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Deloitte Tax Challenge 2023

Team Category – Grand Finals

(Oral Assessment) (100 marks)

XYZ, a prominent UK-based multinational enterprise ("MNE"), boasts a distinguished history in the semiconductor manufacturing sector and a global presence via its 20 subsidiaries across 10 countries. With decades of expertise, the Group has evolved into a key player in producing cutting-edge semiconductor components and technologies for various industries, contributing to technological advancements worldwide.

As the global demand for semiconductor products continues to soar, particularly in emerging technologies like artificial intelligence, autonomous vehicles, and smart devices, XYZ Group is strategically expanding its operations. The Group aims to establish an advanced semiconductor manufacturing facility in Malaysia, recognizing the nation's pivotal role in the Electrical and Electronics industry.

In line with this expansion initiative, XYZ is exploring opportunities to leverage Malaysia's strategic location, skilled workforce, and supportive regulatory environment to establish a state-of-the-art semiconductor manufacturing plant. To achieve this, XYZ (the UK company) will incorporate a new Malaysian subsidiary ("MY NewCo") to undertake the manufacturing project. MY NewCo will acquire a piece of freehold land in Penang to carry out the manufacturing activities. MY NewCo is expected to employ over 100 local employees. The Chief Financial Officer ("CFO") of XYZ would like to explore the tax incentives offered by the Malaysian government for investments in the manufacturing sector and has sought your advice in this respect.

It is envisaged that the construction of the state-of-the-art production plant in Penang will commence in 2024 and the production will commence in 2026.

The estimated investment cost for the manufacturing project is RM500 million. This will be funded by 70% debt and 30% equity. The current estimated capital expenditure is RM 450 million and working capital of RM 50 million. New MYCo will obtain loan from XYZ as well as local banks. In UK, there are thin capitalization rules. The CFO would like to understand whether Malaysia has such similar rules and would like to know more on the interest deductibility rules in Malaysia.

As part of its commitment to innovation, XYZ is also considering licensing its proprietary production technology to the new Malaysian subsidiary. The CFO would like to understand the key tax considerations on the licensing fee charged by XYZ taking into account the Double Taxation Agreement between UK and Malaysia.

As the investment in MY NewCo will be significant to the Group, the CFO of XYZ is concerned of the tax implication on profit repatriation (e.g. via dividend payout) and future exit (i.e. divestment of shares in MY NewCo).

Further, as a proactive measure in meeting global ESG standards, the CFO is interested in gathering some general ideas on tax corporate governance ("TCG") and tax corporate governance framework ("TCG Framework") in Malaysia for future consideration.

You are required to prepare a presentation to the CFO address the following:

a) Potential tax incentives that may apply to MY NewCo. (20 marks)

b) Tax consideration on debt financing and interest deductibility rules in Malaysia. (20 marks)

c) Address the tax considerations in relation to the licensing fee charged by XYZ. (20 marks)

d) Explain the tax considerations that the CFO would need to take note on profit repatriation and future exit. (20 marks)

e) Information on TCG and TCG framework in Malaysia. (20 marks)

[End of Question Paper]