

Deloitte Tax Challenge 2018

Individual Category – Final Stage

Question 1 (Written Assessment) (40 marks)

Malaysia currently imposes Real Property Gains Tax (“RPGT”) on gains arising from the disposal of real properties situated in Malaysia.

Whilst there was an exemption period from 1 April 2007 to 31 December 2009, the Government then later re-imposed RPGT on gains from the disposal of real property with effect from 1 January 2010.

Over the years, the Government has revised the RPGT rates in an effort to curb speculation and control increasing property prices.

Most recently with the tabling of Budget 2019, the RPGT rates for disposal of real property in the 6th year onwards will now have an increase from 5% to 10% for companies, non-citizens and non-permanent residents; and from 0% to 5% for individual Malaysian citizens.

Required

In your view, what do you think of the above and would this be enough to tackle increasing property prices and curb speculation of the property market?

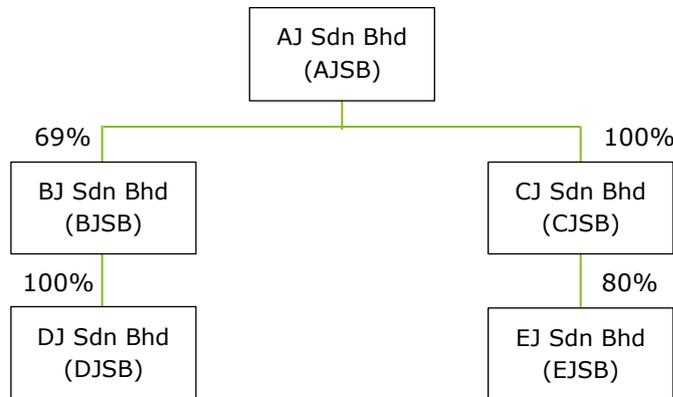
Apart from imposing higher RPGT, what other tax and non-tax measures the Government may consider?

(40 marks)

Note: Your comment should not be longer than 250 words.

Question 2 (Oral Presentation) (60 marks)

The Chief Financial Officer of AJ group has sought for your advice to review the group's tax position and advise whether there are any tax planning opportunities the management can consider. AJ group structure and the details of the companies are as follows:



AJSB is an investment holding company under Section 60F providing management services to its subsidiaries. As at 31 December 2017, AJSB paid management staff salary cost of RM600,000 but did not charge any management fee to subsidiaries. AJSB has also extended an interest free loan of RM5 million to BJSB to finance the purchase of machinery. AJSB received only passive rental income from letting of office tower. AJSB also owned a piece of industrial land.

BJSB is in the broiler poultry farming business and it is a highly profitable business. **CJSB** is in the shrimp farming business as it has incurred a current year losses of RM500,000 due to the bacteria infection on the shrimps.

DJSB is in the chicken nuggets business and it has incurred RM2 million to purchase machinery to meet the growing demand from overseas market. It is expected that its value of increased export sales is RM800,000 which is 60% compared to the last year's export sales.

EJSB is in the layer poultry farming activity and as part of its business expansion plan, EJSB proposed to purchase the industrial land currently owned by AJSB. EJSB will also enter into a machinery construction and installation contract with AdTech Pte Ltd (ATPL), a company resident in Singapore. ATPL will send its technical staff to construct and install the machinery in Malaysia. It is expected that the construction and installation site will exist for 8 months.

AJ group of companies each has a paid up ordinary share capital of more than RM2.5 million except for BJSB which has a paid up ordinary share capital of RM2 million. All companies close its annual accounts on 31 December except for BJSB which closes its account on 30 November. AJ group structure has been the same since 2015.

Required

Your team is required to present to the CEO of AJ group your proposals to improve the tax positions of the group. The following are the guided questions in preparing your presentation:

- a) AJSB is not tax efficient. How can AJSB improve its tax efficiency? (12 marks)
- b) State with reason whether BJSB and CJSB are eligible for group relief to achieve tax efficiency. If not, what both BJSB and CJSB require to do in order to qualify for group tax relief? (12 marks)

- c) Reinvestment allowance and allowance for increased exports are mutually exclusive. Which tax incentive is a better option for DJSB? You may support your recommendation with computation.

(12 marks)

- d) State with reason whether EJSB is eligible for stamp duty relief under Section 15A of the Stamp Act 1949 on the land purchase. If not, what should be done in order to be eligible for stamp duty relief on the land purchase?

(12 marks)

- e) State with reason whether ATPL has a permanent establishment in Malaysia. If yes, what are the withholding tax obligations of EJSB and the tax filing obligations of ATPL?

(12 marks)

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