



Deloitte Tax Challenge 2010

Team Category – Finals

Dime Gory Bhd

The Dime Gory Bhd group of companies manufactures geothermal power plants.

All companies in the group are profitable. Dime Gory faced much difficulty in gaining sufficient factory workers in Malaysia since 2006 and supplemented its manufacturing capacity here with three factories in China operated by three separate subsidiaries there. It has however experienced much difficulty in repatriating its profits from China and therefore desires to minimize its profits there significantly although they are merely taxed at 12.5% in China. Dividends from China attract 10% withholding tax. Notwithstanding, the said difficulty, Dime Gory is adamant that it will not relocate away from China.

In view of labour supply constraints, Dime Gory will not expand its manufacturing activities in Malaysia but is open to alleviating this problem through the use of hardware which reduces dependence on manual labour. It however hesitates to incur such expenditure because the costs involved are 5% higher than those involved in the use of manual labour. The Malaysian manufacturing company previously enjoyed pioneer status and its tax holiday ended in 2009.

All the components manufactured by the Dime Gory group are in accordance with Malaysian-registered designs owned by its Malaysian manufacturing company located in Shah Alam. Some other functions are also centralized and the Malaysian company provides procurement, human resource, treasury and technical support to its manufacturing operations in China.

As Mime Glory needs to show better profits in its published accounts, it has sought your advice on how it can be more tax efficient although it has exhausted the incentives available overseas and also how it can minimize its China profits.

Dime Gory also needs advice in relation to a contract won to repair a leaking geothermal plant (a normal activity of the company) in Hotland, a country with an OECD-type double taxation agreement with Malaysia. This agreement does not contain any specific provision on technical services. To execute this project, a team of 3 experts from Dime Gory Malaysia will be sent to Hotland for 3 weeks. Hotland intends to obtain 20% withholding tax on the fee of RM1million payable to Dime Gory based on its income tax act but the Managing Director of Dime Gory prefers that they should not be subject to this withholding and has asked for grounds, if any, which he can use to avoid withholding tax there.

Your team has been asked by Dime Gory to prepare a 20-minute verbal presentation to the board of directors of the company, aided by PowerPoint slides. The board members may raise questions during the 20 minutes allotted to your team. As your presentation time is limited and is being directed at the board of directors, you should ensure that your higher level presentation is clearly and convincingly delivered, omitting details.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 169,000 professionals are committed to becoming the standard of excellence.

About Deloitte Malaysia

In Malaysia, Deloitte KassimChan is the member firm of Deloitte Touche Tohmatsu, and services are provided by Deloitte KassimChan and its affiliates.

Deloitte KassimChan is part of Deloitte Southeast Asia – a cluster of member firms operating in Brunei, Guam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam – which was established to deliver measurable value to the particular demands of increasingly intra-regional and fast growing companies and enterprises.

With a team of over 200 partners and 5,000 professionals located in 20 offices, Deloitte Southeast Asia specialists combine their technical expertise and deep industry knowledge to deliver consistent high quality services to companies in the region.

All services are provided through the individual member firms, their subsidiaries and affiliates which are separate and independent legal entities.

© 2010 Deloitte KassimChan Tax Services Sdn Bhd. Member of Deloitte Touche Tohmatsu

