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## Inland Revenue

### Determinations

#### Determination G8: Financial Arrangements that are Denominated in a Currency or Commodity Other Than New Zealand Dollars

This determination may be cited as "Determination G8: 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 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.

(2) 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* (Government Printer, October 1986). 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.

(3) 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.

(4) 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.

(5) 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.

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

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;

or to any agreement for the sale and purchase of property.

(3) This determination shall apply only to financial arrangements entered into after the day on which this determination is signed.

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