



Deloitte Tax Challenge 2016

Team Category – Preliminary Stage

Question 1

Due to the fast changing global business environment, many Multinational companies (MNCs) are looking at locating their principal hub in this region to optimize operating efficiency. Malaysia aspires to be the host country for the principal hub set up by the MNCs.

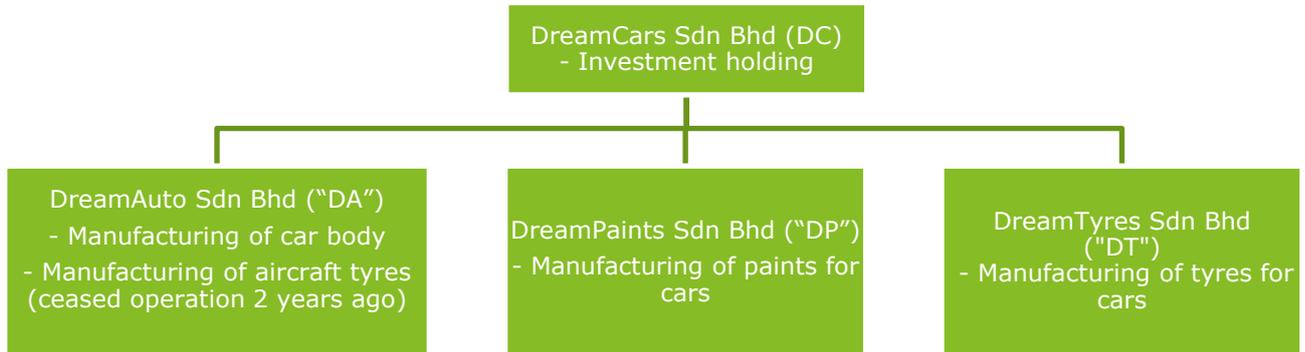
Required

Articulate the strengths of Malaysia as compared to other countries in terms of attracting the MNC to locate their principal hub in Malaysia. Also state the incentives available and the conditions required to be fulfilled in order to qualify for principal hub incentives.

(40 marks)

Question 2

The group structure and principal business activity of DreamCars group are appended below:-



All the companies are Goods and Services Tax ("GST") registrant companies except for DT as its annual taxable turnover does not exceed RM500,000.

DC has plan to restructure the group in order to improve operational efficiency. The following action plans were proposed:

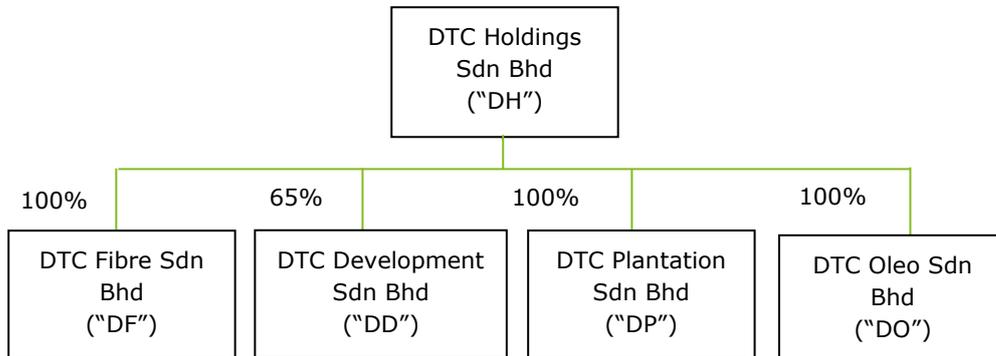
- i. DA to transfer its assets in relation to the car body manufacturing business to DP so that immediately after the transfer, DP will carry on 2 businesses (manufacturing of car body and paints for cars) simultaneously. The car body manufacturing business transferred is capable to operate by its own.
- ii. DA to transfer its assets in relation to the aircraft tyres manufacturing business to DT. DT will recommence the manufacturing of aircraft tyres business within 6 months after the transfer as more preparatory tasks are required to activate the ceased operation.

Required

- a) State the rationales of introducing the transfer of business as a going concern ("TOGC") provision under the Goods and Service Tax Act, 2014 ("GSTA").
(2 marks)
- b) State the conditions imposed on the transfer of business assets qualifying as a TOGC.
(4 marks)
- c) Assess whether the transfer of business assets in (i) and (ii) above can be regarded as a TOGC. Also, discuss on the GST implications arising therefrom.
(14 marks)

Question 3

Your tax partner had attended a meeting with the finance director-cum-owner of DTC group today to discuss on the possible ways to improve the tax efficiency of DTC group of companies appended below:



All the companies close its financial year end accounts 31 December annually and have a paid up ordinary share capital more than RM2.5million except for DD which has a paid up ordinary share capital of RM2.3million.

DTC Holdings Sdn Bhd ("DH")

DH is an investment holding company.

Currently, DH owns 8 acres vacant commercial land with high potential for property development which was purchased in year 2000 at cost of RM2 million and the current market value todate is RM6 million.

DH has obtained 2 bank credit facilities for the following purposes:

	RM'm
- Share subscription in DD	5
- Extend interest free advance to DF for working capital purposes	2

The shares in DD were acquired in June 2015. Interest expense incurred by DH is not tax deductible.

DTC Fibre Sdn Bhd ("DF")

DF is principally engaged in the business of manufacturing palm pellets. The business is expected to incur substantial tax losses for the years of assessment 2016 and 2017 due to the declining crude oil price has resulted in the power plant and boiler users opt to use oil fuel rather than palm pellet to produce heat and power.

DTC Development Sdn Bhd ("DD")

DD is principally engaged in the business of property development. It is highly profitable with a retained earnings and cash balance of RM20 million and RM15 million respectively.

DTC Plantation Sdn Bhd ("DP")

DP is principally engaged in the business of palm oil cultivation, processing and marketing of oil palm products. It has been the most profitable company in the group.

DTC Oleochemical Sdn Bhd ("DO")

DO is currently enjoying investment tax allowance incentive on the manufacturing of oleochemical products. It has come to knowledge that a similar company in Malaysia, Solaris Oleo Sdn Bhd ("SO") is for sale because it has incurred losses of RM10m and unabsorbed capital allowance of RM20m.

SO has the following assets and liabilities:

	RM'm
Freehold land @ market value	2
Factory building @ market value*	8
Plant and machinery @ net book value*	10
Inventory	1
Accounts receivable	2
Accounts payable	2
Bank loan	5
Net assets value	16

The business operation of SO is still active.

Your team have been requested to present a tax proposal to the finance director of DTC group to address on the following issues:-

- a) Identify ways to improve on the tax position of DH arising from non-deductibility of interest expense. (5 marks)
- b) State with reasons whether DF and DD qualify for group relief in years of assessment 2016 and 2017. If not, propose how they can meet the requirements. (5 marks)
- c) The finance director has identified two pieces of land located adjacent to each other. The first piece of land is a bare land whilst the second piece of land is a 5 years old oil palm plantation land. Both piece of land have potential for future property development activity in 10 year time.

Scenario 1 – DD would purchase the bare land now for property development in 10 year time.

Scenario 2 – DP would purchase the oil palm plantation land for its plantation business expansion purposes. In 10 year time, if there is any development potential, the land may be transferred to DD for development.

Other relevant information for both piece of land is as follows:

	RM'm each land
Land cost	1
Estimated land market value in 2026	100
Estimated gross development value	200
Estimated property development expenditure	75

Where DH group has sufficient fund to purchase only one of the two pieces of land, please explain which scenario would give rise to greater tax efficiency. You should support your explanation with the calculation of corporate tax and real property gains tax exposure (if any).

(10 marks)

- d) The finance director intends to embark into the deep sea fishing business activity and wonder if he should undertake the business in his personal capacity or incorporate a new company ("NewCo") under DTC group to embark on the deep sea fishing business. The total capital requirement for this project is estimated to be RM10 million.

Advise the finance director on the tax incentive available for deep sea fishing business and which of the above investment structure he should adopt. Where incorporation of NewCo is preferred, state which entity in DTC group should invest into NewCo to optimize the tax incentive.

(10 marks)

- e) For purposes of expanding its oleochemical business, the finance director is considering on whether–
- i) Option 1 - DO should acquire the business of SO; or
 - ii) Option 2- DO should acquire the ordinary shares in SO.

From corporate tax efficiency perspective, advise which option should DO choose by quantifying the tax benefits derived. Tax benefits include claiming industrial building allowance, capital allowance, tax incentives, utilization of unabsorbed losses and capital allowance. Assumed assets indicated with (*) can qualify for investment tax allowance claim.

(8 marks)

- f) In the case of business acquisition, quantify the stamp duty payable by DO.

(2 marks)

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