



Deloitte Tax Challenge 2024

Team Category – Grand Finals

Question 1 (Oral Assessment) – 40 marks

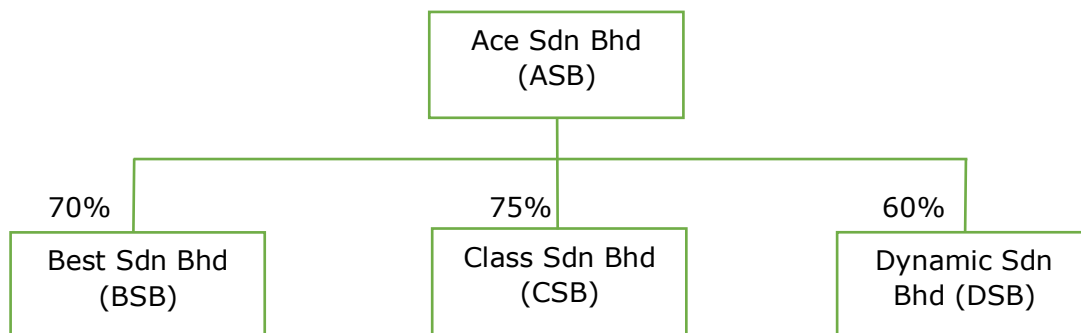
The theme of Budget 2024 is “Economic Reform, Empowering the People”. It was crafted with the objective to strengthen Malaysia’s economy, raise living standards of the people, and broaden the tax base. The MADANI Economy framework aims to restructure the economy with reformation of fiscal policies and maintaining an expansionary fiscal stance to achieve a GDP growth nearing 5%. The fiscal deficit is projected to decrease to 4.3% in 2024 from 5% in 2023.

Required:

1. Briefly state the key tax measures that have been implemented to broaden the tax base in Malaysia.
2. In your view, what are the possible challenges that the Malaysia’s Inland Revenue Board (MIRB) will face in strengthening the enforcement of these tax measures you have mentioned above?

Question 2 (Oral Assessment) – 60 marks

Charles is the Chief Financial Officer (CFO) of Ace group. He has sought for your expertise to evaluate the group's tax position and advise on tax planning opportunities. He has shared the following information with you:



All 4 companies are incorporated in Malaysia and have been actively operating in Malaysia for the past 10 years. They have paid up ordinary share capital of RM3 million and close their annual accounts on 31 December. None of the companies have enjoyed any form of tax incentives before.

ASB is an investment holding company. On 10 January 2014, ASB acquired its first tangible asset, an agriculture land of 800 acres. It has leased 500 acres of the land to BSB and the remaining land to CSB. It also provides accounting and management services to all its subsidiaries. ASB receives management fees from subsidiaries and rental income from the lease of agriculture land in the year of assessment (YA) 2024.

ASB anticipates receiving a dividend income from a foreign investment in YA 2025. Charles commented: "There are so many exemption orders and guidelines issued on the exemption of foreign source income. Please help me to understand how ASB can enjoy an exemption on foreign dividend income received in Malaysia".

BSB operates the agriculture land as an oil palm plantation. In YA 2024, BSB plans to raise finance of RM1 million to purchase plant and machinery for the expansion of plantation business, to increase its production capacity. It is considering two financing options below:

- (1) obtain an external bank loan at 7% interest per annum; or
- (2) increase BSB's paid-up share capital by offering a right issue to its shareholders.

As outlined in the notes from client's meeting, Charles commented that BSB is currently experiencing tight cash flows due to higher operating costs and investments made.

CSB operates the agriculture land as a rubber plantation. It is planning to engage an engineering company in Singapore (Max Check Pte Ltd - MCPL) to carry out inspection and rectification works in its rubber processing factory. The contract project will be carried out by MCPL in Malaysia for a period of 9 months for a total payment of RM500,000 consists of:

	RM'000
Material cost	40
Inspection fees	150
Rectification fees	200
Labor and supervisors at site	110
	<u>500</u>

DSB owns and operates a fleet of lorries to transport the plantation supplies and produce for both BSB and CSB. In YA 2024, it is estimated that DSB will incur an adjusted business loss of RM500,000. The CFO, Charles said: "We need to transfer these business losses to BSB and CSB, which are profit-making subsidiaries. Please advise me on how to utilize the group relief."

Required:

- a) **State the conditions for exemption of foreign dividend income that will be received in Malaysia by ASB in YA 2025. (10marks)**
- b) **Explain whether BSB should obtain an external bank loan or increase its paid-up share capital from tax and non-tax perspectives. (15marks)**
- c) **Explain the tax deductibility of accounting and management fees paid to ASB. Comment on any other related tax issue in which the company's management should be aware. (5marks)**
- d) **Recommend which incentive measure under the Income Tax Act 1967 (ITA) that BSB can claim for its expansion project in YA 2024. Your recommendation should include prerequisites and mechanism of the incentive claim. (10marks)**
- e) **State with reasons whether MCPL has a permanent establishment in Malaysia. If yes, explain the withholding tax implications in respect of the payments due to MCPL. (10marks)**
- f) **With reference to Charles's statement, explain the conditions for group relief and advise Charles why the companies in the group are eligible / not eligible to claim or surrender losses under group relief. (10marks)**

(Total:60marks)