

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 (1NZD = USD)
1 September 1988	0.6310
1 March 1989	0.6455
30 June 1989	0.6580
1 September 1989	0.6500
1 March 1990	0.6550
30 June 1990	0.6500
1 September 1990	0.6570
1 March 1991	0.6580
30 June 1991	0.6460
1 September 1991	0.6400
1 March 1992	0.6380
30 June 1992	0.6200
1 September 1992	0.6150

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	1,375,520
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
				<hr/>
	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 8.3 million 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 not 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
 $= 8,834,154 / 0.658 = \text{NZD } 13,425,766.$

b is the NZD value of all consideration given to the person during the income year $= 500,000 / 0.6455 = \text{NZD } 774,593.$

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 $= 8,300,000 / 0.6310 = \text{NZD } 13,153,724.$

The income or expenditure is thus NZD 1,046,635. The investor is a holder of the bond so that this 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 $9,115,619 / 0.6500 = \text{NZD } 14,024,029$

b is $500,000 / 0.6500 + 500,000 / 0.6550 = \text{NZD } 1,532,590$

c is $\text{USD } 8,834,154 / 0.6580 = \text{NZD } 13,425,766$

d is nil.

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

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

The CTBV (USD) $= 9,115,619 + 1,325,110 - 1,000,000 = 9,440,729.$

The income derived/expenditure incurred in NZD is therefore:

$$\begin{aligned} & 9,440,729 / 0.6460 \\ & \text{plus } 500,000 / 0.6570 + 500,000 / 0.6580 \\ & \text{minus } 9,115,619 / 0.6500 \\ & \text{equals } \text{NZD } 2,111,016 \end{aligned}$$

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 0.6320.

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:

$$500,000 / 0.6455 + 500,000 / 0.6500 + 500,000 / 0.6550$$

$$+ 500,000 / 0.6570 + 500,000 / 0.6580 + 500,000 / 0.6400$$

$$+ 10,000,000 / 0.6320$$

$$= \text{NZD } 20,432,131$$

b is the acquisition price of the bond: $8,300,000 / 0.6310 = \text{NZD } 13,153,724$

c is all amounts of income derived under section 64C: $1,046,635 + 2,130,853 + 2,111,016$ (as calculated above)

$$= \text{NZD } 5,288,504$$

So the Base Price Adjustment is