service? Also, what are the WHT obligations that PMX Plantation Sdn Bhd needs to comply with? **(20 marks)**

What would be potential Malaysia and Singapore income tax issues arising from the registration of the Singapore Branch by the Malaysian company and the activities carried out by the marketing manager in Singapore **(10 marks)**

- 5) David has attended a seminar recently and was told that Global Minimum Tax and e-invoicing would be implemented in Malaysia soon. Would PMX Group be affected given the size of its operations? **(7.5 marks)**

[End of Question Paper]



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