DETERMINATION > FINANCIAL ARRANGEMENTS > GENERAL

Deferred Property Settlements Denominated in New Zealand Currency

Issued: 28 May 1992

G17B

This Determination may be cited as "Determination G17B: Deferred Property Settlements Denominated in New Zealand Currency".

1 Explanation (which does not form part of the determination)

1. This determination rescinds and replaces Determination G17A: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in New Zealand Currency made by the Commissioner on 9 February 1990. This determination differs from Determination G17A:

   (a) By expanding the scope of the determination to ensure the acquisition price, for the purposes of the base price adjustment, must be determined in all circumstances;

   (b) Making it clear that if all the amounts payable and the dates on which those amounts are payable are known at the first balance date after the transfer date the yield to maturity method must be applied to calculate income derived or expenditure incurred during the term of the deferred property settlement;

   (c) Providing a method of calculating income derived or expenditure incurred during the term of a deferred property settlement where the amounts payable or the dates on which those amounts are payable are not known with certainty at the first balance date after the transfer date; and

   (d) In the use of the specified rate. This determination uses the method prescribed in Determination G23: *Specified Rate*. Determination G17A used the market yield ascertained in accordance with Determination G13: *Prices or Yields*.

2. In this determination an agreement for the sale and purchase of property or a specified option, where payment in full is not made at the time at which the first right in the specified property is to be transferred, will be called a "Deferred Property Settlement".

3. This determination does not apply—

   (a) To short term agreements for the sale and purchase of property; or

   (b) To short term options; or

   (c) To private or domestic agreements for the sale and purchase of property; or

   (d) To deferred property settlements where any amount payable is denominated in foreign currency; or

   (e) To deferred property settlements where the total deposits and other amounts payable more than 31 days prior to the transfer date exceed 20% of the total purchase price.

4. Short term agreements for the sale and purchase of property and short term options are agreements or options under which settlement is required within—

   (a) 93 days of entry into the contract in the case of real property; or

   (b) 63 days of entry into the contract in the case of other property. Such short term agreements or options are excepted from the accruals provisions of the Act. A private or domestic agreement for the sale and purchase of property as defined in section 64B(1) is also an excepted financial arrangement.

5. For all deferred property settlements, a core acquisition price must be determined as at the date on which the first right in the property is transferred; for ease of reference, this date is called the "transfer date" in this determination. Sections 64BA(2) and (3) of the Act define "acquisition price" in terms of the "core acquisition price", which is itself defined in section 64BA(1). In section 64BA(1)(c)(i) an amount "w" is defined as the lowest price that the buyer and seller would have agreed upon for the property on the basis of payment in full at the time at which the first right in the specified property is to be transferred. If there is no such lowest price, then paragraph (c)(ii) provides that "w" shall be "the discounted value of the amounts payable for the specified property as determined pursuant to a determination made by the Commissioner under section 64E(1)(f) of this Act".

6. As indicated in subclause 1(1) above, this determination requires the discounted value of the amounts payable to be calculated at an interest rate ascertained in accordance with Determination G23: *Specified Rate*, as at the transfer date of the specified property. The specified rate is the market yield applying to bank bills of a similar term to the credit term; if the credit term is longer than twelve months the market yield on New Zealand Government securities must be used.

7. The amounts payable are then discounted to the transfer date, using the yield so ascertained and the present value calculation Method A in Determination G10B: *Present Value Calculation Methods*, or an alternative method producing not materially different results. The sum of the discounted amounts and any deposit or other amounts paid on or before the transfer date is the amount of "w" to be used for calculating the core acquisition price.

8. The core acquisition price is used to determine the acquisition price of a deferred property settlement in accordance with sections 64BA(2) or (3) of the Act.

9. Once the acquisition price is known, income derived or expenditure incurred in relation to a deferred property settlement, shall be calculated as if the value of the specified property was equal to the amount of the core acquisition price using the yield to maturity method which could be that determined in Determination G3: *Yield to*

Maturity Method or Determination G11A: *Present Value Based Yield to Maturity Method* or an alternative method producing a result which is not materially different.

10. For the purposes of determining the income derived or expenditure incurred of a deferred property settlement the yield to maturity method (or an alternative method producing not materially different results) will not apply:

    (a) Where in relation to the deferred property settlement any amount payable or the date on which any amount is payable is not known at the first balance date after transfer date; or

    (b) Where the credit term of the deferred property settlement is not known at the date of entry into the Deferred Property Settlement.

11. Where the yield to maturity method can not be applied as the amounts payable or the dates on which those amounts are payable are not known the "best estimate method" of determining income derived or expenditure incurred is to be used. The method requires each party to the arrangement to estimate the unknown variables (the credit term or the amounts payable or dates on which amounts are payable) in relation to the deferred property settlement. The estimates should be fair and reasonable given the facts known in relation to the arrangement. The discounted value of the amounts estimated may be used as the basis for a yield to maturity accrual to determine income derived or expenditure incurred over the term of the Deferred Property Settlement.

12. If estimates of the credit term of cash flows or the dates on which amounts are payable change an adjustment must be made using the method specified in Determination G26: *Variations in the Terms of a Financial Arrangement* in the income year in which the change occurs.

    That method requires an adjustment to be made in the year the estimates change. The effect of the adjustment is that the total income or expenditure up to the end of the year in which the estimates change is equal to what it would have been had the timing and exact details of the new estimates been known at the first balance date after the transfer date.

    The adjustment must be made on the basis of fair and reasonable re-estimates of the unknown variables, which re-estimates are required to be undertaken by the parties for these purposes at the end of any year when actual cashflows and/or factual circumstances have rendered the original estimate (or previous re-estimate) no longer fair and reasonable.

13. Where any party to a deferred property settlement fails to undertake any such estimate or re-estimate or to communicate such estimate or re-estimate to the Commissioner in the income tax return for the relevant year, or where any party adopts an estimate or

re-estimate which is in the Commissioner's opinion not or no longer fair and reasonable, the Commissioner shall determine his own estimates and the method below shall be applied. Such estimates or re-estimates by the Commissioner may also be subject to change, so as to reflect different actual cashflows and/or factual circumstances, in the manner contemplated in subclause 1(12) and this subclause 1(13) of this determination.

14. When settlement takes place the acquisition price should be recalculated using the discounting provisions of this determination for the purposes of the base price adjustment.

2 Reference

1. This determination is made pursuant to sections 64E(1)(a), 64E(1)(f) and 64E(6) of the Income Tax Act 1976.

2. Determination G17A: *Discounted Value of Amounts Payable in Relation to a Deferred Property Settlement Denominated in New Zealand Currency* is hereby rescinded with effect from the day on which this determination is signed.

3 Scope of Determination

This determination shall apply to any deferred property settlement in relation to which a person is a holder or issuer, but shall not apply—

(a) To any Deferred Property Settlement where any amount payable (other than the property that is the subject of the Deferred Property Settlement) is not denominated in New Zealand dollars; or

(b) To any Deferred Property Settlement where more than 20% of the amounts payable is required to be paid more than 31 days prior to the transfer date.

4 Principle

1. The discounted value of amounts payable for the specified property is calculated as at the transfer date using—

   (a) The Specified Rate; and

(b) Present value calculation Method A provided in subclause 6(2) of Determination G10B: *Present Value Calculation Methods*, or an alternative method producing not materially different results.

2. The discounted value of the amounts payable for the specified property enables the acquisition price for a deferred property settlement to be ascertained for the purposes of determining income derived or expenditure incurred in any period and the base price adjustment.

3. Where any amounts payable or the dates on which any amounts are payable are not known with certainty reasonable estimates of the unknown variables must be made to enable an estimate of income derived or expenditure incurred in any income year.

5 Interpretation

1. In this determination, unless the context otherwise requires—

   Expressions used have the same meanings as in the Act and where a word or expression is given a particular meaning for the purposes of sections 64B to 64M of the Act it shall have the same meaning as in the said sections 64B to 64M:

   “the Act” means the Income Tax Act 1976:

   “Bank Bill” means an order to Pay, denominated in New Zealand currency and drawn upon and accepted by a person who is a registered bank for the purposes of the Reserve Bank Act, 1989:

   “Credit Term” means the period commencing on the day after the transfer date and ending on the day on which the final payment is required to be made:

   “Deferred Property Settlement” means an agreement for the sale and purchase of property or a specified option under which any amount is payable after the date on which the first right in the specified property is transferred:

   “Final Payment” in relation to a deferred property settlement means the last payment required to be made by the issuer of a deferred property settlement under the agreement, other than any amount that is not material in relation to the total value of consideration required to be given by the issuer under the financial arrangement:

   “Paid”, in relation to any amount paid to or paid by any person, includes distributed, credited, or dealt with in the interests of or on behalf of or to the order of the person; and, in relation to any amount, “pay”, “payable” and “payment” have corresponding meanings:

"Specified Property" in relation to a deferred property settlement means the property that is the subject of the deferred property settlement:

"Specified Rate" at any date shall be calculated pursuant to Determination G23: *Specified Rate*:

"Transfer Date" in relation to a deferred property settlement means the day on which the first right in the specified property is transferred.

2. Any reference in this determination to another determination made by the Commissioner shall be construed as including a reference to any fresh determination made by the Commissioner to vary, rescind, restrict, or extend that determination.

3. For convenience, words and phrases defined in this determination are indicated by initial capital letters, but the absence of a capital letter shall not alone imply that the word or phrase is used with a meaning different from that given by its definition.

6 Method

Calculating the Acquisition Price for the Base Price Adjustment

1. For the purposes of subparagraph (ii) of the definition of "w" in section 64BA(1)(c) of the Act, the discounted value of the amounts payable for the specified property in relation to any person shall be calculated by summing—

   (a) Every amount payable to or, as the case may be, by the person for the specified property on or before the transfer date; and

   (b) The present value as at the transfer date of amounts payable to or, as the case may be, by the person for the specified property after the transfer date.

   Where the amounts payable and the dates those amounts are payable are not known at the first balance date after the transfer date, the acquisition price shall be calculated for the purposes of the base price adjustment when the financial arrangement matures.

2. For the purposes of this determination, the present value as at the transfer date of the amounts payable shall be calculated, subject to subclause (3) of this clause, using Method A provided in clause 6(2) of Determination G10B: *Present Value Calculation Methods*, or an alternative method producing not materially different results.

3. For the purposes of subclause (2) of this clause the annual rate of interest at which the present value of the amounts payable is required to be calculated shall be the specified rate determined as at the transfer date of the specified property and according to Determination G23: *Specified Rate*.

4. The present value of the amounts payable together with any deposit or amounts paid on or before the transfer date is the amount “w” to be used to calculate the core acquisition price in accordance with section 64BA(1) of the Act.

5. The core acquisition price is used to determine the acquisition price of a deferred property settlement in accordance with sections 64BA(2) or (3) of the Act. The acquisition price used will be used as variable “b” of the base price adjustment.

Calculating the Present Value of the Amounts Payable for the Purposes of Determining Income Derived or Expenditure Incurred during the Term of a Deferred Property Settlement

6. Where the amounts payable and the dates on which those amounts are payable are known by the first balance date after the transfer date the income derived or expenditure incurred in relation to a deferred property settlement shall be calculated as if the value of the specified property were equal to the core acquisition price calculated in accordance with the Act and subclauses (1) to (5) of this clause using the yield to maturity method or an alternative method producing not materially different results.

7. Where the amounts payable and the dates on which those amounts are payable are not known by the first balance date after the transfer date fair and reasonable estimates of the amounts payable and the dates on which those amounts are payable are to be used for the purposes of calculating the core acquisition price. The income derived or expenditure incurred in relation to a deferred property settlement shall be calculated as if the value of the specified property were equal to the core acquisition price calculated in accordance with the Act and subclauses (1) to (5) of this clause, using the yield to maturity method or an alternative method producing not materially different results.

8. If estimates of the credit term or amounts payable or receivable or the dates on which amounts are payable or receivable change an adjustment must be made using the method specified in Determination G25: *Variations in the Terms of a Financial Arrangement* in the income year in which the change occurs.

   That method requires an adjustment to be made in the year the estimates change. The effect of the adjustment is that the total income or expenditure up to the end of the year in which the estimates change is equal to what it would have been had the timing and exact details of the new estimates been known at the first balance date after the transfer date.

9. Where any party to a deferred property settlement fails to undertake any such estimate or re-estimate or to communicate such estimate or re-estimate to the Commissioner in the income tax return for the relevant year, or where any party adopts an estimate or re-estimate which is in the Commissioner's opinion not or no longer fair and reasonable, the Commissioner may determine his own estimates or re-estimates and the method used in this determination shall be applied. Such estimates or re-estimates by the Commissioner may also be subject to change, so as to reflect different actual cashflows and/or factual circumstances, in the manner contemplated in subclause 6(8) and this subclause 6(9) of this determination.

7 Examples

1. A commercial property is sold for $1,500,000 under a sale and purchase agreement, subject to certain planning consents being obtained.

   A deposit of $150,000 is paid on 20 December 1988, when the agreement is entered into. The balance of $1,350,000 is payable in two equal instalments due 3 and 6 months after the date of possession.

   Under the agreement, possession passes to the purchaser on the date the sale becomes unconditional; the purchaser has no other prior rights.

   The purchaser's balance date is 31 March.

   On 3 March 1989 the planning consents are obtained and the sale becomes unconditional.

   The Credit Term of the agreement (3 March 1989 to 4 September 1989) is 185 days (or 2 quarters). As this is under twelve months the yield on bank bills must be ascertained.

   The yield on bank bills of a similar term to the credit term ascertained on 20 December 1988 pursuant to Determination G23: *Specified Rate*, is 13.2%.

   In this case, the purchaser is the "issuer" for purposes of the accruals legislation.

   Method A of Determination G10: *Present Value Calculation Methods*, is applied to calculate the present value as at 3 March 1989 (the "specified date") as follows—

R = 13.2% (the specified rate)

N = 4 (since the payments are at quarterly intervals)

$$F = \frac{R}{100 \times N}$$

$$= 0.03300$$

At 3 June 1989:

A = 0

B = $675,000 (payable by the issuer or receivable by the holder on September 4 1989)

C = 0 (payable by the holder or receivable by the issuer)

thus the present value at 3 June 1989 $= \dfrac{A + B - C}{1 + F}$

= $653,437

At 3 March 1989:

A = $653,437

B = $675,000

C = 0

therefore the present value at 3 March 1989 $= \dfrac{A + B - C}{1 + F}$

= $1,285,999

To this must be added the $150,000 deposit, giving a total present value of $1,435,999 which is the item "w" used in calculating the core acquisition price.

For the purposes of recognising the expenditure incurred in the 1989 and 1990 income years Determination G3 is used (alternatively, G11A could be used), where—

R = 13.2%

N = 4

F = 0.0330

The expenditure incurred for the first 3 months is—

$1,285,999 × 0.0330 = $42,437.96

This expenditure is allocated to the 1989 income year in accordance with Determination G1A—

1989 income year − 28 days = $12,915.90

On the maturity of the financial arrangement, in the 1990 income year, a base price adjustment is calculated to arrive at the income deemed to be incurred.

Base Price Adjustment = a − (b + c) where—

a = all consideration paid

= $1,500,000

b = the acquisition price

= $1,435,999

c = expenditure incurred in previous income years

= $12,915.90

bpa = $51,085.10 which is deemed to be expenditure incurred in the 1990 income year.

As this is a positive amount it is deemed to be income derived by the holder in that income year.

2. An agreement for the sale and purchase of a rural property (which is to be subdivided) was entered into on 10 September 1990. The terms of the agreement are:

Price: $525,000 (including the deposit)

Deposit: $25,000 paid on 10 September 1990

Possession: 1 February 1991

Settlement: On the later of 1 August 1991 or 14 days after deposit of the subdivision plan in the land office

The lowest price, at the time the agreement for the sale and purchase of property was entered into on the basis of payment in full on the date the property is transferred, has not been agreed between the parties.

This determination requires the buyer and seller to make a fair and reasonable estimate of the anticipated settlement date in order to calculate income or expenditure accruing at balance date.

The acquisition price for the purposes of the base price adjustments will be recalculated if the facts change from those which are estimated.

It would be appropriate in this case to expect settlement on 1 August 1991, the last day for settlement under the terms of the agreement for the sale and purchase of property. The appropriate calculations to determine income derived or expenditure incurred for the purchaser are shown below. The purchaser has a 31 March balance date and is the "issuer" for purposes of the accruals legislation.

The Credit Term of the agreement (1 February 1991 to 1 August 1991) is 181 days. As this is under twelve months the yield on bank bills must be ascertained in order to discount the purchase price.

The yield on bank bills of a similar term to the credit term on 20 December 1988 pursuant to Determination G23: *Specified Rate*, is 11.5%.

Method A of Determination G10B: *Present Value Calculation Methods*, is applied to calculate the present value as at 1 February 1991 ("the specified date") as follows—

R = 11.5% (the Specified Rate)

N = 2 (since the payments are at half yearly intervals)

$$F = \frac{R}{100 \times N}$$

$$= 0.0575$$

At 1 February 1991:

A = 0

B = \$500,000 (payable by the issuer or receivable by the holder, estimated to occur on 1 August 1991)

C = 0 (payable by the holder or receivable by the issuer)

$$\text{whence present value at 1 Feberuary 1991} = \frac{A + B - C}{1 + F}$$

$$= \$472{,}813$$

To this must be added the $25,000 deposit, giving a total present value of $497,813. This amount is used as the basis for an accrual calculation.

For the purposes of recognising the expenditure incurred in the 1991 and 1992 income years Determination G3 or Determination G11A or an alternative method producing not materially different results may be used. (Note: As there is only one period of less than a year and no discount or premium a yield to maturity accrual method will produce the same result as spreading the difference between the present value and the total amount payable on a daily basis over the term of the arrangement).

The amount allocated to each day in the period is:

$$\frac{\$(525{,}000 - 497{,}813)}{181} = \$150.20$$

There are 58 days between 1 February and 31 March therefore expenditure incurred in the 1991 financial year is:

$\$150.20 \times 58 = \$8{,}711.60.$

If settlement occurs as expected on 1 August 1991 a base price adjustment is calculated to determine income derived or expenditure incurred. The acquisition price for the purposes of the base price adjustment will be as calculated above.

Base Price Adjustment = a – (b + c) where:

a = all consideration paid = $525,000

b = the acquisition price = $497,813

c = expenditure incurred in previous income years

= $8,711.60

bpa = $18,475.40, which is deemed to be expenditure incurred in the 1992 income year.

If, however, the settlement date differs from 1 August 1991 the acquisition price for the purposes of the base price adjustment should be recalculated using the method provided in this determination.

3. The assets of a company are sold on a deferred payment basis for a price which is in part to be determined by the profitability of the company over the next 36 months.

The terms of the arrangement are as follows:

Price: $1,300,000 plus 10% of profits for the next three years

Deposit: $100,000 paid on 10 September 1990

Possession: 1 February 1991

Settlement: Half-yearly instalments of $200,000 on 1 August and 1 February plus 10% of profits on 1 February each year.

The cashflows in relation to the arrangement including the profits, forecast (based on previous company data and forecast trends in the business, costs, capital expenditures, etc.) by the buyer, are:

DATE	AMOUNT	PROFIT	TOTAL
Deposit	100,000		100,000
1/8/91	200,000		200,000
1/2/92	200,000	25,000	225,000
1/8/92	200,000		200,000
1/2/93	200,000	30,000	230,000
1/8/93	200,000		200,000
1/2/94	200,000	40,000	240,000

The buyer and the seller were unable to agree on a lowest price which is why the percentage of profits option was adopted. An interest element has been capitalised into the cost of sale.

The seller (holder) is obliged to return accrual income associated with the transaction. The buyer (issuer) will seek a deduction for accrual expenditure incurred. As the lowest price was not agreed the discounted value method applies. This example looks at the calculations made by the buyer.

The Credit Term of the agreement (1 February 1991 to 1 February 1994) is 1,096 days (or 6 half year periods). As this is over twelve months the yield on New Zealand Government Stock of a similar term must be ascertained. The yield on Government Stock of a term similar to the credit term on 1 February 1991 pursuant to Determination G23: *Specified Rate* is 10.0%.

In this case, the purchaser is the "issuer".

Method A of Determination G10: Present Value Calculation Methods, is applied to calculate the present value as at 1 February 1991 (the "specified date") as follows:

$R = 10.0\%$ (the specified rate)

$N = 2$ (since the payments are at half-yearly intervals)

$$F = \frac{R}{100 \times N}$$

$$= 0.05$$

At 1 August 1993:

$A = 0$

$B = \$200{,}000 + (0.10 \times \$400{,}000)$ (payable by the issuer or receivable by the holder as at 1 February 1994)

$C = 0$ (payable by the holder or receivable by the issuer)

therefore the present value at 1 February 1991 $= \dfrac{A + B - C}{1 + F}$

$= \$228{,}571$

At 1 February 1993:

$A = \$228{,}571$

$B = \$200{,}000$

$C = 0$

therefore the present value at 1 February 1991 $= \dfrac{A + B - C}{1 + F}$

$= \$408{,}163$

It will be found that the present value of the cashflows, by continuing to discount as shown above and in accordance with Determination G10B, is $1,192,343 (which figure is arrived at as demonstrated in the table below). This amount is the value of the property for the purposes of a yield to maturity accrual.

DATE	AMOUNT	PROFIT	TOTAL	PRESENT VALUE
Deposit	100,000		100,000	100,000
1/8/91	200,000		200,000	190,476
1/2/92	200,000	25,000	225,000	204,082
1/8/92	200,000		200,000	172,768
1/2/93	200,000	30,000	230,000	189,222
1/8/93	200,000		200,000	156,705
1/2/94	200,000	40,000	240,000	179,092
				1,192,345

The amounts calculated using the yield to maturity method, Determination G3: *Yield to Maturity Method* will be expenditure incurred by the buyer of the property. The results are shown in a table below. These amounts are spread on a daily basis between income years using Determination G1A as follows:

This amount can be used as the basis of a yield to maturity accrual. The cashflows and expenditure incurred in each period are:

	Cashflows	Cumulative Discounted Cashflows Period End (y)	Cumulative Discounted Cashflows Period Begin (z)	Expenditure incurred (y – z)
1/2/95	(240,000)	240,000	228,571	11,429
1/8/94	(200,000)	428,571	408,162	20,409
1/2/94	(230,000)	638,162	607,773	30,389
1/8/93	(200,000)	807,773	769,308	38,465
1/2/93	(225,000)	994,308	946,960	47,348
1/8/92	(200,000)	1,146,960	1,092,343	54,617
1/2/92	$1,192,345 (100,000)			
				202,657

The yield to maturity rate (note that it is assumed no fees or other payments are made in relation to the financial arrangement) is 10.0%.

Period Ending	Expenditure in respect of Period	Days in Period	Allocation to Income Year	Days	Amount	Total Amount
1/2/95	11,428	184	1994/95	184	11,428	25,297
			1994/95	123	13,869	
1/8/94	20,408	181	1993/94	58	6,539	63,068
1/2/94	30,389	184	1993/94	123	30,389	
			1993/94	123	26,140	
1/8/93	38,466	181	1992/93	58	12,326	96,586
1/2/93	47,348	184	1992/93	184	47,348	
			1992/93	123	36,912	
1/8/92	54,618	182	1991/92	59	17,706	17,706
1/2/92						
	202,657	1,096		1,096	202,657	202,657

Note: The yield to maturity method will enable the calculation of an amount of income or expenditure for the final year to which a financial arrangement relates. However for the purposes of calculating the amount deemed to be income derived or expenditure incurred in the final income year it is necessary to apply section 64F of the Act — the base price adjustment.

On 1 February 1993 the profits of the company are $500,000. The buyer therefore pays $50,000 to the purchaser. The buyer's forecast of future payments remains as originally estimated. The method in Determination G25: *Variations to the Terms of a Financial Arrangement* is used to calculate expenditure incurred in the period and future income years.

That is, if the change cashflows had been known at the beginning of the arrangement the present value would be $1,215,019 and the yield to maturity rate is 10.0%.

The cashflows and expenditure incurred in each period are:

	Cashflows		Expenditure
1/2/95	(240,000)	payment	11,427
1/8/94	(200,000)	,,	20,408
1/2/94	(230,000)	,,	30,389
1/8/93	(200,000)	,,	38,466
1/2/93	(250,000)	,,	48,539
1/8/92	(200,000)	,,	55,752
1/2/92	$1,215,019	value of property	
	(100,000)	deposit	
			204,981*

The amounts would be spread between income years as follows:

Period Ending	Expenditure in respect of Period	Days in Period	Allocation to Income Year	Days	Amount	Total Amount
1/2/92						
1/8/92	55,752	182	1991/92	59	18,073	18,073
			1992/93	123	37,679	
1/2/93	48,539	184	1992/93	184	48,539	
1/8/93	38,466	181	1992/93	58	12,326	98,544
			1993/94	123	26,140	
1/2/94	30,389	184	1993/94	184	30,389	
1/8/94	20,408	181	1993/94	58	6,539	63,068
			1994/95	123	13,869	
1/2/95	11,427	184	1994/95	184	11,427	25,296
	204,981	1,096		1,096	204,981	204,981

Using the formula in Determination G25 expenditure incurred in the 1993 income year is:

a = 0

b = expenditure incurred in the current and previous income years had the changes been known as at the transfer date.

= 18,073 + 98,544

= 116,617

c = 0

d = expenditure incurred in previous income years

= 17,706

Thus, a − b − c + d = −98,911

This amount is expenditure incurred by the issuer in the 1993 income year. If the remaining estimates are accurate the expenditure incurred in the respective income years would be as follows:

1992	17,706
1993	98,911
1994	63,068
1995	25,296
	204,981

A party will be required to change an estimate or re-estimate at the end of any year where the actual cashflows and/or factual circumstances are such that the applicable estimate or re-estimate is no longer “fair and reasonable”. In default of any such estimate or re-estimate, the Commissioner may adopt or substitute his own estimates.

Thus, if the cashflows change from estimates in the 1994 year to an extent that the re-estimates are no longer fair and reasonable, the method in Determination G25 may again be used to calculate expenditure incurred.

About this document

General determinations set out the Commissioner’s view on how the financial arrangements rules apply to a specific type of financial arrangement. All general determinations are binding on the Commissioner and some are also binding on taxpayers.