



# Deloitte Tax Challenge 2011

## Team Category – Finals

Mr. Teng is the managing director of Jasmine Sdn Bhd (Jasmine) and its subsidiaries Lily Sdn Bhd (Lily) and Rose Sdn Bhd (Rose). Being a leader with foresight, he is of the view that the economy will deteriorate in the next 15 months and cash will be king. He calls you for a discussion as he wants your ideas to improve the cash flow of these companies. He asks your team to give him **5 major ideas** through which his companies can improve their cash position and for this purpose, he provides you with the information as in (A), (B) and (C) below to assist you and your team. He requests that you confine your ideas to the information provided as other tax issues will be handled by the staff in his tax department. **He can only allow you 20 minutes for your presentation using PowerPoint slides.** He does not want generic information from text books or the Income Tax Act. You will need to quantify the cash flow effect of your ideas. You can ignore incentives in the form of pioneer status and investment tax allowance.

### A. Jasmine Sdn Bhd

- (i) The company was incorporated in Malaysia in 2003. The company's issued and paid-up capital was RM3 million. Its retained earnings as at year end 30 November 2010 amounted to RM10 million.
- (ii) The company is in the business of selling hypoallergenic cosmetics and skin care products that are suitable for all persons even those with sensitive skin.
- (iii) In the first five years the products were sourced from third parties.
- (iv) In October 2008, Jasmine acquired 100% shares of Lily Sdn Bhd, a manufacturer of cosmetics and skin care products, for RM30 million. Thereafter, most of its products were acquired from Lily.
- (v) The acquisition was financed partly with internal funds and a loan of RM25 million from an investment bank at an interest rate of 6% per annum. This loan is to be repaid in two tranches: RM10 million in October 2012 and the balance in 2016.
- (vi) An interest-free loan of RM2 million was provided to Lily as additional working capital on 1 May 2011.
- (vii) Jasmine incorporated a wholly-owned subsidiary company Rose Sdn Bhd on 15 January 2011.



- (viii) The business in 2011 has been affected to a certain degree as customers reduce purchases or switch to a cheaper alternative due to the uncertainty in the economy arising from the world economic situation and this is expected to continue into 2012. Profits for the first half of 2011 amounted to RM1 million.

B. Lily Sdn Bhd

- (i) Lily was incorporated in 2000. It is involved in the manufacture of cosmetics and skin care products.
- (ii) Its year end is 30 November. Its paid up capital in 2011 remained unchanged at RM4 million.
- (iii) Other than its parent company, its customers include companies in ASEAN countries.
- (iv) It is a profitable company and it pays income tax every year. As at 30 November 2010, it has a section 108 credit balance of RM3 million.
- (v) Demand for its products by its ASEAN customers has increased in 2011. An additional production line is being installed at a cost of RM2.10 million (cost of machinery RM1,980,000 and installation cost RM120,000) in a newly completed factory. The installation is expected to be completed in November or December 2011.
- (vi) The machinery was purchased from Germany at a cost of US\$660,000. It was delivered on 25 September 2011. At the point of invoice the exchange rate was US\$1 to RM3.00. The invoice is due for payment in 25 November 2011 and it is expected the exchange rate to be slightly higher at RM3.10.
- (vii) Lily received a certificate of completion for the new factory on 28 September 2011. The total cost of construction was RM3,000,000. The factory space was allocated to:

*Production 85%*

*Office 8%*

*Quality control section (for checking finished products) 5%*

*Surau, washroom and recreation room 2%*

- (viii) Retained earnings at 30 November 2010 was RM6 million. 2011 is expected to be another profitable year.

C. Rose Sdn Bhd

- (i) Rose was incorporated on 15 January 2011 with a capital of RM3 million as a marketing company for the group's imported brands of cosmetics.
- (ii) It is projected that it will suffer a loss of RM0.5 million in 2011.



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