

rate of interest at which the present value of the amounts payable is required to be calculated shall be—

- (a) Where the term of the trade credit is 12 months or less, the yield for bank bills of a similar term to the term of the trade credit:
- (b) In any other case, the yield for New Zealand Government stock of a similar term to the term of the trade credit—

determined as at the date on which the parties agree to enter into the trade credit and according to Determination G13: Prices or Yields.

7. *Example*—(1) A trade credit is entered into on 1 December 1988. Under the trade credit, goods supplied on 17 February 1989 are to be paid by \$400,000 in New Zealand currency on 14 July 1989. The term of the trade credit (period from day after supply date to final payment date) is therefore 147 days.

(2) The market yield on 1 December 1988 of bank bills maturing in 147 days is 13.5 percent ascertained in accordance with Determination G13: Prices or Yields.

(3) In this case, the purchaser is the “issuer” for purposes of the accruals legislation.

(4) Method A of Determination G10: Present Value Calculation Methods, is applied to calculate the present value as at 17 February 1989 (the “specified date”) as follows—

$$A = 0$$

$$B = \$400,000 \text{ (payable by the issuer or receivable by the holder)}$$

$$C = 0 \text{ (payable by the holder or receivable by the issuer)}$$

$$R = 13.5 \text{ percent (the specified rate)}$$

$$N = 365/147$$

$$= 2.48299$$

$$F = \frac{R}{100 \times N}$$

$$= 0.05437$$

$$\text{present value} = \frac{A + B - C}{1 + F}$$

$$= \$379,373$$

This is “u” to be used in calculating the core acquisition price.

This determination is signed by me on the 10th day of July in the year 1989.

R. D. ADAIR, Deputy Commissioner of Inland Revenue. 20
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Determination G17: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in New Zealand Currency

This determination may be cited as “Determination G17: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in New Zealand Currency”.

1. *Explanation* (which does not form part of the determination). (1) In this determination an agreement for the sale and purchase of property or a specified option, where payment in full is not made at the time at which the first right in the specified property is to be transferred, will be called a “deferred property settlement”. Where the first right in the property is transferred at the time of payment of the purchase price in full, the purchase price will be the lowest price determined for the purposes of section 64BA (1) (c) (i) and the discounting provisions described in this determination will not apply.

(2) This determination does not apply—

- (a) To short term agreements for the sale and purchase of property; or

(b) To short term options; or

(c) To private or domestic agreements for the sale and purchase of property; or

(d) To deferred property settlements where any amount payable is denominated in foreign currency; or

(e) To deferred property settlements where the total deposits and other amounts payable more than 31 days prior to the transfer date exceed 20 percent of the total purchase price (the reason for this is that the Act does not allow payments made before the transfer date to be accumulated with interest; it is therefore necessary to limit the misstatement of the core acquisition price that could occur as a result); or

(f) Where in relation to the deferred property settlement any amount payable or the date on which any amount is payable is not known at the first balance date after transfer date; or

(g) Where the credit term of the deferred property settlement is not known at the date of entry into the deferred property settlement.

(3) Short term agreements for the sale and purchase of property and short term options are agreements or options under which settlement is required within—

(a) 93 days of entry into the contract in the case of real property; or

(b) 63 days of entry into the contract in the case of other property.

Such short term agreements or options are excepted from the accruals provisions of the Act. A private or domestic agreement for the sale and purchase of property as defined in section 64B (1) is also an excepted financial arrangement.

(4) For all deferred property settlements, a core acquisition price must be determined as at the date on which the first right in the property is transferred; for ease of reference, this date is called the “transfer date” in this determination. 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). In section 64BA (1) (c) (i) an amount “w” is defined as the lowest price that the buyer and seller would have agreed upon for the property on the basis of payment in full at the time at which the first right in the specified property is to be transferred. If there is no such lowest price, then paragraph (c) (ii) provides that “w” shall be “the discounted value of the amounts payable for the specified property 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 day the person becomes a party to the deferred property settlement. This interest rate is the market yield applying to bank bills of a similar term to the credit term; if the credit term 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 transfer date, 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 sum of the discounted amounts and any deposit or other amounts paid on or before the transfer date is the amount of “w” 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 any deferred property settlement in relation to which a person is a holder or issuer, but shall not apply—

- (a) To any deferred property settlement where any amount payable (other than the property that is the subject of the