(2) The net gain or loss on an option at balance date is the difference between:

(a) The—

(i) Purchase price of the option plus transaction costs incurred in acquiring the option, in the case of the person acquiring the option, if the option has been purchased since last balance date; or

(ii) Sale price of the option less transaction costs incurred in writing the option, in the case of the writer of the option, if the option has been written since last balance date; or

(iii) Net realisable value of the option as on the immediately preceding balance date, where the option contract had not been entered into in that income year; and

(b) The net realisable value of the option as at balance date.

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:

"Approved markets" are those markets approved in Determination G7B: New Zealand Futures and Options Markets, and Determination G18: International Futures and Option Markets:

"Call options" are an option to buy the underlying financial instrument, which in the case of option contracts approved in Determination G7B: New Zealand Futures and Options Markets and Determination G18: International Futures and Option Markets, will be a futures contract:

"Exchange traded option contract" means an option contract traded on an approved market:

"Exercise price" means the price at which the option may be exercised on the underlying futures contract:

"Net realisable value" means the market value of the option, as ascertained in accordance with Determination G7B: New Zealand Futures and Options Markets, and Determination G18: International Futures and Option Markets, less the direct costs associated with closing out, exercising, or lapsing the option. In the case of the writer of the option the net realisable value may be a negative value:

"Put options" are an option to sell the underlying financial instrument, which in the case of option contracts approved in Determination G7B: New Zealand Futures and Options Markets, and Determination G18: International Futures and Option Markets, will be a futures contract:

"Transaction costs" are those direct costs incurred in the purchase or sale of the option including, but not limited to, brokers fees and clearing house fees.

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

6. *Method*—(1) The income derived or expenditure incurred in respect of an exchange traded option contract in any income year (other than an income year to which section 64F of the Act applies) is calculated using the following formula:

a − b

where—

a is—

(i) In the case of the grantee of the option, the purchase price of the option, plus transaction costs incurred in entering into the option contract, if the option has been acquired in that income year; or

(ii) In the case of the grantor of the option, the sale price of the option, less transaction costs incurred in entering into the option contract, if the option was written in that income year, which amount shall be deemed to be a negative value; or

(iii) The net realisable value of the option as on the immediately preceding balance date, if the option contract had not been entered into in that income year; and

b is the net realisable value of the option as at balance date.

(2) Where the amount calculated using the above formula is a positive amount it shall be deemed to be expenditure incurred in that income year.

(3) Where the amount calculated using the above formula is a negative amount it shall be deemed to be income derived in that income year.

7. *Examples*—

EXAMPLE A:

On 10 July 1989, a taxpayer believes that there will be a rise in interest rates. The taxpayer is not completely certain that this will happen so the taxpayer decides to purchase put options, so as to limit the risk.

On that day the futures price for a September 1989 90 Day Bank Bill Contract is 8700.

The taxpayer purchases five put options on 90 Day Bank Bill Option Contracts with a strike price of 8700. The option premiums for the five contracts total $2,024.75 (11.57 [$ value per point] × 35 [premium value in points] = 404.95 [premium value per contract] × 5 [no. of contracts]).

Commission and Clearing House fees for the five contracts total $200.

The taxpayer has a 31 July balance date. On that date the price of a 90 Day Bank Accepted Bill Futures Contract has fallen, reflecting a rise in interest rates, to 8625.

The value of the five September 8700 put options has risen to $4,628.00, reflecting a 45 point gain in the value of the put options. Transaction costs of closing out the contracts at the present value are $230.

Income or expenditure is calculated as follows:

Using a − b
a = $2,224.75 (2,024,75 + 200)
b = $4,398.00 (4,628.00 − 230)

Therefore:

2,224.75 − 4,398.00

= −$2,173.25 which is deemed to be income derived in the 1989 income year.

EXAMPLE B:

On 24 January 1990 a taxpayer believes there will be a drop in interest rates. The taxpayer decides to write put options over 12 Five Year Government Stock Futures Contracts, which were trading at 8750, at an exercise price of 8775.

The option premiums for the 12 contracts total $12,531.60 (34.81 [$ value per point] × 30 [premium value in points] = $1,044.30 [premium value per contract] × 12 [no. of contracts]).

Commission and Clearing House fees for the 12 contracts total $430.

The taxpayer has a 28 February balance date. At the close of trading on that day Five Year Government Stock Futures Contracts are trading at 8700, reflecting a rise in interest rates.

The value of the twelve March 1990 8775 put options has risen to $30,911.28 reflecting a 44 point loss in the value of the written put options. Transaction costs, if the contracts were closed out, are $420.