A corporate borrower 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 USD100 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 borrower 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	55 million		55 million	9%
GBP	36 million	0.55	19.8 million	11%
DM	60 million	2.45	24.5 million	5%
			USD99.3 million	

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 four 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 borrower 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 corporate borrower in the income year

i is GBP 1.98 million the base currency expenditure of the corporate borrower 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 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 borrower 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 = NZD109,090,909

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 = NZD3,946,188.

The income or expenditure is then NZD −4,288,115. For the corporate borrower this negative amount is expenditure incurred 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 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 corporate borrower.

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 borrower for the year ended 31 March 1990 in respect of this financial arrangement is given by:

a + b − c − d, where—

a is GBP−36.66 million / 0.3280 = NZD − 111,768,292

b is nil

c is NZD −109,432,836

d is GBP1.98 million / 0.3340 + GBP1.98 million / 0.3310 = NZD11,910,017

The income or expenditure of the corporate borrower is then NZD −14,245,473. This negative amount is expenditure incurred in this income year.

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

This amount is equal to—
GBP1.32 million / 0.3345 + GBP1.98 million / 0.3340 + GBP1.98 million / 0.3310 = NZD15,856,205 in respect of the interest amounts plus
GBP36 million / 0.3200 = NZD112,500,000 in respect of the deemed principal repayment.

So "a" then equals NZD128,356,205

b is the acquisition price of the facility. This is equal to the amount of GBP drawn down, i.e. GBP36 million / 0.3300 = NZD109,090,909

c is the amounts of expenditure incurred less the amounts of income derived as calculated under section 64C. The expenditure calculated for the previous two years of the loan facility was—

For the year ended 31 March 1989	4,288,115
For the year ended 31 March 1990	4,245,473