Deloitte Tax Challenge 2025
Individual Category – Grand Finals
Live Oral Assessment

<u>Question 1 – 40 marks</u>

The Malaysia's Budget 2025 has introduced a 2% tax on dividend income exceeding RM100,000 received by individual shareholders from resident companies. This marks a significant shift from the single-tier system established in 2008. Under the single-tier system, companies pay corporate tax on their profits, and the dividends distributed to shareholders are exempt from income tax in the hands of the shareholders. The tax on company profits is considered final which greatly simplified the tax administration system.

The announcement of this new dividend has sparked strong reactions from investors and business owners. For years, shareholders have been enjoying the privilege of receiving full dividend payments without additional tax burdens. Effective 1 January 2025, a 2% dividend tax will be imposed on chargeable dividend income if the annual dividend income exceeds RM100,000 received by resident individuals, non-resident individuals and individuals who hold shares through nominees. The government has also proposed exemptions for certain categories of dividend income and profit distributions though some of these exemptions are yet to be legislated via subsidiary legislations.

Required:

i) **Discuss whether the 2% dividend tax policy is a socially equitable fiscal policy.**
ii) **Discuss the possible impact of the introduction of 2% dividend tax on the investment made by domestic investors and foreign investors.**

(40 marks)

Question 2 – 60 marks

Quantum Edge Sdn. Bhd. (QESB) is a Malaysian resident company with paid up capital of RM3 million. It closes its account on December 31st annually. QESB is the leading manufacturer of electronic components for consumer electronics such as televisions, smartphones, and household electronics in Southeast Asia. It has a workforce of 500 employees locally in Malaysia and has a few foreign subsidiaries operating internationally.

QESB expects to incur a considerable amount of legal fees due to a range of issues stemming from the challenging nature of international trade and related disputes, which includes the following:

i) Renewal of existing supply of raw material and contracts.
ii) Recovery of debts from directors of the company which are subject to disputes.
iii) Litigation regarding breach of contract by trade suppliers.
iv) Preparation of claims for insurance compensation in respect of loss or damage to raw materials and while in transit, which may be unsuccessful.
v) Income tax appeal to the Special Commissioners of Income Tax.

One of QESB's customers, Smart Vision Sdn Bhd (SVSB) has been adversely affected by the current global economic condition. On 1 October 2025, SVSB has decided to terminate the 12 months' supply contract, which is supposed to end on 30 June 2026. Due to the early termination of contract, SVSB is obligated to pay QESB compensation amount of RM200,000, which is payable in 5 equal installments, starting from 1 October 2025.

Recently, the Inland Revenue Board of Malaysia (IRBM) has issued an additional assessment of RM2 million to QESB, which includes the penalty for submitting an incorrect return. The IRBM has taken a position that the disposal of QESB's land is subject to tax under the Income Tax Act 1967 rather than the Real Property Gains Tax Act 1976. The tax director, Simon has sought for your opinion on this issue. He has shared the following information for your consideration.

QESB has acquired a plot of agricultural land in Nilai, Malaysia in year 2020 for investment purposes. The land was rented out to local farmers for agricultural activities and generated rental income. The company has never acquired any real property before this transaction. The acquisition was financed mostly by borrowings from the bank. In year 2022, the company has received information that the Government is planning to build new public infrastructures and develop commercial centers in that area. QESB applied to the local authorities and converted the agricultural land to all-purpose commercial use. The company has also engaged a real estate property agent to advertise on the disposal of the land. After six months, QESB managed to dispose of the land with a huge profit. The company has treated it as a capital gain and filed a real property gains tax return.

QESB would also like to seek your advice on the treatment of the following foreign source income:

1) On 1 October 2025, QESB's subsidiary, Alpha Edge Ltd (AEL) which operates in Country X pays a gross dividend of RM100,000 to QESB with a withholding tax rate of 10%. At that time, the headline tax rate of Country X is 12%. QESB deposited the net dividend income of RM90,000 in Country X. Subsequently, QESB transferred the net amount of RM90,000 to its account in Malaysia on 15 October 2025.

2) QESB has provided loans to another subsidiary, Beta Edge Ltd (BEL), which operates in Country Y which has a double tax agreement (DTA) with Malaysia. To finance the loan provided to BEL, QESB has obtained a loan from a financial institution in Malaysia and incurred interest expense of RM30,000 for the year 2025. On 20 October 2025, QESB received gross interest income of RM50,000 from BEL which has been subject to withholding tax of 10% in Country Y.

Required:

a) **Explain the tax deductibility of each type of legal and professional expenses listed below. (10 marks)**
   i) Renewal of existing supply of raw material and contracts.
   ii) Recovery of debts from directors of the company which are subject to disputes.
   iii) Litigation regarding breach of contract by trade suppliers.
   iv) Preparation of claims for insurance compensation in respect of loss or damage to raw materials and while in transit, which may be unsuccessful.
   v) Income tax appeal to the Special Commissioners of Income Tax.

b) **Explain whether the compensation of RM200,000 received from SVSB will be taxable in YA 2025. (5 marks)**
   Note: Your answer should include the explanation for the basis of assessment.

c) **Address the following issues regarding the tax audit findings to the tax director, Simon:**
   i) **Present your argument <u>for</u> and <u>against</u> taxing the gain from disposal under the Income Tax Act 1967 (ITA). (10 marks)**
   Note: You are not required to conclude whether such gain is taxed under ITA.
   ii) **Advice how QESB can lodge an appeal against the notice of additional assessment issued by IRBM, the due dates for making such appeal, and any extension of time for appeal. (5 marks)**

d) **Explain whether the dividend received by QESB in Malaysia qualifies for tax exemption in Malaysia. (15 marks)**
   Note: Your explanation should cover the <u>general conditions</u> applicable for exemption of foreign dividend income and the <u>specific application</u> of those conditions for QESB's case.

e) **Prepare a full tax computation for QESB for YA 2025 based on information provided in Table 1 below and arrive at the net tax payable for QESB. (15 marks)**
   Note: Your calculation should include:
   - *Aggregate income, total income, chargeable income, tax payable.*
   - *Detail calculation of the double tax relief that QESB will be able to claim.*

Table 1	
Foreign source interest income	RM
Gross interest income received from BEL	50,000
Withholding tax rate at BEL	10%
Net interest income received in Malaysia	45,000
Interest expense to finance loan given to BEL	30,000
Extract of QESB's tax computation	
Statutory business income in Malaysia	1500,000
Statutory rental income in Malaysia (no maintenance and support services are actively provided)	240,000
Approved donation	5,000

(60 marks)

Note: You are required to prepare a presentation of not more than <u>15 minutes</u> to discuss the above issues.

- [END OF QUESTION] -