



Case study

Enviro-Green Sdn Bhd (Enviro-Green) is a Malaysia-incorporated company, which has been set up by two Malaysian resident founders. The company has developed a highly accurate carbon emission monitoring system, designed to assist entities to comply with the relevant policies and/or regulations and improve their emissions footprint. In 2020, market adoption of Enviro-Green's system accelerated and Enviro-Green recorded a net profit after tax of RM5 million. Enviro-Green is expected to be worth over RM100 million in the next five years.

Enviro-Green's employees currently operate from a recently purchased single premise in Shah Alam. Operating assets, including computers and other IT solutions, are leased. The company, however, owns all the intellectual property relating to its proprietary technology.

In some of the countries where Enviro-Green has recently started to do business, it directly engages a third-party sales agent or sends senior company representatives to conduct its business. Given its accelerated growth, it is now considering setting up subsidiaries in these countries instead.

At the same time, due to the rapid rise in the market adoption of Enviro-Green's system, the founders have been approached by several companies, including a well-known US-based technology company, looking to acquire Enviro-Green. The founders are uncertain whether they want to be acquired so early, or if they should continue to expand and seek to attract further investments from both the public and private sectors.

As Enviro-Green has seen rapid growth and expansion, it has found it increasingly difficult to meet its reporting and filing obligations in a timely manner; and there have been late returns and errors in filings with the local revenue authority. It has a small team preparing its own accounting, payroll and SST returns to save on costs. The Malaysian Inland Revenue Board (MIRB) has begun to show interest in further reviewing some of Enviro-Green's tax affairs.

The founders are considering establishing a more formal tax function for the company, or outsourcing its statutory accounting, tax return preparation and corporate compliance functions. Additionally, if the company decides to set up subsidiaries in other countries, the founders are also considering establishing a shared services center in Country X to manage its accounting, payroll and tax functions.



Requirement:

The founders of Enviro-Green have approached EY teams to identify and explain the key tax issues that could arise, particularly in view of the ongoing developments around the Organisation for Economic Co-operation and Development (OECD)'s Base Erosion and Profit Shifting (BEPS) Action Plan, transfer pricing and the local tax law reforms in different countries.

As the EY representative, you are required to make a presentation to the founders of Enviro-Green to address their concerns, focusing on the key risk areas from a direct and indirect tax perspective, as well as offer recommendations given the current market trends and changing tax reforms. The founders are also interested in understanding how the group can rely on technology to better manage its tax affairs, and how EY can assist in this aspect.