



# Deloitte Tax Challenge 2015

## Individual Category – Stage 2

### Oral Test

1. In view of the Ringgit depreciation, some talents may seek to develop their career in other countries including Hong Kong, Singapore, China. You are given 5 minutes to present the proposal on the tax incentives and non-tax incentives to retain the talents.

(30 marks)

### Written Test

2. AB Sdn Bhd's principal activities are property development, investment in real properties and leasing of real estate. A building was specially constructed by AB Sdn Bhd and rented to College M Sdn Bhd. College M Sdn Bhd carries on a business of a private college providing diploma courses in computing and engineering. The college is licensed and approved by the Minister of Education.

The construction of the building was completed in March 2014 and it has been used as a college since 1 July 2014. AB Sdn Bhd incurred the sum of RM 50,000,000 for the construction of the building. Refundable deposit and monthly rent payable by College M Sdn Bhd are RM 1,800,000 and RM 300,000 respectively. The lease period is 10 years with a yearly increase of 5%. Repairs to building, assessments, quit rent and insurance on building are borne by AB Sdn Bhd. All other maintenance expenses are borne by College M Sdn Bhd.

AB Sdn Bhd's financial year end is 31 December and College M Sdn Bhd's financial year end is 30 June.

#### **a) AB Sdn Bhd**

You are required to –

- Advise on the taxability of the refundable deposits and monthly rental income received
  - Advise on the eligibility of claiming the industrial building allowance on the capital expenditure incurred to construct the college building
  - Advise on the deductibility of the repairs to building, assessments, quit rent and insurance on building
- b)** Property market has slowed down recently. What were the measures the government introduced in the past economy downturns to resuscitate the property sector? As a

property developer, what are the measures that would you propose now to prop up our property market?

(45 marks)

3. CD Sdn Bhd is in the business of oil palm plantation and refining of palm oil. For purpose of expanding its existing plant, the company decided to construct a new palm oil refinery. The cost of constructing the refinery by the Chinese engineers excluding the plant was RM20 million and the estimated duration to be taken to construct the plant in Malaysia is approximately 2 months.

Upon completion of the plant construction, CD Sdn Bhd would also engage a one off technical services of German technicians to provide adhoc technical support and the technical fee is estimated to be US\$100,000.

The cost of the refinery was financed by a 5-year loan of RM30 million from the holding company resides in Singapore at 6% simple interest (i.e. RM1.8 million per year). The loan was obtained in early January 2015 and it was to be repaid by 31 December 2019 together with the interest for the 5 years.

CD Sdn Bhd has engaged you to advise the board of directors on the following:

- a) Tax deductibility of the installation cost, technical fee, interest expense
- b) Whether withholding tax (WT) is applicable on the payment stated in item (a) above? If so, what is the WT rate applicable and is CD Sdn Bhd able to apply the tax treaty to reduce the rate?

(25 marks)

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