Income or expenditure is calculated as follows:

Using a − b

a = −$12,101.60 (12,531,60 − 430 = 12,101.60 deemed a negative)

b = −$31,331.28 (−30,911.28 [this is a negative because it is a liability to the writer in this case] −420)

Therefore:

−12,101.60 − −31,331.28

= 19,229,68 which is deemed to be expenditure incurred in the 1990 income year.

EXAMPLE C:

On 22 May 1989 a taxpayer believes that the Barclays Share Index will increase in value over the next few months. The taxpayer decides to purchase 6 call options on September 1989 Barclays Share Index Futures Contracts, which were trading at 1930, at an exercise price of 1950.

The option premiums for the 6 contracts total $12,600.00 (20 [$ value per point] × 105 [premium value in points] = $2,100.00 [premium value per contract] × 6 [no. of contracts]).

Commission and Clearing House fees for the 6 contracts total $210.

The taxpayer has a 30 June balance date. At the close of trading on that day Barclays Share Index Option Contracts are trading at 1850, reflecting a drop in share values.

The value of the six September 1989 1950 call options has fallen to $6,240.00 reflecting a drop in the premium value to $52.00 points. Transaction costs, if the contracts were closed out, are $210.

Income or expenditure is calculated as follows:

Using a − b

a = $12,810.00 (12,600.00 + 210)

b = $6,030.00 (6.240.00 − 210)

Therefore:

12,810.00 − 6,030.00

= $6,780.00 which is deemed to be expenditure incurred in the 1989 income year.

EXAMPLE D:

On 20 December 1989 a taxpayer believes that the New Zealand Dollar is going to fall in value. The taxpayer writes 10 call options over March 1990 New Zealand Dollar Futures Contracts, which are trading at 5600, at an exercise price of 5650.

The option premiums for the 10 contracts total $14,300.00 (10 [$ value per point] × 143 [premium value in points] = $1,430.00 [premium value per contract] × 10 [no. of contracts]).

Commission and Clearing House fees for the 10 contracts total $400.

The taxpayer has a 31 December balance date. At the close of trading on the 29th December (last day of trading before balance date) New Zealand Dollar Futures Contracts are trading as 5550, reflecting a drop in the New Zealand Dollar.

The value of the ten March 1990 5650 call options has fallen to $11,000.00 reflecting a drop in the point value of $110.00. This is a gain in the value of the written call options. Transaction costs, if the contracts were to be closed out, are $400.

Income or expenditure is calculated as follows:

Using a − b

a = −$13,900.00 (14,300.00 − 400 = 13,900.00 deemed a negative)

b = −$11,400.00 (−11,000.00 − 400 = −$11,400.00) [The $11,000 is a negative because it is a liability to the writer in this case]

Therefore:

−13,900.00 − −11,400.00

= −2,500.00 which is deemed to be income derived in the 1990 income year.

Note: In the income year in which the option is closed out, lapse or is exercised a base price adjustment, in terms of section 64F, is required instead of the above calculation.

This determination is signed by me on the 4th day of December in the year 1989.

R. D. ADAIR, Deputy Commissioner of Inland Revenue. 4

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Determination G7B: New Zealand Futures and Options Markets

This determination may be cited as "Determination G7B: New Zealand Futures and Options Markets".

1. *Explanation* (which does not form part of the determination).

(1) This determination rescinds and replaces Determination G7A: Futures Market, made by the Commissioner on 11 May 1989. This determination differs from Determination G7A by the addition of option contracts to the scope of the determination, and in the list of approved markets.

(2) This determination applies where, for the purpose of calculating the income or expenditure of a person in respect of a futures or option contract, it is necessary to determine the price of that contract.

(3) This determination sets out the approved markets, sources of information, and method, used for determining the prices for futures and options contracts traded on the New Zealand Futures Exchange.

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

(2) This determination rescinds and replaces Determination G7A: Futures Market, made on 11 May 1989.

3. *Scope of Determination*—This determination applies where, for the purpose of calculating the income or expenditure of a person in respect of a futures or option contract, it is necessary to determine the price of that contract.

4. *Principle*—(1) Markets are approved having regard to the following criteria—

(a) The number of participants in the market or having access to the market;

(b) Frequency of trading in the market;

(c) The nature of trading in the market—how the rate is determined and how the financial assets are traded on the market;

(d) The potential or demonstrated capacity of a person or group of persons to significantly influence the market;

(e) Significant barriers to entry;

(f) Discrimination on the basis of quantity bought and sold unless based on the risks involved or the transaction costs or economies of scale.

(2) Sources of information are approved having regard to the following criteria—

(a) Reliance on the sources of information by the market;

(b) The accessibility of the sources of information by participants in the market.

(3) A method of obtaining a price for a futures or option contract is approved if it is determined by an independent source and is adopted by participants in the market.