d is the sum of all consideration given by the corporate in the financial year. i.e. the interest payment = 1.32m / .3345 = 3,946,188.

The income or expenditure is then NZD −4,288,155. 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 −36.66m the CTBV of the previous year.

f is GBP 3.96m the interest payments paid on 1 August 1989 and 1 February 1990.

g is nil.

h is nil.

i is GBP 3.96m the base currency expenditure of the corporate borrower.

The CTBV is then equal to GBP − 36.66m at 31 March 1990.

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

.3340 GBP to 1 NZD on 1 August 1989 and
.3310 GBP to 1 NZD on 1 February 1990 and
.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 −36.66m / .3280 = NZD − 111,768,292

b is nil

c is NZD − 109,432,836

d is 1.98m / .3340 + 1.98m / .3310 = NZD 11,910,017

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 .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 principle repayment amount.

This amount is equal to:
1.32m / .3345 + 1.98m / .3340 + 1.98m / .3310 = NZD 15,856,205 in respect of the interest amounts plus 36m / .3200 = NZD 112,500,000 in respect of the deemed principle repayment.

So "a" then equals NZD 128,356,205

b is the acquisition price of the facility. This is equal to the amount of GBP drawn down i.e. 36m / .3300 = NZD 109.090,909

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 were:

For the year ended 31 March 1989	4,288,115
For the year ended 31 March 1990	14,245,473
The total expenditure therefore is NZD	18,533,588

In this case there is no income to the corporate borrower.

The Base Price Adjustment is therefore:

128,356,205 − (109.090,909 + 18,533,588) = NZD 731,708

This positive amount is deemed to be expenditure incurred by the issuer in this income year in accordance with Section 64F (4) (b) of the Act.

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 G19: Exchange Traded Option Contracts

This determination may be cited as "Determination G19: Exchange Traded Option Contracts"

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

(1) This determination is available for persons unable to use section 64C (4).

(2) An option gives its owner the right, but not the obligation to buy or sell an underlying financial instrument, at a predetermined price at any time during a predetermined future period. For this right the owner of the option has to pay a premium, which is quoted on the exchange in points, to the seller/writer of the option. The owner of the option has the right to exercise the option at any date during the term of the option. The person who has the rights to exercise the option is the grantee of the option while the writer of the option is the grantor.

(3) Markets, sources of information, and prices for an option contract are determined by reference to Determination G7B: New Zealand Futures and Options Markets, and Determination G18: International Futures and Option Markets.

(4) The income derived or expenditure incurred in relation to an option contract in an income year is the change in option value, taking account of transaction costs, as determined by the change in price of the option contract obtained in accordance with clause 6 (3) of Determination G7B: New Zealand Futures and Options Markets, and Determination G18: International Futures and Option Markets.

(5) This determination only applies to options traded on markets approved in Determination G7B: New Zealand Futures and Options Markets, or Determination G18: International Futures and Option Markets. Options outside the accruals regime, for example options on shares, are outside the scope of this determination.

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

3. *Scope of Determination*—This determination shall apply where it is necessary to calculate the income deemed to be derived or expenditure deemed to be incurred by a person in respect of a call option contract or a put option contract, traded on approved markets, to which the person becomes a party after the day on which this determination is signed.

4. *Principle*—(1) An option that is exercised gives rise to a net gain or loss if the value at the exercise date of the underlying asset to which the option relates is different from the exercise price plus the premium. Similarly a net gain or loss will be made where a person closes out at a different price than that paid to acquire the option. A gain or loss will also be made where the option is allowed to lapse.