DETERMINATION G16A: DISCOUNTED VALUE OF AMOUNTS PAYABLE IN RELATION TO TRADE CREDITS DENOMINATED IN NEW ZEALAND CURRENCY

This determination may be cited as "Determination G16A: Discounted Value of Amounts Payable in Relation to Trade Credits Denominated in New Zealand Currency".

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

(1) This determination rescinds and replaces Determination G16: Discounted Value of Amounts Payable in Relation to Trade Credits Denominated in New Zealand Currency made by the Commissioner on 10 July 1989. This determination differs from Determination G16: Discounted Value of Amounts Payable in Relation to Trade Credits Denominated in New Zealand Currency by -

(a) Requiring that the interest rate used to determine the discounted value of amounts payable in relation to a trade credit be ascertained as at the supply date of the specified goods or services rather than as at the date of entry into the trade credit (which can be difficult to determine); and

(b) Requiring the discounted value of the amounts payable to be used to calculate income derived or expenditure incurred in an income year (which is an extension made to the method for completeness).

(2) This determination provides the method to be used to calculate the core acquisition price for a trade credit under section 64BA(1)(b)(iii) of the Act where -

(a) The trade credit is not a short term trade credit; and

(b) The amounts payable in respect of the trade credit are denominated in New Zealand dollars; and

(c) In relation to the trade credit all amounts payable and the dates on which they are payable are known at the first balance date after supply date; and

(d) The term of the trade credit is known at the first balance date after supply date.

(3) A short term trade credit, where payment is required within 63 days after supply of the specified goods or services, is exempted from the scope of the accrual provisions by the definitions in section 64B(1) of the Act.

(4) Any other trade credit is subject to the accrual provisions of the Act and relevant determinations. In such cases the core acquisition price must be determined as at the supply date of the specified goods or services.

(5) 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). Paragraphs (b)(i) and (ii) of that section provide two ways of determining the amount "u" which is required for calculating the core acquisition price. Where neither of these apply, paragraph (b)(iii) provides that "u" shall be "the discounted value of the amounts payable for the specified goods or services, as determined pursuant to a determination made by the Commissioner under section 64E(1)(f) of this Act".

(6) This determination requires an interest rate to be ascertained in accordance with Determination G13: Prices or Yields, as at the supply date of the specified goods or services. This interest rate is the market yield applying to bank bills of a similar term to the term of the trade credit; if the term of the trade credit 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 supply date using the yield so ascertained and the present value calculation Method A in Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results. The present value so calculated is the amount of "u" to be used for calculating the core acquisition price.

(8) The core acquisition price is used to determine the acquisition price of a trade credit 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 trade credit shall be calculated as if the value of the specified goods or services were 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 G11: Present Value Based Yield to Maturity Method or an alternative method producing a result that is not materially different. The acquisition price is also required for 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 G16: Discounted Value of Amounts Payable in Relation to Trade Credits 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 every trade credit denominated in New Zealand currency in relation to which a person is a holder or an issuer, but it shall not apply -

(a) To a short term trade credit; or

(b) To a trade credit to which paragraph (b)(i) or paragraph (b)(ii) of the definition of "core acquisition price" in section 64BA(1) of the Act applies; or

(c) Where in relation to the trade credit any amount payable or the date on which any amount is payable is not known at the first balance date after supply date; or

(d) Where the term of the trade credit is not known at the first balance date after supply date.

4. Principle

(1) The discounted value of amounts payable for the specified goods or services is calculated as at the supply date using -

(a) The market yield to maturity available on traded debt securities of a similar term to the term of the trade credit, ascertained in accordance with Determination G13: Prices or Yields; and

(b) Present value calculation Method A provided in clause 6(2) of Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results.

(2) The discounted value of the amounts payable for the specified goods or services enables the acquisition price of a trade credit to be ascertained for the purposes of determining income derived or expenditure incurred in any period and the base price adjustment.

(3) The discounted value so calculated is taken into account in determining the income or expenditure accruing from the trade credit in any income year, and where the discounted value and the amount of future payments under the trade credit are known the yield to maturity method is to be applied.

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 to pay and drawn upon, and accepted by -

(a) A registered bank as defined in section 2(1) of the Reserve Bank of New Zealand Act 1964; or

(b) Any person referred to in part A of the first schedule to the Reserve Bank of New Zealand Act 1964:

"Final payment" in relation to a trade credit means the last payment required to be made by the issuer of the trade credit under the trade credit, other than any amount that is not material in relation to the total 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 goods and services" in relation to a trade credit means the goods and services to which the trade credit relates:

"Supply date" means the day on which the specified goods or services are supplied under the trade credit:

"Term" in relation to a trade credit means the period commencing on the day after the supply date and ending on the day on which final payment is required to be made.

(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.

6. Method

(1) For the purposes of subparagraph (iii) of the definition of "u" in section 64BA(1)(b) of the Act, the discounted value of the amounts payable for the specified goods or services in relation to any person shall be the present value as at supply date of amounts payable to or, as the case may be, by the person for the specified goods or services after the supply date.

(2) For the purposes of this determination, the present value as at supply date of amounts payable shall be calculated, subject to subclause (3) of this clause, using Method A provided in clause 6(2) of Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results. The present value so calculated is the amount "u" to be used to determine the core acquisition price.

(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 -

(a) Where the term of the trade credit is twelve months or less, the yield for bank bills of a similar term to the term of the trade credit:

(b) In any other case, the yield for New Zealand Government Stock of a similar term to the term of the trade credit -

determined as at the supply date of the specified goods or services and according to Determination G13: Prices or Yields.

(4) The core acquisition price is used to determine the acquisition price of a trade credit in accordance with sections 64BA(2) or (3) of the Act.

(5) Income derived or expenditure incurred in relation to a trade credit shall be calculated as if the value of the specified goods or services were equal to the core acquisition price, and using the yield to maturity method.

7. Example

(1) A trade credit is entered into on 1 December 1988. Under the trade credit, goods supplied on 17 February 1989 are to be paid by $400,000 in New Zealand currency on 14 July 1989. The term of the trade credit (period from day after supply date to final payment date) is therefore 147 days.

(2) The market yield on 17 February 1989 of bank bills maturing in 147 days is 13.5% ascertained in accordance with Determination G13: Prices or Yields.

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

(4) The purchaser has a 31 March balance date.

(5) Method A of Determination G10: Present Value Calculation Methods, is applied to calculate the present value as at 17 February 1989 (the "specified date") as follows -

A	=	0
B	=	$400,000 (payable by the issuer or receivable by the holder)
C	=	0 (payable by the holder or receivable by the issuer)
R	=	13.5% (the specified rate)
N	=	365/147
	=	2.48299

$$F = \frac{R}{100 \times N} = 0.05437$$

$$\text{Present Value} = \frac{A + B - C}{1 + F} = \$379{,}373$$

This is "u" to be used in calculating the core acquisition price.

(6) For purposes of recognising income derived or expenditure incurred in relation to the trade credit Determination G3 is used (alternatively, G11 could be used) where -

R	=	13.5%,
N	=	2.48299, and
F	=	0.5437.

The expenditure incurred for the 147 day period is,

$379,373 x 0.05437 = $20,627

This is apportioned for the period 17 February to 31 March using Determination G1A -

1989 income year 42 days $ 5,893

Expenditure for the 1990 income year is determined using the base price adjustment where,

a	=	$400,000
b	=	$379,373
c	=	$ 5,893
a - (b + c)	=	$14,734

As this amount is positive it is deemed to be expenditure incurred by the issuer.

This determination is signed by me on the 9th day of February in the year 1990.

R D Adair
Deputy Commissioner of Inland Revenue

DETERMINATION G17A: DISCOUNTED VALUE OF AMOUNTS PAYABLE IN RELATION TO DEFERRED PROPERTY SETTLEMENTS DENOMINATED IN NEW ZEALAND CURRENCY

This determination may be cited as "Determination G17A: Discounted Value of Amounts Payable in Relation to 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 G17: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in New Zealand Currency made by the Commissioner on 10 July 1989. This determination differs from Determination G17: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in New Zealand Currency by -

(a) Requiring that the interest rate used to determine the discounted value of amounts payable in relation to a deferred property settlement be ascertained as at the transfer date of the specified property rather than as at the date of entry into the contract (which can be difficult to determine); and

(b) Requiring that the discounted value of the amounts payable be used to calculate income derived or expenditure incurred for any income year (which is an extension made to the method for completeness).

(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". Where the first right in the property is transferred at the time of payment of the purchase price in full, the purchase price will be the lowest price determined for the purposes of section 64BA(1)(c)(i) and the discounting provisions described in this determination will not apply.

(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; or

(f) 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

(g) Where the credit term of the deferred property settlement is not known at the date of entry into the deferred property settlement.

(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, 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) This determination requires that an interest rate be ascertained in accordance with Determination G13: Prices or Yields, as at the transfer date of the specified property. This interest 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 G10: 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) 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 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 G11: Present Value Based Yield to Maturity Method, or an alternative method producing a result which is not materially different.

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 G17: 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 an 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; or

(c) 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

(d) Where the credit term of the deferred property settlement is not known at the date of entry into the deferred property settlement.

4. Principle

(1) The discounted value of amounts payable for the specified property is calculated as at the transfer date using -

(a) The market yield to maturity available on traded debt securities of a similar term to the credit term of the deferred property settlement, ascertained in accordance with Determination G13: Prices or Yields; and

(b) Present value calculation Method A provided in clause 6(2) of Determination G10: Present Value Calculation Methods, or an alternative method producing results which are not materially different.

(2) The discounted value of the amounts payable for the specified property enables the acquisition price of 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) The discounted value so calculated is taken into account in determining the income or expenditure accruing from the trade credit in any income year, and where the discounted value and the amount of the future payments under the trade credit are known the yield to maturity method is to be applied.

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) A registered bank as defined in section 2(1) of the Reserve Bank of New Zealand Act 1964; or

(b) Any person referred to in part A of the first schedule to the Reserve Bank of New Zealand Act 1964:

"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:

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

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.

6. Method

(1) For the purposes of subparagraph (ii) of the definition of “w” in section 64BA(l)(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.

(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 G10: Present Value Calculation Methods, or an alternative method producing results which are not materially different.

(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 -

(a) Where the credit term is twelve months or less, the yield for bank bills of a similar term to the credit term:

(b) In any other case, the yield for Government stock of a similar term to the credit term -

determined as at the transfer date of the specified property and according to Determination G13: Prices or Yields.

(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.

(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.

(6) 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, using the yield to maturity method.

7. Example

(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 seller’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.

(2) The yield on bank bills of a similar term to the credit term ascertained on 20 December 1988 pursuant to Determination G13: Prices or Yields, is 13.2%.

(3) In this case, the seller is the “holder” for purposes of the accruals legislation.

(4) 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)

$$F = \frac{R}{100 \times N} = 0.03300$$

(a) At 3 June 1989:

A = 0
B = $675,000 (payable by the issuer or receivable by the holder)
C = 0 (payable by the holder or receivable by the issuer)

whence present value at 3 June 1989 = $\frac{A + B - C}{1 + F}$

= $653,437

(b) At 3 March 1989:

A = $653,437
B = $675,000
C = 0

whence present value at 3 March 1989 = $\frac{A + B - C}{1 + F}$

= $1,285,999

(c) 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.

(5) For the purposes of recognising the income derived in the 1989 and 1990 income years Determination G3 is used (alternatively, G11 could be used), where -

R = 13.2%
N = 4
F = 0.0330

The income derived for the first 3 months is

$1,285,999 x 0.0330 = $42,437.96

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

1989 income year - 28 days = $12,915.90

(6) 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 derived.

Base Price Adjustment = a - (b + c) where -

a	=	all consideration paid
	=	$1,500,000
b	=	the acquisition price
	=	$1,435,999
c	=	income derived in previous income years
	=	$12,915.90
bpa	=	$51,085.10

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

This determination is signed by me on the 9th day of February in the year 1990.

R D Adair
Deputy Commissioner of Inland Revenue

DETERMINATION G20: DISCOUNTED VALUE OF AMOUNTS PAYABLE IN RELATION TO TRADE CREDITS DENOMINATED IN A FOREIGN CURRENCY

This determination may be cited as "Determination G20: Discounted Value of Amounts Payable in Relation to Trade Credits Denominated in a Foreign Currency".

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

(1) This determination provides the method to be used to calculate the core acquisition price for a trade credit under sub-paragraph (iii) of the definition of "u" in section 64BA(1)(b) of the Act where -

(a) Any right or obligation of the parties is expressed in a "base currency" other than New Zealand dollars; and

(b) All amounts payable in relation to the trade credit and the dates on which they are payable are known at the first balance date after the supply date; and

(c) The term of the trade credit is known at the first balance date after the supply date; and

(d) Section 64BA(1)(b)(i), the cash price of the goods or services to which the trade credit relates as determined in the Credit Contracts Act 1981, is not applicable and

(e) Section 64BA(1)(b)(ii), the lowest price at which the specified goods services could be purchased under short term trade credit, is not applicable.

The core acquisition price is a component of the acquisition price, which is -

(i) Required to calculate income derived or expenditure incurred in an income year in accordance with the Income Tax Act 1976 and relevant determinations (and for this purpose the acquisition price must be expressed in the base currency); and

(ii) Converted to New Zealand dollars for the purposes of the base price adjustment.

(2) A short term trade credit, where payment is required within 63 days after supply of the specified goods or services, is exempted from the scope of the accrual provisions by the definitions in section 64B(1) of the Act. This determination cannot apply to a short term trade credit.

(3) Any other trade credit is subject to the accrual provisions of the Act and relevant determinations. Where paragraph (iii) of the definition of "u" applies the acquisition price (and therefore the core acquisition price) must be determined as at the supply date of the specified goods or services.

(4) Sections 64BA(2) and (3) of the Act define acquisition price in terms of the core acquisition price, which is itself defined in section 64B(1). Paragraphs (i) and (ii) of the definition of "u" in that section provide two ways of determining the amount "u" which is required for calculating the core acquisition price. Where neither of these apply, paragraph (iii) of the definition of "u" in section 64BA(1) provides that "u" shall be "the discounted value of the amounts payable for the specified goods and services, as determined pursuant to a determination made by the Commissioner under section 64E(1)(f) of this Act".

(5) For these purposes any amount determined in a currency other than New Zealand dollars is required to be discounted using an interest rate appropriate to the currency. This determination allows the use of -

(a) A foreign currency interest rate ascertained using a method consistent with Determination G13: Prices or Yields as at the supply date - this interest rate is the interbank offer rate for the currency and term of the trade credit; or

(b) An implied foreign currency interest rate calculated by reference to appropriate forward and spot exchange rates and the New Zealand bank bill or New Zealand Government Stock rates appropriate to the term of the trade credit.

(6) The interest rate appropriate to the term of the trade credit is selected by the taxpayer, and once chosen the rate is required to be used in respect of every income year in which the taxpayer is a holder or an issuer of the trade credit.

(7) The amounts payable under the trade credit are discounted to the supply date using the interest rate so ascertained and present value calculation Method A in Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results.

(8) The discounted value of the amounts payable is the amount "u" to be used for calculating the core acquisition price.

(9) The core acquisition price is used to determine the acquisition price of a trade credit in accordance with sections 64BA(2) or (3) of the Act.

(10) Once the acquisition price is known in the base currency, income derived or expenditure incurred in relation to a trade credit shall be calculated, as if the value of the specified goods or services were equal to the amount of the core acquisition price, using the yield to maturity method, and Determination G9A: Financial Arrangements that are Denominated in a Currency or Commodity other than New Zealand Dollars. The yield to maturity method chosen may be that determined in Determination G3: Yield to Maturity Method or Determination G11: Present Value Based Yield to Maturity method or an alternative method producing a result that is not materially different.

(11) For purposes of the base price adjustment as defined in section 64F, the acquisition price must be converted to New Zealand dollars on the supply date of the specified goods or services.

Reference

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

3. Scope of Determination

This determination shall apply to every trade credit where any amount payable is denominated in a currency other than New Zealand dollars, but it shall not apply -

(a) To a trade credit to which paragraph (b)(i) or paragraph (b)(ii) of the definition of "core acquisition price" in section 64B(1) of the Act applies; or

(b) Where in relation to the trade credit any amount payable or the date on which any amount is payable is not known at the first balance date after supply date; or

(c) Where the term of the trade credit is not known at the first balance date after the supply date.

4. Principle

(1) The discounted value of amounts payable for the specified goods or services is calculated -

(a) In the base currency as if it were New Zealand currency;

(b) Using an interest rate appropriate for the currency, the rate being either -

(i) A rate ascertained using a method consistent with Determination G13: Prices or Yields, that is the foreign interbank offer rate appropriate to the term of the trade credit; or

(ii) A rate calculated by reference to appropriate spot and forward exchange rates and the bank bill or New Zealand Government Stock rates appropriate to the term of the trade credit; and

(c) Using present value calculation Method A provided in clause 6(2) of Determination G10: Present Value Calculation Methods, or an alternative method producing results which are not materially different.

(2) The discounted value of the amounts payable for the specified goods or services enables the acquisition price of a trade credit to be ascertained for the purposes of determining income derived or expenditure incurred in any period and the base price adjustment. For the latter purpose the discounted value of the amounts payable is converted to New Zealand dollars on the supply date of the specified goods or services.

(3) The discounted value so calculated is taken into account in determining the income or expenditure accruing from the trade credit in any income year, and where the discounted value and the amount of future payments under the trade credit are known the yield to maturity method is to be applied.

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:

“Acceptable present value calculation method” means Method A of Determination G10: Present Value Calculation Methods, or an alternative method producing results which are not materially different.

“Bank bill” means an order to pay, denominated in New Zealand currency and drawn upon and accepted by -

(a) A registered bank as defined in section 2(1) of the Reserve Bank of New Zealand Act 1964; or

(b) Any person referred to in part A of the first schedule to the Reserve Bank of New Zealand Act 1964:

“Base currency” in relation to a financial arrangement means the currency in which rights and obligations under the financial arrangement are fixed:

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

“Final payment” in relation to a trade credit means the last payment required to be made by the issuer of the trade credit under the trade credit, other than any amount that is not material in relation to the total consideration required to be provided by the issuer under the financial arrangement:

“Forward exchange rate” means the price at which foreign currency can be bought or sold for delivery at a specified future time:

“Interbank offer rate” in relation to a term means the rate at which a bank makes funds available to another bank which is a highly reliable credit risk and a trader in the market for such funds and for such a term; and includes, according to the circumstance, the rates collectively referred to as "LIBOR" and "SIBOR":

"Specified goods and services" in relation to a trade credit means the goods and services to which the trade credit relates:

"Spot rate" means the price at which foreign currency can be bought or sold for delivery in 2 days:

"Supply date" means the day on which the specified goods or services are supplied:

"Term" in relation to a trade credit means the period commencing on and including the day after the supply date and ending on and including the day on which the final payment is required to be made.

(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.

6. Method

(1) For the purpose of paragraph (iii) of the definition of "u" in section 64BA(1)(b) of the Act, the discounted value of the amounts payable for the specified goods or services in relation to any person shall be the amount of New Zealand dollars equal in value to the present value as at the supply date of amounts payable to or, as the case may be, by the person for the specified goods or services after the supply date.

(2) For the purposes of this determination, the present value as at supply date of amounts payable shall be calculated, using the interest rate determined under subclause (3)(a), or (b), or clause (4), as appropriate, and an acceptable present value calculation method. The present value so calculated is the amount "u" to be used to determine the core acquisition price.

(3) In the first income year in which a person is a party to and derives income or incurs expenditure in respect of a trade credit, the annual rate of interest at which the present value of the amounts payable is required to be calculated shall be, at the option of the person, either -

(a) The interbank offer rate for the base currency and the term of the trade credit at supply date of the specified goods or services, being a market yield determined in a manner consistent with Determination G13: Prices or Yields; or

(b) A rate derived by -

(i) Converting the amount of the final payment from the base currency to New Zealand currency at the forward exchange rate for a term similar to the term of the trade credit and ascertained as at the supply date of the specified goods or services; and

(ii) Calculating the present value of the amount thus calculated, using an acceptable present value calculation method and

(A) Where the term of the trade credit is twelve months or less, the yield for bank bills of a similar term to the term of the trade credit;

(B) In any other case the yield for New Zealand Government Stock of a similar term to the term of the trade credit

the rate being determined as at the supply date of the specified goods or services and determined according to Determination G13: Prices or Yields; and

(iii) Converting the amount thus calculated to the base currency at the spot rate for the currency on the supply date of the specified goods or services; and

(iv) Calculating the base currency interest rate R for the purposes of applying Method A in Determination G10: Present Value Calculation Methods such that, if the said Method A were applied to the final payment over the term of the trade credit, the present value so calculated would be equal to the amount calculated in sub-paragraph (iii) of this paragraph

and for this purpose the exchange rate and the forward exchange rate are to be determined in accordance with Determination G6A: Foreign Exchange Rates -

and in all subsequent income years during the term of the trade credit the annual rate of interest for that purpose in respect of the trade credit shall be the rate first used in respect of the trade credit pursuant to this sub-clause.

(4) Where an amount payable is expressed in a foreign currency and is required to be converted to New Zealand dollars Determination G6A: Foreign Currency Rates shall be used. If the base currency is not approved in Determination G6A: Foreign Currency Rates, a spot rate at which an arm's length dealing would be expected to take place at the supply date shall be used.

(5) The core acquisition price shall be used to determine the acquisition price of a trade credit in accordance with sections 64BA(2) and (3) of the Act.

(6) Income derived or expenditure incurred in relation to a trade credit shall be calculated as if the value of the specified goods or services were equal to the amount of the core acquisition price using the yield to maturity method and Determination G9A: Financial Arrangements that are Denominated in a Currency or Commodity other than New Zealand Dollars. For this calculation the acquisition price shall be expressed in the base currency.

(7) For the purposes of the base price adjustment, the acquisition price of the trade credit shall be converted to New Zealand dollars at the spot rate as at the supply date of the specified goods or services.

7. Example

(A) Calculation where foreign interbank interest rate ascertained.

A trade credit is entered into on 1 December 1988. Under the trade credit, goods supplied on 17 February 1989 are to be paid by $400,000 USD on 14 July 1989. The term of the trade credit (period from day after supply date to final payment date) is therefore 147 days.

For the purposes of calculating income derived or expenditure incurred and the base price adjustment it is necessary to calculate the core acquisition price.

The US dollar interbank offer rate (LIBOR or SIBOR) on 17 February 1989 for 147 days is 9.625% ascertained using a method consistent with Determination G13: Prices or Yields.

Foreign currency spot rates ascertained in accordance with Determination G6A: Foreign Currency Rates, for various dates are:

17 February 1989	0.6300
31 March 1989	0.6250
14 July 1989	0.6400

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 17 February 1989 (the "specified date") as follows -

A = 0
B = US$400,000 (payable by the issuer or receivable by the holder)
C = 0 (payable by the holder or receivable by the issuer)
R = 9.625% (the specified rate)
N = 365/147
= 2.48299

$$F = R = \frac{0.038763}{100 \times N}$$

$$\text{Present Value} = \frac{A + B - C}{1 + F} = \text{US\$385,073}$$

This is converted into NZD at supply date using the spot rate of USD/NZD .6300 = NZ$611,227 and is the amount "u" for the purposes of calculating the core acquisition price.

For purposes of recognizing income derived or expenditure incurred in relation to the trade credit Determination G3 is used, where R=9.625%, N = 2.48299, and F = 0.038763 and the acquisition price is US$385,073. The expense for the period 17 February to 14 July is therefore US$400,000 - $385,073 = US$14,927. This is apportioned between periods using Determination G1A as follows:

1988/89	42 days	US$ 4,265
1989/90	105 days	US$10,662

At balance date the expense for the period must be revalued to reflect exchange rate movements and subsequent gains or losses on the transaction using Determination G9A.

Closing tax book value is a = e + f + g - h - i where,

e	=	0
f	=	0
g	=	0
h	=	US$385,073 (the acquisition price)
i	=	US$4,265 (expense incurred during year)

Closing tax book value (CTBV) is therefore - US$389,338

Expenditure for the year is calculated in New Zealand dollars using the formula in Determination G9A of a + b - c - d where,

a	=	NZ$622,941 (CTBV/ spot rate at balance date)
b	=	NZ$611,227 (acquisition price/opening spot rate)
c	=	0
d	=	0

As the result is negative it is deemed to be expenditure incurred of NZ$11,714.

At the end of the financial arrangement on the 14 July 1989 the base price adjustment a - (b + c) is calculated where,

a	=	total consideration paid by issuer
	=	total amount of credit/ closing spot rate
	=	NZ$625,000 (US$400,000/ 0.6400)
b	=	acquisition price/ opening spot rate
	=	NZ$611,227
c	=	total expenditure incurred previous year
	=	$11,714
bpa	=	NZ$2,059

As this is positive it is expenditure incurred in the 1990 income year.

Total expenditure claimed in relation to the credit is:

NZ$ (11,714 + 2,059) = NZ$13,773

(B) Calculation of interest rate where foreign interbank interest rate is not used.

The purchaser must calculate an implied foreign interest rate by the steps below.

Convert payment US$400,000 using FWD Rate to NZ dollars. Forward rate ascertained 17 February 1989 in regard payment in 147 days is USD/NZD .6200.
$400,000/.6200 = NZ $645,161.

Assume that the yield for NZ bank bills of a 147 day term is 13.5% p.a., ascertained at 17 February 1989 in accordance with Determination G13: Prices of Yields.

Foreign currency spot rate ascertained in accordance with Determination G6A: Foreign Currency Rates, as at 17 February 1989 is USD/NZD .6300.

Method A of Determination G10: Present Value Calculation Methods, is applied to calculate the present value as at 17 February 1989 (the "specified date") as follows -

A	=	0
B	=	NZ$645,161 (payable by the issuer or receivable by the holder)
C	=	0 (payable by the issuer or receivable by the holder)
R	=	13.5% (the specified rate)
N	=	365/147
	=	2.48299
F	=	$\frac{R}{100 \times N}$ = 0.05437

Present Value = $\frac{A + B - C}{1 + F}$ = NZ$611,892

This amount is converted into US dollars using the spot rate on 17 February 1989, NZ$631,892 x .6300 = US$385,492.

The foreign interest rate is that which results in the US$400,000 when discounted being equal to US$385,492. The rate calculated in accordance with Determination G3: Yield to Maturity Method, is 9.344% per annum. The present value as at supply date, calculated using this interest rate in the same way as shown in example (A), will give NZ$611,892 as above. The importance of deriving this foreign currency interest rate is that it allows the calculation of expenditure using Determination G9A, as above.

This determination is signed by me on the 9th day of February in the year 1990.

R D Adair
Deputy Commissioner of Inland Revenue

DETERMINATION G21: DISCOUNTED VALUE OF AMOUNTS PAYABLE IN RELATION TO DEFERRED PROPERTY SETTLEMENTS DENOMINATED IN A FOREIGN CURRENCY.

This determination may be cited as "Determination G21: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in a Foreign Currency".

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

(1) In this determination an agreement for the sale and purchase of property, or 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". Where the first right in the property is transferred at the time of payment of the purchase price in full, the purchase price will be the lowest price determined in accordance with section 64BA(1)(c)(i) and the discounting provisions described in this determination will not apply.

(2) A short term agreement or option for the sale and purchase of property is defined as an agreement or option under which settlement is required within -

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

(b) 63 days in the case of other property -

after the date on which the agreement was entered into or the option was granted. 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) of the Act is also an excepted financial arrangement.

(3) Any other agreement for the sale and purchase of property or specified option is subject to the normal accrual provisions of the Act and relevant determinations.

(4) 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.

(5) 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 subparagraph (c)(i) of that section an amount "w" is defined as being the lowest price that the buyer and seller would have agreed upon for the property had all rights and consideration passed at transfer date. If there is no such lowest price stipulated in the agreement, subparagraph (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) For these purposes any amount determined in a currency other than New Zealand dollars is required to be discounted using an interest rate appropriate to the currency. This determination allows the use of -

(a) A foreign currency interest rate ascertained using a method consistent with Determination G13: Prices or Yields as at the transfer date - this interest rate is the interbank offer rate for the currency and the term of the deferred property settlement; or

(b) An implied foreign currency interest rate calculated by reference to appropriate forward and spot exchange rates and the New Zealand bank bill or New Zealand Government Stock rates appropriate to the term of the deferred property settlement.

(7) The interest rate appropriate to the term of the deferred property settlement is selected by the taxpayer, and once chosen the rate is required to be used in respect of every income year in which the taxpayer is a holder or an issuer in respect of the deferred property settlement.

(8) The amounts payable are then discounted to the transfer date, using the interest rate so ascertained and present value calculation Method A in Determination G10: Present Value Calculation Methods or an alternative method producing not materially different results.

(9) The discounted value of the amounts payable, together with any deposit or other amounts paid on or before the transfer date is the amount "w" to be used for calculating the core acquisition price.

(10) 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.

(11) Once the acquisition price is known in the base currency, 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 amount of the core acquisition price, using the yield to maturity method and Determination G9A: Financial Arrangements that are Denominated in a Currency or Commodity other than New Zealand Dollars. The yield to maturity method chosen may be that determined in Determination G3: Yield to Maturity Method, or Determination G11: Present Value Based Yield to Maturity Method, or an alternative method producing a result which is not materially different.

(12) For the purposes of the base price adjustment, as defined in section 64F of the Act, the acquisition price must be converted to New Zealand dollars on the transfer date.

2. Reference

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

3. Scope of Determination

This determination shall apply to any agreement for the sale and purchase of property and to any specified option held or issued by a person, where payments are expressed in a "base currency" other than New Zealand dollars. This determination shall not apply -

(a) To any deferred property settlement where the amounts payable are denominated in New Zealand currency; or

(b) To any deferred property settlement where more than 20% of the sum of all the amounts payable is due before 31 days prior to the transfer date; or

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

(d) Where the term of the deferred property settlement is not known at the first balance date after the transfer date.

4. Principle

(1) The discounted value of amounts payable for the specified property is calculated -

(a) In the base currency as if it were New Zealand dollars;

(b) Using an interest rate appropriate for the currency, the rate being either -

(i) A rate ascertained using a method consistent with Determination G13: Prices or Yields, that is the foreign interbank offer rate appropriate to the term of the deferred property settlement; or

(ii) A rate calculated by reference to appropriate spot and forward exchange rates and the bank bill or New Zealand Government Stock rates appropriate to the term of the deferred property settlement; and

(c) Using present value calculation Method A specified in clause 6(2) of Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results.

(2) The discounted value of the amounts payable for the property or specified option enables the acquisition price of 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. For the latter purpose the discounted value of the amounts payable is converted to New Zealand dollars on the transfer date of the specified property.

(3) The discounted value so calculated is taken into account in determining the income or expenditure accruing from the deferred property settlement in any income year, and where the discounted value and the amount of future payments under the deferred property settlement are known the yield to maturity method is to be applied.

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:

"Acceptable present value calculation method" means calculation Method A in Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results:

"Bank bill" means an order to pay, denominated in New Zealand currency and drawn upon and accepted by -

(a) A registered bank as defined in section 2(1) of the Reserve Bank of New Zealand Act 1964; or

(b) Any person referred to in Part A of the First Schedule to the Reserve Bank of New Zealand Act 1964:

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

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

"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 property is transferred:

"Final payment" in relation to a deferred property settlement means the last payment required to be made by the issuer under the deferred property settlement, other than any amount that is not material in relation to the total consideration required to be provided by the issuer under the financial arrangement:

"Forward exchange rate" means the price at which foreign currency can be bought or sold for delivery at a specified future time:

"Interbank offer rate" in relation to a term means the rate at which a bank makes funds available to another bank which is a highly reliable credit risk and a trader in the market for such funds and for such a term; and includes, according to the circumstance, the rates collectively referred to as "LIBOR" and "SIBOR":

"Specified property" means property that is acquired or sold pursuant to a deferred property settlement:

"Spot rate" means the price at which foreign currency can be bought or sold for delivery in two days:

"Term" in relation to a deferred property settlement is the period from the transfer date to the date on which final payment is required to be made under the deferred property settlement:

"Transfer date" of a deferred property settlement means the date 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.

6. Method

(1) For the purposes of paragraph (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 expressed in New Zealand dollars; and

(b) The amount of New Zealand dollars equal in value to 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.

(2) For the purposes of this determination, the present value as at transfer date of amounts payable shall be calculated, using the interest rate determined under subclause

(2)(a) or (b) as appropriate and an acceptable present value calculation method.

(3) In the first income year in which a person is a party to and derives income or incurs expenditure in respect of a deferred property settlement, the annual rate of interest at which the present value of the amounts payable is required to be calculated shall be, at the option of the person, either -

(a) The interbank offer rate for the base currency and the term of the deferred property settlement at transfer date, being a market yield determined in a manner consistent with Determination G13: Prices or Yields; or

(b) A rate derived by -

(i) Converting the amount of the final payment from the base currency to New Zealand currency at the forward exchange rate for a term similar to the term of the deferred property settlement and ascertained as at the transfer date; and

(ii) Calculating the present value of the amount thus calculated, using an acceptable present value calculation method and -

(A) Where the term of the deferred property settlement is twelve months or less, the yield for bank bills of a similar term to the term of the deferred property settlement;

(B) In any other case the yield for New Zealand Government Stock of a similar term to the term of the deferred property settlement -

the rate being determined as at the transfer date, and determined in accordance with Determination G13: Prices or Yields; and

(iii) Converting the amount thus calculated to the base currency at the spot rate for the currency on the transfer date; and

(iv) Calculating the base currency interest rate R for the purposes of applying Method A of Determination G10: Present Value Calculation Methods such that, if the said Method A were applied to the final payment over the term of the deferred property settlement, the present value so calculated would be equal to the amount calculated in subparagraph (iii) of this paragraph -

and for this purpose the exchange rate and the forward exchange rate are to be determined in accordance with Determination G6A: Foreign Exchange Rates -

and in all subsequent income years during the term of the deferred property settlement the annual rate of interest for that purpose in respect of the deferred property settlement shall be the rate first used in respect of the deferred property settlement pursuant to this sub-clause.

(4) Where an amount payable is expressed in a foreign currency and is required to be converted to New Zealand dollars, Determination G6A: Foreign Currency Rates must be used. If the base currency is in a market not approved in Determination G6A, a spot rate at which an arm’s length dealing would be expected to take place on the transfer date must be used.

(5) The present value of the amounts payable together with any deposit or other amounts paid on or before the transfer date is the amount “w” to be used to calculate the core acquisition price.

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

(7) 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 amount of the core acquisition price, using the yield to maturity method and Determination G9A: Financial Arrangements that are Denominated in a Currency or Commodity other than New Zealand Dollars. For this calculation the acquisition price must be expressed in the base currency.

(8) For the purposes of the base price adjustment, the acquisition price of the deferred property settlement shall be converted to New Zealand dollars at the transfer date of the specified property.

7. Example

(1) A commercial property is sold for US$1,400,000 under a sale and purchase agreement subject to certain repairs being made to the building. An initial deposit of $140,000 is made on 1 February 1989.

On 1 March 1989 repairs on the building are complete and the sale becomes unconditional. The balance of US$1,260,000 is due six months after the date possession passes.

Possession of the property passes on 15 March 1989. Therefore the term of the arrangement is 15 March 1989 to 15 September 1989 - 184 days.

The purchaser's balance date is 31 March.

The USD/NZD exchange rates for the various dates are

1 February 1989	0.5600
15 March 1989	0.5800
31 March 1989	0.5750
15 September 1989	0.5700

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

(2) The US interbank offer rate on 15 March 1989 for a period of six months is 8.0 percent ascertained using a method consistent with Determination G13: Prices or Yields.

(3) Method A of Determination G10: Present Value Calculation Methods, is applied to calculate the present value as at 15 March 1989 (the "specified date") as follows

R = 8.0 percent (the specified rate)
N = 2 (since the payments are at half yearly intervals)

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

$$= 0.04$$

(a) At 15 March 1989:

A = 0
B = $1,260,000
c = 0

Therefore present value at 15 March 1989

$$= \frac{A + B - C}{1 + F}$$

= US$1,211,538

(b) To this total must be added US$140,000 deposit, giving a total present value of US$1,351,538, which is the item "w" used in calculating the core acquisition price.

(4) For the purposes of recognising as an expense that part of the deferred property settlement which is subject to the accruals legislation Determination G3: Yield to Maturity Method is used. It will be found that expenditure is as follows, apportioned on a daily basis in accordance with Determination G1A:

1988/89	16 days	US$ 4,214
1989/90	168 days	US$44,248

(a) At balance date the expenditure for the period is revalued in accordance with Determination G9A. Closing tax book value is a = e + f + g - h - i where -

e = 0
f = 0
g = 0
h = US$1,351,538 (the acquisition price)
i = US$ 4,214 (expense incurred during year)

The closing tax book value is - US$1,355,752

Expenditure for the year is calculated in New Zealand dollars using the formula from Determination G9A of - a + b - c - d where -

a = - NZ2,357,830 (CTBV/ spot rate at balance date)
b = NZ$2,330,238 (acquisition price/ opening spot rate)
c = 0
d = 0

As the result is negative it is deemed to be expenditure incurred of NZ$27,592 in the 1989 income year.

(b) At the end of the arrangement on 15 September the base price adjustment a - (b + c) is calculated to determine income or expenditure for the 1990 financial year where -

a	=	NZ$2,460,526 (deposit/spot rate date paid plus balance of consideration/closing spot rate)
b	=	NZ$2,330,238 (acquisition price/opening spot rate)
c	=	NZ$27,592 (expenditure incurred in the previous income year)

Therefore bpa = NZ$102,696

As this is positive it is deemed to be expenditure incurred in the 1990 income year.

Total expenditure claimed in relation to the deferred property settlement is NZ$(27,592 + 102,696) = NZ$130,288.

This determination is signed by me on the 9th day of February in the year 1990.

R D Adair
Deputy Commissioner of Inland Revenue

APPENDICES TO TIB NO. 9, MARCH 1990

APPENDIX A TO TIB NO. 9, MARCH 1990

DETERMINATIONS ISSUED BY THE COMMISSIONER

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