Present Value Calculation Methods (or any other method producing substantially similar results), as follows:—

(A) The yield to maturity rate is calculated as at the contract entry or acquisition date. This is the rate at which:

the present value of the value of the non-base currency calculated using the contract rate

is equal to—

the value of the non-base currency calculated using the spot rate.

The yield to maturity rate will be positive if the value at the contract rate exceeds the value at the spot rate, and conversely.

(B) At each balance date the present value of the non-base currency calculated using the contract rate is determined at the yield to maturity rate. The change in present value since the previous balance date (or contract entry or acquisition date, if later) is brought to account as income or expenditure.

All amounts are expressed in the base currency.

(b) *Accrual of change in value at spot rates*—At each balance date, the non-base currency is revalued into the base currency using the spot rate. The change in value since the previous balance date (or contract entry or acquisition date, if later) is brought to account as income or expenditure.

(c) *Total*—The accrual income or expenditure in any income year is—

(i) The change in accrual premium or discount, less

(ii) The change in value at spot rates,

over the year, calculated in the base curency. The exact details of allocation to income and expenditure are covered in clause 1 (7). Where necessary, the accrual income or expenditure is then converted into New Zealand dollars at the spot price as at the end of the income year.

(d) *Base Price Adjustment*—In the year the financial arrangement is redeemed or disposed of, a base price adjustment is calculated in New Zealand dollars.

(9) Where the contract has a term of less than a year, it is not necessary to go through the process in full detail. Exactly equivalent results will be obtained by calculating the present value at the balance date as the accrued premium or discount on an actual days/actual days basis, to give 'a' in the formula shown in clause 6 (1).

(10) Note that this determination does not apply to agreements for the sale and purchase of property as defined in section 64B (1) of the Act, and that for this purpose, property includes trading stock.

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

3. *Scope of the Determination*—(1) This determination shall apply where it is necessary to calculate the income deemed to be derived or the expenditure deemed to be incurred by a person in respect of a forward contract for foreign exchange and commodities, to which the person becomes a party after the day on which this determination is signed.

(2) This determination shall not apply to any—

(a) Futures contract:

(b) Swap contract, other than a swap contract involving—

(i) A spot exchange at the current market spot rate; and

(ii) A future exchange of fixed amounts at a single fixed date:

(c) Option contract:

(d) Security arrangement:

(e) Agreement for the sale and purchase of property.

4. *Principle*—(1) A forward contract gives rise to a net gain or loss to the taxpayer if the spot price of the currency on the date the contract is fulfilled is different from the rate specified under the forward contract. That net gain or loss is to be recognised for tax pruposes on an accrual basis in two parts—

(a) The difference between the contract price and the spot price on the date the contract was entered into is spread over the term of the contract using a yield to maturity method;

(b) At each balance date the change in spot price since the previous balance date (or the date on which the contract was entered into, if later) is brought into income or expenditure.

(2) Both parties to a forward contract are holders, and each holder must nominate one of the currencies under the contract as a base currency in terms of which all accrual income or expenditure is to be calculated.

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 they shall have the same meaning as in the said sections 64B to 64M.

"The Act" means the Income Tax Act 1976;

"Annual yield to maturity rate", in relation to a person and a forward contract, means the constant annual rate of interest at which the present value of the forward value calculated as at the commencement date of the contract is equal to the spot value as at that date;

"Base currency", in relation to a person and a forward contract, means the currency under the forward contract which is adopted by the person as a reference currency for the purposes of this determination;

"Commencement date" of a forward contract means the date on which the contract was entered into, or the date on which it was acquired, if later;

"Contract forward price", in relation to a forward contract means the price of one currency expressed in terms of the other currency under the contract;

"Currency" includes any commodity;

"Forward value", in relation to a forward contract, means the value expressed in the base currency of the non-base currency, calculated at the contract forward price;

"NZD" means the currency of New Zealand;

"Non-base currency" means the currency under a forward contract that is not the base currency;

"Present value", in relation to a forward contract and a day, means the discounted value on that day of the forward value, calculated in accordance with Method A or Method B of Determination G10: Present Value Calculation Methods (or a method producing substantially similar results), and for this purpose of the present value shall be calculated using the annual yield to maturity rate of that contract;

"Spot contract" means a contract for the sale or purchase of a currency for delivery in 2 business days;

"Spot Price" means a price or rate quoted for spot contracts;

"Spot value", in relation to a forward contract and a day, means the value of the amount of the non-base currency, which value is expressed in the base currency and calculated at the spot price on that day.

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