

currency of New Zealand. Suppose the spot rates on important dates in this example are—

Date	Rate (1 NZD = 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: Apportionment of Income and Expenditure on a Daily Basis.
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
	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 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
= USD8,834,154 / 0.658 = NZD13,425,766

b is the NZD value of all consideration given to the person during the income year = USD500,000 / 0.6455 = NZD774,593

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 = USD8,300,000 / 0.6310 = NZD13,153,724

The income or expenditure is thus NZD1,046,635. This positive amount is income derived by the investor.

At the second balance date—30 June 1990.

The CTBV is:

e is USD8,834,154 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 USD9,115,619.

The income or expenditure associated with the bond on this date is calculated according to $a + b - c - d$.

Where—

a is USD9,115,619 / 0.6500 = NZD14,024,029

b is USD500,000 / 0.6500 = NZD500,000 / 0.6550 = NZD 1,532,590

c is USD 8,834,154 / 0.6580 = 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—

9,440,729 / 0.6460
plus 500,000 / 0.6570 + 50,000 / 0.6580
minus 9,115,619 / 0.6500
equals NZD2,111,016

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—
USD500,000 / 0.6455 + USD500,000 /
0.6500 + USD500,000 / 0.6550 + USD500,000 /
0.6570 + USD500,000 / 0.6580 + USD500,000 /
0.6400 + USD10,000,000 / 0.6320
= NZD20,432,131

b is the acquisition price of the bond—
USD8,300,000 / 0.6310 = 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) = NZD 5,288,504

So the Base Price Adjustment is—

$a - (b + c)$
= 20,432,131 - (13,153,724 + 5,288,504)
= NZD 1,989,903

Since this is a positive amount it is income derived by the investor in this income year.

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