DETERMINATION > FINANCIAL ARRANGEMENTS > GENERAL

Financial Arrangements that are Denominated in a Currency or Commodity other than New Zealand Dollars

Issued: 4 December 1989

G9A

This Determination may be cited as "Determination G9A: Financial Arrangements that are Denominated in a currency or commodity other than New Zealand Dollars".

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

1. This determination rescinds and replaces Determination G9: Financial Arrangements that are Denominated in a Currency or Commodity other than New Zealand Dollars made on the 28th July 1988. This determination differs from Determination G9: Financial Arrangements Denominated in a Currency or Commodity other than New Zealand Dollars in that agreements for sale and purchase of property are included in the scope of this determination.

2. This determination sets out a method for calculating the income or expenditure in respect of a financial arrangement where any rights and obligations of the parties are expressed in a "base currency" other than New Zealand dollars; this base currency might be a foreign currency or a commodity.

3. The method used is essentially the base price method set out in Chapter 9 of the Consultative Document on Accrual Tax Treatment of Income and Expenditure. Income or expenditure is calculated for each income year in accordance with the Act and other determinations where appropriate (for example G3), in the base currency.

4. This income or expenditure, together with the opening tax book value and adjusted for amounts paid or received during the income year, is used to calculate the closing tax book value of the financial arrangement as at year end. In the case of a conventional loan, this closing tax book value is equivalent to the outstanding principal and accrued interest under the loan as at year end, in the base currency. This closing tax book value is converted to New Zealand dollars at the spot rate applicable at that date.

5. The income or expenditure in New Zealand dollars is determined from:

   a) The amounts paid and/or received during the income year, converted to New Zealand dollars on the dates of payment; together with

   b) The net change in the amount of closing tax book values in New Zealand dollars during the income year.

   This brings to account for income tax purposes all accrued gains and losses on the financial arrangement, including gains and losses arising from currency translation.

6. This determination requires that where a financial arrangement involves or is expressed in more than one currency or commodity, each separate currency or commodity tranche is to be treated as a separate financial arrangement.

7. Where—

a) A facility provides for the rollover of a financial arrangement; and

b) No payment under any arrangement arising from the rollover is material to or contingent upon the financial arrangement—

the financial arrangement matures when the rollover occurs. However, where a payment under an arrangement arising from the rollover is material to or contingent upon the financial arrangement, any arrangement that includes the payment is a part of the financial arrangement.

2 Reference

1. This determination is made pursuant to section 64E(1)(b) and 64E(6) of the Income Tax Act 1976.

2. Determination G9: Financial Arrangements that are Denominated in a Currency or Commodity other than New Zealand Dollars is hereby rescinded with effect from the day on which this Determination G9A is signed.

3 Scope of Determination

1. This determination shall apply where it is necessary to calculate the income or expenditure of a person in respect of a financial arrangement and any right or obligation of the person in relation to the financial arrangement is fixed or otherwise determined in a currency or commodity other than New Zealand dollars (NZD) and is not fixed in NZD.

2. This determination shall not apply to—

   a) A forward or future contract:
   b) A futures contract:
   c) A swap contract:
   d) An option:
   e) A security arrangement.

4 Principle

1. Income or expenditure shall be calculated in the base currency or commodity in accordance with the Act and determinations, as if the base currency or commodity were NZD.

2. Amounts paid or received during an income year shall be converted to NZD at spot rates at the time of the payment or receipt.
3. At the end of each income year the closing tax book value is calculated in the base currency equal to—
    a) The closing tax book value (if any) in relation to the previous income year;

       Plus

    b) Amounts paid by the holder or received by the issuer (as the case may be) during the income year and in relation to the financial arrangement;

       Plus

    c) Income or expenditure calculated as in clause 4(1) of this determination;

       Less

    d) Amounts received by the holder or paid by the issuer (as the case may be) during the income year in relation to the financial arrangement.
4. The closing tax book value is converted to NZD at the then spot rate and the net change from the previous income year is brought into income or expenditure for the income year.
5. The total income or expenditure is the sum of the amounts calculated in clauses 4(2) and 4(4) of this Determination.
6. For the purpose of determining the income deemed to be derived or expenditure deemed to be incurred in respect of a financial arrangement that involves separate amounts expressed in more than one currency or commodity and in respect of an income year, the financial arrangement shall be treated as separate financial arrangements in relation to each separate amount.

5 Interpretation

In this Determination, unless the context otherwise requires,—

Expressions used have the same meanings as in the Act, except that where there is a conflict between the meaning of an expression in sections 64B to 64M of the Act and the meaning of the expression elsewhere in the Act the expression shall have the same meaning as in the said sections 64B to 64M:

"The Act" means the Income Tax Act 1976:

"Base currency" in relation to a financial arrangement means the currency or commodity in which rights and obligations under the financial arrangement are fixed:

"Base currency expenditure" in relation to a person and a financial arrangement and an income year, means the amount of the expenditure of the person in respect of the financial arrangement and the income year, calculated in the base currency in relation to the financial arrangement but otherwise in accordance with the Act and determinations made under it (subject to clause 6(4) of this Determination regarding the application of Determination G2: Requirements as to Precision):

"Base currency income" in relation to a person and a financial arrangement and an income year, means the amount of the income of the person in respect of the financial arrangement and the income year, calculated in the base currency in relation to the financial arrangement but otherwise in accordance with the Act and determinations made under it (subject to clause 6(4) of this Determination regarding the application of Determination G2: Requirements as to Precision):

"Closing tax book value", in relation to an income year means the value of a person's rights and obligations under a financial arrangement, calculated in accordance with the following formula:

$$e + f + g - h - i$$

where—

e is—

(i) Where the person was a party to the financial arrangement at the beginning of the income year, the opening tax book value of the person's rights and obligations under the financial arrangement; and

(ii) In every other case, nil; and

f is the sum of the value (expressed in the base currency in relation to the financial arrangement) of all consideration given during the income year by or on behalf of the person in relation to the financial arrangement; and

g is the base currency income of the person in respect of the financial arrangement; and

h is the sum of the value (expressed in the base currency in relation to the financial arrangement) of all consideration given during the income year to or for the benefit of the person in relation to the financial arrangement; and

i is the base currency expenditure of the person in relation to the financial arrangement:

"Currency" includes any commodity used as a medium of exchange or account, whether in general use or for the purpose of an arrangement:

"Exchange rate" means the price of one currency expressed in another currency:

"Financial arrangement" has the same meaning as in sections 64B to 64M of the Act:

Provided that, where a financial arrangement creates obligations in two or more currencies and the consideration to be given and received in respect of the obligations in each of the currencies is separately identifiable, the consideration to be given and received in respect of the obligations in each currency shall be treated as relating to separate financial arrangements:

"NZD" means the currency of New Zealand:

"Opening tax book value" , in relation to an income year and the rights and obligations of a person under a financial arrangement, means the closing tax book value of the person's rights and obligations under the financial arrangement at the end of the last preceding income year:

"Spot rate" means the exchange rate for a spot contract as defined in Determination G6A: Foreign Currency Rates.

6 Method

1. The income or expenditure of the person in respect of a financial arrangement and an income year shall be calculated in accordance with the following formula:

$$a + b - c - d$$

where—

a = the value of NZD of the closing tax book value; and

b = the sum of the value in NZD of all consideration given during the income year to or for the benefit of the person in relation to the financial arrangement; and

c = the value in NZD of the opening tax book value; and

d = the sum of the value in NZD of all consideration given during the income year by or on behalf of the person in relation to the financial arrangement—

and the amount so calculated shall,—

(a) Where it is a positive amount be deemed to be income derived by the person in the income year:

(b) Where it is a negative amount be deemed to be expenditure incurred by the person in the income year.

2. Where—

(a) An amount at any time is expressed in a currency other than NZD or the base currency in relation to a financial arrangement; and

(b) It is necessary to convert the amount to NZD or the base currency or otherwise to calculate the value of the amount in NZD or the base currency—

the exchange rate for the purpose of the calculation shall be,—

(c) Where the matter is dealt with in a determination made by the Commissioner under section 64E(1) of the Act, the price or spot rate at the time and so determined:

(d) Where the exchange rate is not dealt with in a determination made by the Commissioner under section 64E(1) of the Act and the amount is expressed in a currency for which there is an accessible and active market in—

(i) NZD or the base currency, as the case may be; or

(ii) Another currency that satisfies the requirements of this sub-paragraph,—

an exchange rate determined in a manner consistent with determinations made by the Commissioner for the purpose of ascertaining the price or rate for any currency.

(e) In any other circumstance, a price or spot rate at which an arm's-length dealing would be expected to take place at the time.

3. Determination G2: Requirements as to Precision shall apply to the calculation of income and expenditure under clause 6(2) of this Determination.

7 Examples

EXAMPLE 1. DISCOUNTED BOND

A NZ investor has a United States Treasury Bond on its balance date of 30 June 1989. The bond has a term of five years and bears 10% interest payable semi-annually on 1 September and 1 March. It has a face value of USD $10 million. The bond was purchased at issue for USD $8,300,000 and matures on 1 September 1993.

For the purposes of this example USD refers to the currency of the United States of America and NZD refers to the currency of New Zealand. Suppose the spot rates on important dates in this example are:

DATE	RATE (1 NZD = USD)
1 September 1988	.6310
1 March 1989	.6455
30 June 1989	.6580
1 September 1989	.6500
1 March 1990	.6550
30 June 1990	.6500
1 September 1990	.6570
1 March 1991	.6580
30 June 1991	.6460
1 September 1991	.6400
1 March 1992	.6380
30 June 1992	.6200
1 September 1992	.6150

The accrued income in USD associated with the bond is given in the following table — this is calculated in accordance with Determination G3: Yield to Maturity Method and allocated to income years according to Determination G1.

ALL ITEMS IN USD

DATE	CASHFLOWS	INCOME	YEAR ENDING	ACCRUED INCOME
01-Sep-88	(8,300,000)			
01-Mar-89	500,000	620,316		
01-Sep-89	500,000	629,308	30-Jun-89	1,034,154
01-Mar-90	500,000	638,972		
01-Sep-90	500,000	649,358	30-Jun-90	1,281,465
01-Mar-91	500,000	660,521		
01-Sep-91	500,000	672,518	30-Jun-91	1,325,110
01-Mar-92	500,000	685,411		
01-Sep-92	500,000	699,268	30-Jun-92	1,375,530
01-Mar-93	500,000	714,161		
01-Sep-93	10,500,000	730,167	30-Jun-93	1,433,748
			30-Jun-94	250,003
	6,700,000	6,700,000		6,700,000
Y–T–M	14.9474 p.a.			

At first balance date — 30 June 1989

The Closing Tax Book Value (CTBV) is given by:

$$e + f + g - h - i$$

e is 0 since the investor was not a party to this financial arrangement at the beginning of this income year.

f is USD 8.3m the price paid for the bond on 1 September 1988, being the sum of all consideration given by the investor during the income year.

g is USD 1,034,154 the base currency income accruing to the person in this income year calculated in accordance with the provisions of sections 64B to 64M of the Act.

h is USD 500,000 (the interest payment of 1 March 1989) the sum of all consideration given to the person in the income year.

i is 0 as there is no expenditure incurred by the investor.

The formula gives a CTBV of:

$$0 + 8{,}300{,}000 + 1{,}034{,}154 - 500{,}000 - 0 = \text{USD } 8{,}834{,}154.$$

The income or expenditure in respect of the bond for the income year is calculated according to a + b − c − d.

Where:

a is the NZD value of the CTBV

= 8,834,154 / .658 = $13,425,766.

b is the NZD value of all consideration given to the person during the income year

= 500,000 / .6455 = $774,593.

c is the opening tax book value and has a nil value.

d is the NZD value of all consideration given by the person during the income year

= 8,300,000 / .6310 = $13,153,724.

The income or expenditure is thus $1,046,635 NZD. This positive amount is income derived by the investor.

At the second balance date — 30 June 1990.

The CTBV is:

e is 8,834,154 the opening tax book value equal to the CTBV of the previous year.

f is 0 since no consideration is given by the investor in this income year.

g is USD 1,281,465 the base currency income accruing to the person in this income year calculated in accordance with the provisions of sections 64B to 64M of the Act.

h is USD 1,000,000 (the interest payments of 1 September 1989 and 1 March 1990) the sum of all consideration given to the person in the income year.

i is 0 as there is no expenditure incurred by the investor.

The CTBV (e + f + g − h − i) is then equal to USD 9,115,619.

The income or expenditure associated with the bond on this date is calculated according to

a + b − c − d.

Where:

a is 9,115,619 / .6500 = $14,024,029

b is 500,000 / .6500 + 500,000 / .6550 = $1,532,590.

c is USD 8,834,154 / .6580 = NZD 13,425,766 d is nil.

This equates to $2,130,853 NZD. As this is a positive amount it is income derived by the investor.

At the end of the third income year — 30 June 1991.

$$\begin{aligned} \text{The CTBV (USD)} &= 9{,}115{,}619 + 1{,}325{,}110 - 1{,}000{,}000 \\ &= 9{,}440{,}729 \end{aligned}$$

The income derived/expenditure incurred in NZD is therefore:

	9,440,729 / .6460
plus	500,000 / .6570 + 500,000 / .6580
minus	9,115,619 / .6500
equals	2,111,016 NZD

as this is a positive amount it is income derived by the investor.

On 30 September 1991 the bond is sold for USD 10 million (i.e. an approximate yield of 16% p.a.) At this date the USD/NZD spot rate was .6320.

At this date the investor is subject to the base price adjustment of section 64F:

$$a - (b + c)$$

Where:

a is all consideration that has been paid to the investor:

$$\begin{aligned} & 500{,}000 / .6455 + 500{,}000 / .6500 + 500{,}000 / .6550 \\ + \; & 500{,}000 / .6570 + 500{,}000 / .6580 + 500{,}000 / .6400 \\ + \; & 10{,}000{,}000 / .6320 \\ = \; & 20{,}432{,}131 \text{ NZD} \end{aligned}$$

b is the acquisition price of the bond: 8,300,000 / .6310 = 13,153,724 NZD

c is all amounts of income derived under section 64C:

$$\begin{aligned} & 1{,}046{,}635 + 2{,}130{,}853 + 2{,}111{,}016 \text{ (as calculated above)} \\ = \; & 5{,}288{,}504 \text{ NZD} \end{aligned}$$

So the Base Price Adjustment is

$a - (b + c)$

$= 20{,}432{,}131 - (13{,}153{,}724 + 5{,}288{,}504)$

= 1,989,903 NZD

Since this is a positive amount it is income derived by the holder of the bond in this income year.

EXAMPLE 2. MULTICURRENCY LOAN FACILITY WITH EARLY REPAYMENT

A corporate borrower has a multi-currency loan facility that allows funds to be drawn down in any of three currencies — US Dollars (USD), Sterling (GBP) and Deutchmarks (DM). The total initial amount of the loan is $100 million USD and may be taken in any combination of the three currencies. The term of the loan is 10 years and any tranche may be repaid at any time by payment of the principal outstanding. The mixture of currencies can be changed at each six monthly interest payment date. Interest is payable in the currency of the principal amount at rates depending on the currency as shown below.

The loan is initially drawn down on 1 October 1988 in the configuration below. Interest is payable six monthly in arrears on 1 February and 1 August.

The corporate borrower has a 31 March balance date. Its base currency is New Zealand dollars (NZD).

INITIAL DRAWDOWN CONFIGURATION.

CURRENCY	AMOUNT	SPOT RATE (against USD)	USD EQUIVALENT	INTEREST RATE
USD	$55m		$55m	9%
GBP	STG26m	.55	$19.8m	11%
DM	DM60m	2.45	$24.5m	5%
			$99.3m	

For taxation purposes each of these tranches is treated as a separate financial arrangement.

For example, with respect to the Sterling (GBP) tranche the expenditure incurred as at 31 March 1989 is calculated as follows:

The base currency is GBP. The interest payment for the four months ended 1 February 1989 in GBP 1.32m.

The CTBV is equal to e + f + g − h − i.

> e is 0 since the corporate borrower is not a party to this financial arrangement at the beginning of this income year.
>
> f is GBP 1.32m the interest payment paid on 1 February 1989.

g is 0 since there is no base currency income accruing to the person in this income year.

h is GBP 36m (the amount drawn down) the sum of all consideration given to the corporate borrower in the income year.

i is GBP 1.98m the base currency expenditure of the corporate borrower calculated in accordance with the provisions of sections 64B to 64M of the Act.

The CTBV is then equal to GBP − 36.66m at 31 March 1989.

Suppose that the spot rates for the conversion of GBP to NZD were

.3300 GBP to 1 NZD on 1 October 1988 and

.3345 GBP to 1 NZD on 1 February 1989 and

.3350 GBP to 1 NZD on 31 March 1989.

The income or expenditure of the corporate borrower for the year ended 31 March 1989 in respect of this financial arrangement is given by:

a + b − c − d, where

a is the CTBV in NZD = −36.66m / .3350 = NZD −109,432,836.

b is the sum of all consideration given to the person during the financial year i.e. the amount drawn down. In NZD this is equal to 36m / 0.3300 = NZD 109,090,909.

c is the value of the opening tax book value and has nil value.

d is the sum of all consideration given by the corporate in the financial year, i.e. the interest payment = 1.32m / .3345 = NZD 3,946,188.

The income or expenditure is then NZD −4,288,115. For the corporate borrower this negative amount is expenditure incurred in this income year.

At the corporate's second balance date — 31 March 1990.

The CTBV is equal to e + f + g − h − i.

Where:

e is GBP −36.66m the CTBV of the previous year.

f is GBP 3.96m the interest payments paid on 1 August 1989 and 1 February 1990.

g is nil.

h is nil.

i is GBP 3.96m the base currency expenditure of the corporate borrower.

The CTBV is then equal to GBP −36.66m at 31 March 1990.

Suppose that during the year the relevant spot rates for the conversion of GBP to NZD were:

.3340 GBP to 1 NZD on 1 August 1989 and

.3310 GBP to 1 NZD on 1 February 1990 and

.3280 GBP to 1 NZD on 31 March 1990.

The income or expenditure of the corporate borrower for the year ended 31 March 1990 in respect of this financial arrangement is given by:

a + b − c − d, where

a is −36.66m / .3280 = NZD −111,768,292

b is nil

c is NZD −109,432,836

d is 1.98m / .3340 + 1.98m / .3310 = NZD 11,910,017

The income or expenditure of the corporate borrower is then NZD −14,245,473.

This negative amount is expenditure incurred in this income year.

On 1 June 1990 the corporate borrower decides to switch out of GBP and borrow more USD. For the purposes of calculating the corporate's income or expenditure the GBP tranche is deemed to be repaid and is subject to the Base Price Adjustment in this income year. The spot rate GBP to NZD was .3200 on the date of repayment.

The Base Price Adjustment is given in section 64F of the Act. It calculates an amount by application of the formula:

a − (b + c); where

a is all consideration that has been paid by the corporate borrower. This is the interest payments made plus the deemed principal repayment amount. This amount is equal to: 1.32m / .3345 + 1.98m / .3340 + 1.98m / .3310 = NZD 15,856,205 in respect of the interest amounts plus 36m / .3200 = NZD 112,500,000 in respect of the deemed principal repayment. So “a” then equals NZD 128,356,205

b is the acquisition price of the facility. This is equal to the amount of GBP drawn down i.e. 36m / .3300 = NZD 109,090,909 c is the amounts of expenditure incurred less the amounts of income derived as calculated under section 64C. The expenditure calculated for the previous two years of the loan facility were

For the year ended 31 March 1989	4,288,115
For the year ended 31 March 1990	14,245,473
The total expenditure therefore is NZD	18,533,588

In this case there is no income to the corporate borrower.

The Base Price Adjustment is therefore:

128,356,205 − (109,090,909 + 18,533,588) = NZD 731,708

This positive amount is deemed to be expenditure incurred by the issuer in this income year in accordance with Section 64F(4)(b) of the Act.

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.