



Deloitte Tax Challenge 2015

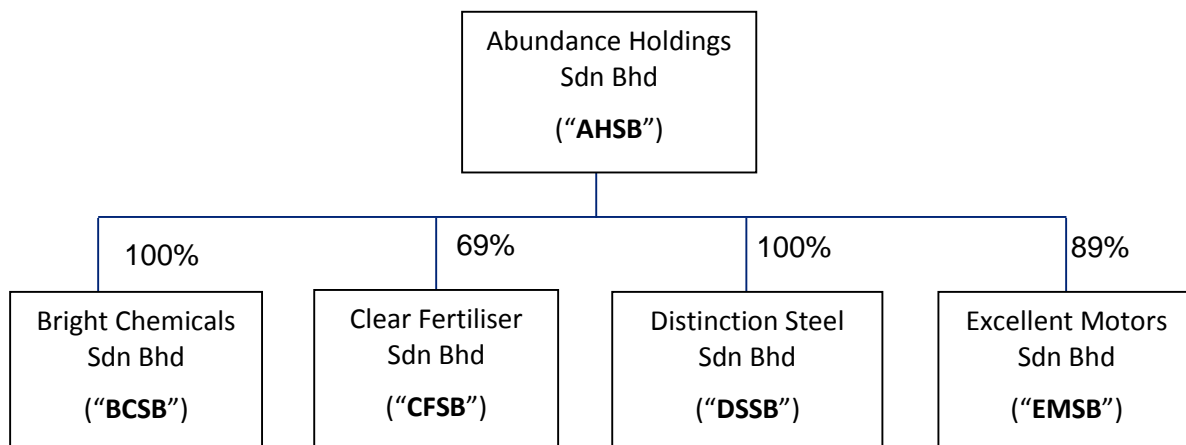
Team Category - Final

Part A

The Chief Executive Officer (“CEO”) of Abundance group has been invited by our Prime Minister to be in a think tank developing initiatives to boost Malaysia’s export, taking advantage of our soft Ringgit position. To assist the CEO with his preparation for the meeting to be held next week, you are asked to provide inputs on what are the new tax incentives the government should consider to promote export. After the think tank meeting, there will be a press conference and the journalists may ask the think tank members their views about Budget 2016. In 50 words, provide your assessment of Budget 2016 in term of fiscal sustainability.

Part B

The CEO of Abundance group has also approached you to seek for your advice to improve the group tax efficiency for its highly dynamic business and its group structure and the details of the companies are appended as follows:



AHSB

- is principally engaged in the business of investment holding and provision of management services to the subsidiary companies.
- During the year ending 31 December 2015, AHSB:
 - incurred payment for directors remuneration and salary cost of RM500,000 but did not charge management fee to the subsidiaries.
 - extended an interest free loan amounting to RM5m to DSSB for the purpose of financing the purchase of plant and machinery for expansion project.
 - incurred bank interest expenses of RM600,000 for the term loan of RM10m obtained earlier to finance the investment in shares in BCSB and DSSB, all of which is not tax deductible. AHSB has a cash balance of RM1m.
 - received only passive rental income from letting of a 12-storey office buildings.

BCSB

- is in the business of manufacturing of alkali-coagulants for river water treatment and it is a highly profitable business.
- has cash and retained earnings of RM10m and RM20m respectively.

CFSB

- is in the business of manufacturing fertilisers.
- has a current year adjusted loss of RM900,000 and it is expected to continue to make more losses in the near future.

DSSB

- is in the business of manufacturing steel for car body and it is a highly profitable company.
- has cash and retained earnings of RM20m and RM50m respectively.
- has incurred RM5m to expand its manufacturing facility to meet the growing demand from overseas market. The steel product exported attained at least 30% of value added.
- export sales has increased by RM10m compared to the prior year due to the plant expansion.
- currently not enjoying any tax incentive.

EMSB

- is a GST registrant carrying on the business of manufacturing cars
- is managed by the management and operation team of DSSB.
- owns land and factory building for more than 5 years.
- located adjacent to the factory area where DSSB is currently operating.
- there is plan to transfer its whole entire business to DSSB for greater efficiency in operation.

Abundance group of companies each has a paid up ordinary share capital of more than RM2.5m except for CFSB which has a paid up ordinary share capital of RM2m. All companies close its accounts on 31 December 2015 except for BCSB which closes its account on 30 June 2016.

Required

- a) As it is now, AHSB is not tax efficient. How AHSB can increase its tax efficiency?
- b) State what both BCSB and CFSB require to do in order to achieve tax efficiency through group tax relief?
- c) State what are the available tax incentive options for DSSB for its expansion project and its export business? Which is a better option based on tax savings?
- d) State whether DSSB is eligible for stamp duty relief on the purchase of land and building. If not, what should be done in order to be eligible for stamp duty relief on the purchase of land and building?
- e) State whether EMSB is required to account for GST output on the transfer of land and factory building to DSSB? If so, how can EMSB make use of the GST law to mitigate the need to account for output tax and what are the conditions to be fulfilled?

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