

b is the NZD value of all consideration given to the person during the income year = $500,000 / .6455 = \$774,593$.

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 = $8,300,000 / .6310 = \$13,153,724$.

The income or expenditure is thus \$1,046,635 NZD. This positive amount is income derived by the investor.

At the second balance date—30 June 1990.

The CTBV is:

e 8,834,154 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 section 64B to 64M of the Act.

h is USD 1,000,000 (the interest payments on 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 not expenditure incurred by the investor.

The CTBV (e + f + g - h - i) is then equal to USD 9,115,619.

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

Where:

a is $9,115,619 / .6500 = \$14,024,029$

b is $500,000 / .6500 + 500,000 / .6550 = \$1,532,590$

c is $USD 8,834,154 / .6580 = NZD 13,425,766$

d is nil.

This equates to \$2,130,853 NZD. 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:

plus	$9,440,729 / .6460$
	$500,000 / .6570 + 6570 + 500,000 / .6580$
minus	$9,115,619 / .6500$
equals	2,111,016 NZD

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 .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: $500,000 / .6455 + 500,000 / .6500 + 500,000 / .6550 + 500,000 / .6570 + 500,000 / .6580 + 500,000 / .6400 + 10,000,000 / .6320 = 20,432,131$ NZD

b is the acquisition price of the bond: $8,300,000 / .6310 = 13,153,724$ NZD

c is all amounts of income derived under section 64C: $1,046,635 + 2,130,853 + 2,111,016$ (as calculated above) = 5,288,504 NZD

So the Base Price Adjustment is

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

Since this is a positive amount it is income derived by the holder of the bond in this income year.

EXAMPLE 2. MULTICURRENCY LOAN FACILITY WITH EARLY REPAYMENT.

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 \$100 million USD 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 6-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	\$55m		\$55m	9%
GBP	STG36m	.55	\$19,8m	11%
DM	DM60m	2.45	\$24,5m	5%
			<hr/> \$99.3m	

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 m.

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 1.32m 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 36m (the amount drawn down) the sum of all consideration given to the corporate borrower in the income year.

i is GBP 1.98m 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 - 36.66m at 31 March 1989.

Suppose that the spot rates for the conversion of GBP to NZD were:

.3300 GBP to 1 NZD on 1 October 1988 and
.3345 GBP to 1 NZD on 1 February 1989 and
.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 = $-36.66m / .3350 = NZD -109,432,836$

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 $36m / 0.3300 = NZD 109,090,909$.

c is the value of the opening tax book value and has nil value.