Deloitte.

Deloitte Tax Challenge 2016

Team Category – Final Stage

Part A

With our prevailing corporate tax rate of 24%, Malaysia no longer hold strong competitive edge in attracting domestic and foreign direct investments and losing out to countries like Singapore where the corporate tax rate is merely at 17%, and Thailand, Vietnam, Indonesia and Cambodia, all at 20%.

In the recent 2017 tax budget, the government has proposed to reduce the corporate tax rate between 1 and 4 percentage points based on a percentage of increase in chargeable income compared to the previous year of assessment ("YA") which is specifically for YA2017 and 2018. Undoubtedly, such measure will result in a reduction of the revenue collection by government for YA2017 and 2018 and may have an adverse impact for our country to achieve Vision 2020.

Required

Research, analyze and argue your case on whether the country should reduce the corporate tax rate to 20% in YA2019.

(30m)

Part B

With the trend of Multinational companies (MNCs) adopting centralized models, the business models of headquarters have evolved throughout the years. In light of such development, Operational Headquarters (OHQ) incentive was introduced by countries to create a conducive tax regime to attract MNCs to set up headquarters in this region.

Required

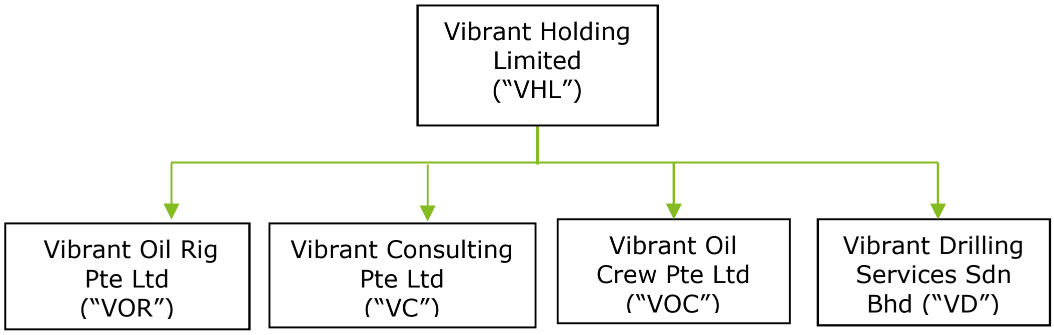
Identify **three** Asian countries which heavily emphasize in offering attractive tax regime to OHQ and research on the tax incentives available.

Present to our Finance Minister, by making comparison with the other countries, what kind of changes should be made to our existing operational headquarters framework in order to enhance our country's competitiveness.

(30m)

Part C

The Chief Financial Officer of Vibrant Holdings Limited would like to seek know the tax implications arising from the cross border transactions as detailed below:



VHL is an investment holding company incorporated in Cayman Island.

VOR, a company tax resident in Australia, is principally engaged in the business of leasing oil rigs to customers worldwide.

VC, also a company tax resident in Australia, is principally engaged in the business of provision of oil drilling consultancy services.

VOC, a company tax resident in the United Kingdom, is involved in the business of provision of rig crews for onsite supervision.

VD, a tax resident company in Malaysia is in the business of provision of oil drilling services and is expected to secure a one year oil drilling contract which is to be performed in offshore Sarawak. In this connection, VD intends to lease a rig from VOR, seek consultation service from VC and engage the crew service of VOC.

VOR and VOC would complete the above project within 1 year whilst VC would complete its consultancy services in Malaysia within 2 months.

Required

You are required to make a power point presentation to brief the CFO on the following:

(i) State, with reasons, whether VOR, VC and VOC have a permanent establishment in Malaysia.

(ii) State, with reasons, whether withholding tax under Section 107A or Section 109B of the Act is applicable on the lease payment, crew fees and consultancy fees made by VD to VOR, VC and VOC respectively.

(iii) State, how the above leasing business can be restructured in Labuan to mitigate the withholding tax exposure.

(iv) State, how the above crew arrangement can be restructured to mitigate the withholding tax exposure.

(40 marks)