



Deloitte Tax Challenge 2010

Individual Category – Finals

Mime Glory Bhd

A Malaysian company, Mime Glory Bhd, and its subsidiaries are major players in the plantation industry. Mime Glory Bhd is resident in Malaysia for tax purposes.

Mime Glory Bhd is in the process of acquiring additional plantation land in Indonesia and proposes to fund this acquisition by itself borrowing US\$100 million (assume exchange rate of US\$1 = RM3) from a Singapore branch of Malayan Banking Bhd at 1.5% interest per annum. **The lending bank and branch are final and must not be changed.** The company has no other borrowings. Any withholding tax will be borne by the lender. Mime Glory intends to negotiate for lower interest rates if withholding tax rate is favourable. The following withholding tax rates apply:

Nature of income	Payor resident in	Payee resident in	Rate %
Interest	Malaysia	Singapore	10
Interest	Indonesia	Singapore	10
Interest	Indonesia	Malaysia	Exempt in this case under special provision
Dividend	Indonesia	Malaysia	10

The Indonesian subsidiary, Indomime, which will own the plantation land being acquired, will be a pure plantation company without any non-business assets. It will operate solely in Indonesia. Indomime's revenue will be denominated in US dollars.

Investment income of Mime Glory includes tax exempt dividends, taxable dividends of RM500,000 (gross) and interest from convertible unsecured loan stock of a Malaysian company. Mime Glory owns RM100 million convertible unsecured loan stock from a Malaysian listed company and the interest coupon rate thereon is 2.5%. It also owns shares acquired at RM50 million excluding the investment in the shares of Indomime.

Mime Glory seeks your advice on how the funding may be structured. Three options should be raised together with any pertinent factors to be considered in each case. Mime Glory also seeks your recommended option together with reasons.

The company has asked you to present your advice by way of an oral presentation to the board of directors of the company. It has allotted a 15-minute slot to you for this purpose. Due to the short time allowed, your presentation should be succinct and should be accompanied by one or more PowerPoint slides.

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