Deloitte.

Deloitte Tax Challenge 2015

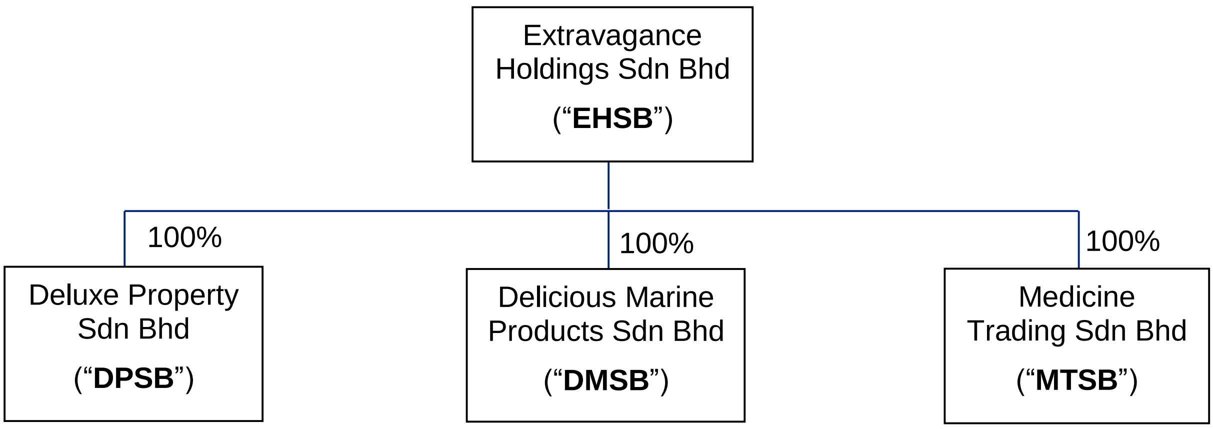
Individual Category - Final

Part A

The property sector is very soft currently. To avoid a hard landing in our property market, the Real Estate Housing Association ("REHDA") has requested its members to complete a questionnaire and submit it to REHDA so that a memorandum can be submitted to the Ministry of Urban Wellbeing, Housing and Local Government. The Chief Financial Officer ("CFO") of Extravagance group has sought your views on what kind of tax and non-tax measures the government can introduce to prop up the property sector.

Part B

Apart from the above, the CFO also shares with you the following group structure of Extravagance group of companies and the details of the companies:



EHSB

- is an investment holding and property holding company and it is not a GST registrant.
- intends to purchase a piece of freehold commercial title land in North Seremban from a GST registrant as there is a high potential of capital appreciation in 10 years-time.

DPSB

- is in the business of high-end property development activity and it is a GST registrant.
- intends to engage the construction services of Nihon EcoHome Ltd ("NEL") a Japan tax resident for a residential project involving the innovative "eco ideas" home technology. The services are to be rendered both in Malaysia and Japan and this would involve a cost of RM25m as shown below:

	RM'm
- Design and architect fee (to be performed in Japan)	1
- Technical training (to be performed in Japan)	4
- Prefabricated steel frame structure, self-cleaning interior and exterior tiles, etc	15
- Assembly and supervision services (to be performed by 5 experts from NEL in Malaysia)	5

The assembly and supervision services would take 5 years.

DMSB

- is in the business of producing surimi-based products using Japanese technology.
- enjoys pioneer status incentive which is expiring in November 2015
- has robust annual profits estimated to be RM5m.
- plans to undertake upstream activity (i.e. deep sea fishing) business which has an investment cost of RM20m to ensure continuous supply of fish for its manufacturing activity.
- understands there are 2 tax incentives available for such deep sea fishing activity as follows:
  - the operating company would enjoy income tax exemption on income derived from this activity; and
  - the investor company can claim tax deduction on the cost of investment.

  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.

MTSB

- is incorporated under the Companies Act 1965.
- is in the business of domestic trading of medicine.
- has an annual profit of RM500,000.
- intends to expand its trading business to do dropshipment transactions and estimates the annual turnover to be RM500m.

Request

a) As indicated above, the CFO of EHSB plans to purchase a piece of freehold commercial title land in North Seremban from a GST registrant for its group's property development activity to be undertaken in 10 years-time. The current and future price of land are as follows:

	RM
Purchase price	5m
Estimated market value in 2025 (vacant land)	8m
Estimated market value in 2030 (after completion)	10m

The CFO understands the importance of seeking advice from you prior to purchasing the land in order to avoid costly tax. He would like to you to quantify the RPGT, stamp duty, GST and income tax exposures arising from the following options and your recommendation:

i) Option 1- EHSB to purchase the land now and subsequently transfer to DPSB for development and sales

ii) Option 2 - DPSB to purchase the land now and keep it for development and sales

GST incurred by EHSB is a sunk cost. What do you propose to make it more tax efficient?

b) The CFO is aware that the services to be performed by NEL will create a permanent establishment in Malaysia based on the Japan-Malaysia tax treaty and hence, withholding tax under Section 107A would apply to the assembly and supervisory fee to be paid by DPSB to NEL. Due to some unforeseen circumstance, NEL foresees it is likely make loss in this project and the advance withholding tax collection would give rise to cash flow constraint to NEL. The CFO has requested you to advise a tax planning idea to manage the cash flow for NEL in Malaysia.

c) The CFO is enticed with the tax incentive for deep sea fishing business and would like to know whether a new entity should be set up and if so, which entity (i.e. EHSB, DPSB, DMSB, MTSB or LHSB) should be the holding company for the new company. State your proposed recommendation and reason for recommendation.

d) The CFO foresees that the drop shipment business for the medicine goods will be raking an annual profits of RM5m and he heard from his friend that Labuan tax regime can help but unsure how it works. State how the Labuan tax regime works for his advantage and what are the conditions should he be mindful of.