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Deloitte Tax Challenge 2008
Team Category

Preliminary Stage Case Study – Solar International Inc

Solar International Inc ("SII"), a US corporation, manufactures and distributes latest technology equipment which harnesses solar power to generate electricity and heat. It has come to know of a similar company in Malaysia, Sun Heat Sdn Bhd ("SHSB") which is for sale because it has incurred losses of US$20,000,000 and has unabsorbed capital allowances of US$28,000,000. The losses arose because the Malaysian company adopted outdated technology for its product, solar heaters. SHSB's pioneer status in Ipoh, Malaysia which involved a 5-year tax holiday in respect of 70% statutory income, ended in 2005.

SHSB has the following assets and liabilities :-

		Market Value US$
Land		10,000,000
Plant and machinery		3,000,000
Inventory	- raw materials	2,000,000
	- finished solar heaters	1,000,000
Accounts receivable		6,000,000
Accounts payable		4,000,000
Loan from holding company		15,000,000

SHSB is 100% held by a company in the Bahamas which is in turn held by a company in the British Virgin Islands.

Shares in SHSB are advertised for sale at US$3,000,000.

SII's products to be manufactured in Malaysia would be 100% exported to a related overseas company and would be sold in the US market.

SII plans to invest US$100,000,000 in Malaysia including US$80,000,000 on proprietory modern high-technology plant and machinery, mainly in its manufacturing process, and the rest for working capital. It proposes to appoint a US contractor to design, procure and construct its new plant in Malaysia. The construction will take 7 months. SII's operations in Malaysia will be the manufacture of solar photovoltaic system equipment which will be based on their latest technology. It expects its Malaysian operations to be profitable from year one and generate profit before tax and depreciation of US$10,000,000 per year.

SII has come to you to seek advice on the following :-

1. Whether SII should acquire SHSB's assets or shares and how that acquisition should be structured. Set out the tax costs involved in the acquisition.

2. Whether the losses and unabsorbed capital allowances of SHSB would be available to SII as shareholders completely change. If the said losses and capital allowances are not available, can anything be done to improve the situation.

3. Whether SII would be able to gain any tax incentives if it invests in Malaysia and your recommended incentive, if any.

4. The Malaysian taxes involved in repatriation of profit in the form of interest, royalty, technical service fees, management fees, procurement commission and dividends.

5. Taxation of personnel from the US assigned to Malaysia for the short term (2 months to 6 months) to assist with their start up in Malaysia.

6. How SII can save duties on raw materials and components imported.

7. Any other relevant tax issues.