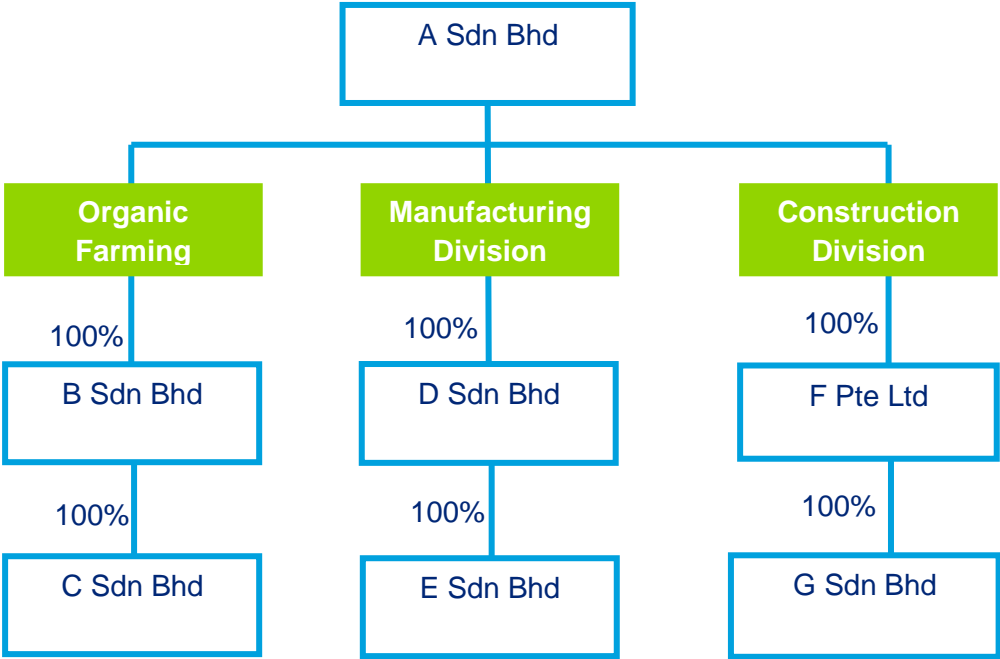


Deloitte Tax Challenge 2013

Individual category – Final stage case study

Encik Azman has been recently offered the opportunity to return to Malaysia to hold the position of Chief Financial Officer in a holding company, A Sdn Bhd, a renowned conglomerate company in Malaysia. After spending 8 years working and studying abroad in the United Kingdom, where he obtained his Bachelor’s Degree in Finance from University of Oxford Brookes, he is considering moving back to Malaysia to serve the country. He did some financial research on A Sdn Bhd group of companies and noticed that the effective tax rate of the company exceeded 25% and would like you to devise him a tax plan on how to improve the group tax efficiency structure for A Sdn Bhd group. He also agrees to reward your firm with a one-off professional fee of 1% based on the tax savings for one year. He revealed the following during a recent telephone conference call with you:



- b) A Sdn Bhd is an investment holding company incurring annual expenses of RM1 million to provide management and administrative services to its subsidiaries. A Sdn Bhd has no income other than dividend income.
- c) B Sdn Bhd is operating an eco farm resort in Bukit Tinggi and has huge carried-forward unabsorbed business losses of RM10 million arising from the high operating costs incurred to maintain the resort for the past few years. It is expected that B Sdn Bhd will continue to make losses for the foreseeable future.
- d) C Sdn Bhd is in the business of running an eco-farm where it grows vegetables and fruits completely free of pesticides and chemicals at the farm which is also located at Bukit Tinggi (within the same resort vicinity of B Sdn Bhd). It has been making annual profits of RM5 million following the public awareness on the health benefits of consuming organic vegetable and fruits.
- e) D Sdn Bhd is principally involved in manufacturing of integrated circuits, solar photovoltaics, light emitting diodes and solid state lighting as well as integrated electronics since 2000. Its reinvestment allowance incentive period of 15 years has expired in year 2011.

D Sdn Bhd foresees that the electrical and electronic industry in South East Asia is very encouraging mainly due to the high demand from China, India, Taiwan and Indonesia and therefore intends to increase its production capacity by two folds. D Sdn Bhd is poised to invest an additional capital expenditure of RM1 billion to expand its existing plant in Terengganu and 100% of the additional produce will be exported overseas.

D Sdn Bhd projected that its statutory income for the next 10 years would be RM200 million per annum.

- f) D Sdn Bhd has also been incurring an annual interest expense of RM10 million on a bank loan amounting to RM280 million and the loan amount was wholly used to finance the capital expenditure of E Sdn Bhd via share capital injection in 2007. E Sdn Bhd has exhausted its Section 108 balance on 30 September 2013 and its financial position as at 30 September 2013 is as follows:

	RM'000
Real estate property at market value (holding period more than 5 years)	280,000
Plant and machinery	140,000
Retained earnings	500,000
Cash at bank	10,000

Moving forward, the interest expense in D Sdn Bhd will not be efficiently utilised as the single tier dividend income to be received from E Sdn Bhd is tax exempted.

- g) D Sdn Bhd has awarded the plant construction contract to its related company, F Pte Ltd, a tax resident in London, where the contract would comprise the following scope of work:

Offshore scope of work – Engineering, design and procurement	RM600m
Onshore scope of work – Construction, installation and commissioning	RM400m

The construction period is expected to be completed within 2 years.

- i) G Sdn Bhd is a wholly-owned subsidiary company of F Pte Ltd undertaking construction, installation and commissioning work in Malaysia.

Apart from the above, Encik Azman would like to know if he is entitled to any tax incentives arising from exercising his employment in Malaysia and the conditions to fulfill in order to be eligible for the tax incentives (if any).

Encik Azman has requested that you present the following tax advice in **power point slides**:

- i) How A Sdn Bhd group of companies can be reorganised to achieve greater group tax efficiency. Please quantify the tax savings per annum; and
- ii) The tax incentives available to him and the conditions to be fulfilled.

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