

$$\begin{aligned} & a - (b + c) \\ & = 20,432,131 - (13,153,724 + 5,288,504) \\ & = \text{NZD } 1,989,903. \end{aligned}$$

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

EXAMPLE 2. MULTI-CURRENCY LOAN FACILITY WITH EARLY REPAYMENT.

A corporate taxpayer 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 USD 100 million 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 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	STG36m	0.55	\$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 4 months ended 1 February 1989 in GBP 1.32 million.

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

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

f is GBP 1.32 million 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 36 million (the amount drawn down) the sum of all consideration given to the person in the income year.

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

The CTBV is then equal to GBP—36.66 million at 31 March 1989.

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

0.3300 GBP to 1 NZD on 1 October 1988, and
0.3345 GBP to 1 NZD on 1 February 1989, and
0.3350 GBP to 1 NZD on 31 March 1989.

The income or expenditure of the corporate 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 = -36.66 million / 0.3350 = 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 36 million / 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 = 1.32 million / 0.3345 = NZD 3,946,188.

The income or expenditure of the corporate is then, NZD $-4,288,115$. To the corporate, which is an issuer of the facility, this amount is income derived 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 the GBP -36.66 million the CTBV of the previous year.

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

g is nil.

h is nil.

i is GBP 3.96 million the base currency expenditure of the person.

The CTBV is then equal to GBP—36.66 million at 31 March 1990.

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

0.3340 GBP to 1 NZD on 1 August 1989, and
0.3310 GBP to 1 NZD on 1 February 1990, and
0.3280 GBP to 1 NZD on 31 March 1990.

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

$a + b - c - d$ where

a is -36.66 million / 0.3280 = NZD $-111,768,292$

b is nil

c is NZD $-109,432,836$

d is 1.98 million / 0.3340 + 1.98 million / .3310 = NZD 11,910,017

The income or expenditure of the corporate is then, NZD $-14,245,473$. This amount is income derived in this income year.

On 1 June 1990 the corporate 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 0.3200 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. This is the interest payments received plus the deemed principal repayment amount.

This amount is equal to:

1.32 million / 0.3345 + 1.98 million / 0.3340 + 1.98 million / 0.3310 = NZD 15,856,205 in respect of the interest amounts plus 36 million / 0.3200 = 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. 36 million / 0.3300 = NZD 109,090,909

c is the amounts of expenditure incurred less the amounts of income derived as calculated under section 64c. These