

DELOITTE TAX CHALLENGE 2009 TEAM CATEGORY

Preliminary Stage Case Study – Sheikh Majid

A billionaire from the Middle East, Sheikh Majid, has identified a profitable venture in KLCC, Malaysia. A complex near the Petronas Twin Tower is facing a low uptake in view of depressed international economic conditions. However, the astute Sheikh Majid considers that in 5 years time, its market value will soar and peak due to its prime location and Donald Trump concept. He plans to sell all these properties at that stage at an expected profit of 300% of cost. Sheikh Majid proposes to acquire 100 units in the complex which consists of 10 towers. These units include 70 apartments, 23 offices, 2 restaurants, 3 convenience stores, a gym and a spa. He plans to operate 60 residential units as serviced apartments as they are contained in and comprise a whole tower out of the ten. The balance of the residential units will be rented out. 20 office suites will be operated as serviced offices and the balance let to tenants. The convenience stores, gym and spa will be let out to brand names like 7-Eleven, Fitness First and Mandara Spa. He plans to operate the restaurants himself, one offering Middle Eastern cuisine and the other servicing Mexican food, alfresco style. Sheikh Majid intends to import lavish furnishings from Italy for these properties.

He met your team on 27 July 2009 when he visited your university. He liked your personality and instantly commissioned you to prepare a tax plan for his proposed acquisition and venture. As he is due to return to the Middle East the same day, he wants your advice within 3 hours and would pay you US\$12,000 for it if it is of high quality. He informed you that as he is liquid, he does not need to borrow and will buy the properties with cash of RM150 million.

Please proceed to prepare your tax plan for Sheikh Majid noting that he wants the following aspects addressed:-

1. Whether he should acquire in his own name or through companies, and if so, how many?
2. How he can gain relief for any losses.
3. How he can gain capital allowances and maximize that amount.
4. How he can minimize income tax on income arising.
5. Given the large number of units proposed for sale in 5 years time, how he can minimize any exposure to any income tax on the large gains expected.
6. Planning for any other taxes, if relevant, e.g. stamp duty, import duty and withholding tax.

He reiterated that he does not want basic generic information. Instead, he wants planning ideas so that the project is more tax efficient and you should state how your tax plans improve the tax position. Sheikh Majid acknowledged that he has not given you sufficient time but would value more important ideas you can provide him within the time frame and the restaurant business can be omitted from your response.

Tips: If you find Sheikh Majid's assignment challenging, think basic principles and apply them to his scenario.

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