

**Deloitte Tax Challenge 2013
Team preliminary Stage Case Study – Five star investor**

You are currently working in an accounting firm in Malaysia with a globally connected network of member firms in more than 150 countries. The firm brings world-class capabilities and high quality service to clients, delivering the insights they need to address their most complex business challenges.

You have been approached by your firm's counterpart Mr Federico Lorca in Spain requesting for your assistance for their key client in Europe, Andalucia S.L. ("ASL").

ASL is considering embarking on the development of chemical production facilities within PETRONAS' Refinery & Petrochemical Integrated Development ("RAPID") project in Pengerang, Johor.

The client has proposed two investment structures for their investment into Malaysia:

Option 1 involves joint investment with Petroliam Nasional Berhad ("PNB") into a new Malaysian company ("NewCo.") which will house the two (2) production lines. Under Option 2, both ASL and PNB will form an investment holding company ("HoldCo.") which will in turn hold 100% shares in two (2) new subsidiary companies ("SubCos.") (with one production line in each company). The two production lines will not be expected to commence concurrently.

After providing you with the above background, the client seeks your advice (from a Malaysian tax perspective) on the following matters:-

- Would the proposed NewCo. or SubCo. be able to enjoy any tax incentives in Malaysia and what would be your recommended incentive, if any. Kindly provide a brief summary on the incentives available to NewCo. and SubCo. and very importantly how it will be applicable under Option 1 and 2.
- Assuming ASL plans to invest via equity under Option 1 and 2, what will be the Malaysian tax treatment for the repatriation of profits back to ASL?
- Under Option 2, ASL plans to also provide loan financing to the Malaysian HoldCo. What would be the Malaysian tax treatment for the interest expense incurred by HoldCo. which is paid to ASL?
- For future divestment plans, what would be the tax implications for the future disposal of the business activity (one production line) under Option 1 and the sale of shares in HoldCo. or the SubCo.?
- Based on your analysis of the above which would be your recommended option/ investment structure for the Client?

The client has requested that you provide your tax advice in a report format (in bullet points with diagrams and tables) and avoid writing a wordy advisory letter on the above issues. In providing your advice, kindly ignore the tax implication for PNB.

