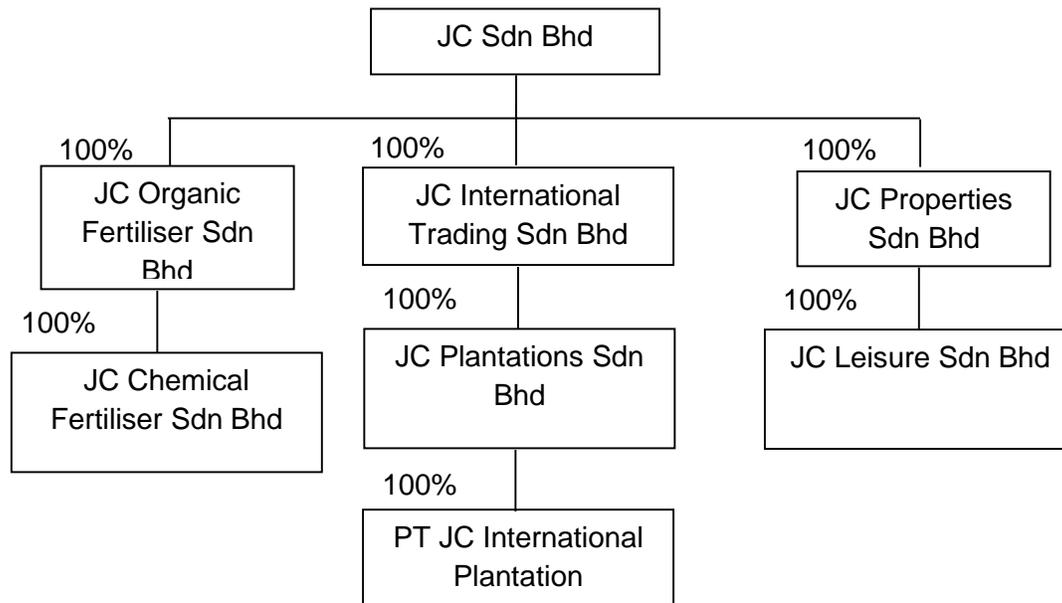


Deloitte Tax Challenge 2014 – Team Category Final Stage

JC Sdn Bhd (“JC”) is principally engaged in the business of investment holding and provision of management services to subsidiaries engaged in the property holding, manufacturing and marketing of organic and chemical fertiliser.

The group structure of JC is depicted as follows:



JC

- 1) An investment holding company incurring annual expenses of RM1m to provide management and administrative services to its subsidiaries.
- 2) JC has also incurred an annual interest expense of RM1.8m on a term loan of RM60m obtained for purposes of advances to all its subsidiaries companies for working capital purposes.
- 3) JC has no income other than dividend income.
- 4) JC plans to undertake aquaculture - shrimp farming business which has an investment cost of RM5 million. The group has a policy which allows new company(s) to be set up to undertake new business where necessary or uses any existing company(s) to carry out new business.

JC Organic Fertiliser Sdn Bhd (“JCOF”)

- 1) JCOF is engaged in the business of manufacturing organic fertilizer trading. It has been incurring losses for the past 5 years with unabsorbed losses brought forward of RM5m and will continue to make losses in the next 5 years.

JC Chemical Fertiliser Sdn Bhd (“JCCF”)

- 1) JCCF, engaged in the business of manufacturing chemical fertilizer has been making annual profits of RM1m from the local sales of chemical fertilizer and intends to expand its manufacturing plant.

The business of JCOF and JCCF are operated by the same management team and both companies have many common suppliers and customers.

JC International Trading Sdn Bhd (“JCI”)

- 1) JCI is incorporated in 2010 under the Companies Act 1965 and has remained dormant.
- 2) JC intends to activate JCI to embark on new business of international trading of crude palm oil (CPO) which is likely to be profitable and part of the CPO will be procured from JC Plantations Sdn Bhd and PT JC Plantations.
- 3) JCI will also be used to procure fertilizer from its related companies, JCOF and JCCF. 80% of the products will be exported and JCI will provide qualifying activities to support its affiliated/related manufacturing operations in Malaysia. It is expected that the intergroup sales and purchase of fertilizers would exceed RM100m annually.

JC Plantations Sdn Bhd (“JCPL”)

- 1) JCPL is in the business of plantation of oil palm and operating a palm oil mill. JCPL has been the most profitable company in JC group. JCPL is currently not enjoying any tax incentives.
- 2) JCPL is the holding company of PT JC International Plantation (a company incorporated in Indonesia) which is undertaking the business of plantation of palm oil in Indonesia.
- 3) JCPL provides management and technical support services without charging any fee.

JC Properties Sdn Bhd (“JCP”)

- 1) JCP was incorporated on 1st December 2005. The directors’ report in the financial statements for the year ended 31st March 2012 stated that the company principally derives interest income from advances to its related companies and during the financial year, the company had purchased its first and only piece of land for its intended property development activities and classified as current assets. The directors’ report in the financial statements for the year ended 31st March 2013 stated that the company is an investment holding company.
- 2) The company acquired the parcel of land on 31st March 2006 with the intention to develop the land into corporate office and warehouses for rental. The purchase of the land was financed through its own fund and the interest bearing advances from its ultimate holding company and related companies.
- 4) JCP has no intention to develop the land into completed properties for sale as the group is primarily a leading multinational agro based corporation. It has no aspiration to be a property developer. Thus, to better reflect the intention of the company in holding the

land, the property development cost amounting to RM13m is represented as the investment properties during the year ended 31st March 2013.

- 5) JCP submitted the development plan to the local authority for construction of corporate office and warehouses. JCP did not carry out any property development activity to build any landed properties for sale.
- 6) JCP will engage a contractor to construct warehouses, common infrastructure and a corporate office for own use. Upon completion of the warehouses, JCP will rent it out to the third parties and derive rental income.
- 7) Due to JCP lacks of financial resources, JCP would have to sell half of the land to related party, JC Leisure Sdn Bhd in return for cash in order to finance the construction cost of warehouses and holding of land meant for corporate office.

Required

- 1) State, with reasons, how JC group of companies can be reorganized to achieve greater group tax efficiency.
- 2) Please state all the related party transactions of JC group that have transfer pricing implications;

Explain how transfer pricing may reduce tax collection and hence may be a concern to the tax authority;

Which intercompany transaction(s) require preparation of full transfer pricing documentation based on the transfer pricing guidelines.

- 3) What are the tax incentive(s) available for the propose activity to be undertaken by JCI

How best the proposed shrimp farming business can be structured to enjoy double incentives (i.e. income tax exemption from farming and deduction of investment cost) and which entity should be used?

- 4) Detailed tax analysis on whether disposal of the land by JCP will be subject to income tax or real property gains tax, with reference to the 8 badges of trade in the following format:

Badges of trade	General principle	In the case of JCP
Motive or intention		
The way the acquisition of assets is financed		
Subject matter of realisation		
Circumstances responsible for the realisation		
Length of the period of ownership		
Modification and enhancement of asset		
The way in which a sale is secured		
Frequency of transactions		

