

## Deloitte Tax Challenge 2009 Team Category Finals

### Cash is King

The Group Managing Director of Glamorous Sdn Bhd (Glamorous) and its subsidiary, Luxury Manufacturing Sdn Bhd (Luxury), Mr Poh Kiong, had an early breakfast meeting with you and confidentially confided in you that Glamorous and Luxury are experiencing very tight cash flow. Being briefly previously employed in the Lembaga Hasil Dalam Negeri, he still has an affinity to taxation and asked your team to **give him up to 5 major tax ideas through which his companies can improve their cash situation**. For that purpose, he provided to you the facts in (A) and (B) below. He requested that you confine your ideas to those facts as his in-house tax executive can deal with other tax issues. As he is a very busy man, he asks you to be succinct and to the point because he will only allow you 20 minutes to present your ideas to the board of directors. Your presentation should be accompanied by PowerPoint slides. As he still remembers what he learnt while employed with the Lembaga, he specifically does not want generic information; he stressed – GIVE ME TAX IDEAS AND DO NOT REGURGITATE TEXT BOOK INFORMATION OR THE INCOME TAX ACT. He asked you to quantify the cash flow effect of your ideas.

He also told you to accept that Luxury can no longer qualify for pioneer status and investment tax allowance. Mr Poh Kiong asked you to avoid reinvestment allowance and customs duties ideas as he has earlier been advised on that subject in depth by Deloitte Malaysia.

- A
1. Glamorous is a company incorporated in Malaysia in 2001. Its issued and paid up capital is RM1 million and retained earnings at 31 December 2008 amounted to RM5 million.
  2. The company's business is the sale in Malaysia of fine and costume jewelry.
  3. Initially, it sourced its products from third parties.
  4. In 2005, just before its 31 December financial year end, Glamorous acquired 100% of the shares of a manufacturer of jewelry, Luxury, for RM20 million and thereafter acquired most of its products from that company.

5. Glamorous financed the acquisition consideration through a loan of RM20 million from Maybank and these funds were disbursed by Maybank direct to the vendors of Luxury's shares. The loan was at a fixed interest rate of 5% per annum and was to be repaid in full by a single payment of RM20 million in 2015.
  6. Glamorous was badly affected by the economic downturn in the first half of 2009 as consumers were careful on spending but continued to have profits in excess of RM1.5 million.
  7. In August 2009, Glamorous unexpectedly secured a highly profitable contract to sell RM3 million of fine jewelry to a Tan Sri in Malaysia who wanted to distribute them to family members. The jewelry was to be designed, manufactured and then delivered and sold to the Tan Sri at any time between 25 December 2009 and 10 January 2010.
  8. Glamorous subsequently placed a purchase order with Luxury to manufacture, deliver and sell to Glamorous the products in accordance with designs agreed with the Tan Sri.
- B
1. Luxury was a company incorporated in 1993 and since its date of incorporation, its activities consist of the manufacture of fine and costume jewelry.
  2. Luxury once enjoyed pioneer status but that tax holiday ended in 2003. Luxury is now a normal taxable company which pays much income tax each year as it is profitable every year. Its Section 108 credit balance at 31 December 2008 has reached RM1.5 million.
  3. Luxury foresees that the demand for its products will vastly increase in 2010 and in anticipation, has placed an order for an additional production line at a total outlay of RM1.8 million. Luxury expects these facilities to be completed in December 2009 or January 2010. Luxury proposes to commence using these new facilities on 3 January 2010 or perhaps a few days earlier.

4. Luxury has purchased diamonds in US dollars from South Africa for its inventory. Luxury only maintains Ringgit denominated bank accounts. It buys foreign currency at spot rates and does not purchase currency on a forward basis. At the point of delivery and invoice, US\$1 was equivalent to RM3.45 and the purchase was recorded in its books of account at that rate. The invoice for US\$1 million is due for payment on or before 2 January 2010. The rate of exchange to the US dollar around that date is expected to be 3.55.
5. Luxury's financial yearend is 31 December. Its issued and paid up capital throughout 2009 was RM3 million. Its retained earnings at 31 December 2008 was RM4 million and 2009 is projected to be another profitable year. There are no bad debts or damaged and slow moving inventory in the company.

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