

Inland Revenue

Income Tax Act 1976

Determination G16: Discounted Value of Amounts Payable in Relation to Trade Credits Denominated in New Zealand Currency

This determination may be cited as "Determination G16: Discounted Value of Amounts Payable in Relation to Trade Credits Denominated in New Zealand Currency".

1. *Explanation* (which does not form part of the determination). (1) This determination provides the method to be used to calculate the core acquisition price for a trade credit under section 64BA (1) (b) (iii) of the Act where—

- (a) The trade credit is not a short term trade credit; and
- (b) The amounts payable in respect of the trade credit are denominated in New Zealand dollars; and
- (c) In relation to the trade credit all amounts payable and the dates on which they are payable are known at the first balance date after supply date; and
- (d) The term of the trade credit is known at the date of entry into the trade credit.

(2) A short term trade credit, where payment is required within 63 days after supply of the goods or services, is exempted from the scope of the accrual provisions by the definitions in section 64B (1) of the Act.

(3) Any other trade credit is subject to the accrual provisions of the Act and relevant determinations. In such cases the core acquisition price must be determined as at the date of supply of the goods or services.

(4) Sections 64BA (2) and (3) of the Act define acquisition price in terms of the core acquisition price, which is itself defined in section 64BA (1). Paragraphs (b) (i) and (ii) of that section provide two ways of determining the amount "u" which is required for calculating the core acquisition price. Where neither of these apply, paragraph (b) (iii) provides that "u" shall be "the discounted value of the amounts payable for the goods or services, as determined pursuant to a determination made by the Commissioner under section 64E (1) (f) of the Act".

(5) This determination requires an interest rate to be ascertained in accordance with Determination G13: Prices or Yields, as at the date on which the parties agree to enter into the trade credit. This interest rate is the market yield applying to bank bills of a similar term to the term of the trade credit; if the term of the trade credit is longer than 12 months the market yield on New Zealand Government securities must be used.

(6) The amounts payable are then discounted to the date of supply using the yield so ascertained and the present value calculation Method A in Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results. The present value so calculated is the amount of "u" to be used for calculating the core acquisition price.

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

3. *Scope of Determination*—This determination shall apply to every trade credit denominated in New Zealand currency in relation to which a person is a holder or an issuer, but it shall not apply—

- (a) To a short term trade credit; or
- (b) To a trade credit to which paragraph (b) (i) or paragraph (b) (ii) of the definition of "core acquisition price" in section 64BA (1) of the Act applies; or
- (c) Where in relation to the trade credit any amount payable

or the date on which any amount is payable is not known at the first balance date after supply date; or

- (d) Where the term of the trade credit is not known at the date of entry into the trade credit.

4. *Principle*—The discounted value of amounts payable for the specified goods or services is calculated using—

- (a) The market yield to maturity available on traded debt securities of a similar term to the term of the trade credit, ascertained in accordance with Determination G13: Prices or Yields; and
- (b) Present value calculation Method A provided in clause 6 (2) of Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results.

5. *Interpretation*—(1) In this determination, unless the context otherwise requires—

Expressions used have the same meanings as in the Act and where a word or expression is given a particular meaning for the purposes of sections 64B to 64M of the Act it shall have the same meaning as in the said sections 64B to 64M;

"The Act" means the Income Tax Act 1976;

"Bank bill" means an order to pay, denominated in New Zealand currency to pay and drawn upon, and accepted by—

- (a) A registered bank as defined in section 2 (1) of the Reserve Bank of New Zealand Act 1964; or
- (b) Any person referred to in Part A of the First Schedule to the Reserve Bank of New Zealand Act 1964;

"Final payment" in relation to a trade credit means the last payment required to be made by the issuer of the trade credit under the trade credit, other than any amount that is not material in relation to the total consideration required to be given by the issuer under the financial arrangement;

"Paid", in relation to any amount paid to or paid by any person, includes distributed, credited, or dealt with in the interests of or on behalf of or to the order of the person; and, in relation to any amount, "pay", "payable" and "payment" have corresponding meanings;

"Specified goods and services" in relation to a trade credit means the goods and services supplied under the trade credit;

"Supply date" means the date on which the specified goods or services are supplied under the trade credit;

"Term" in relation to a trade credit means the period commencing on the day after the supply date and ending on the day on which final payment is required to be made.

(2) Any reference in this determination to another determination made by the Commissioner shall be construed as including a reference to any fresh determination made by the Commissioner to vary, rescind, restrict, or extend that determination.

6. *Method*—(1) For the purposes of subparagraph (iii) of the definition of "u" in section 64BA (1) (b) of the Act, the discounted value of the amounts payable for the specified goods or services in relation to any person shall be the present value as at supply date of amounts payable to or, as the case may be, by the person for the specified goods or services after the supply date.

(2) For the purposes of this determination, the present value as at supply date of amounts payable shall be calculated, subject to subclause (3) of this clause, using Method A provided in clause 6 (2) of Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results.

(3) For the purposes of subclause (2) of this clause the annual