Income

Year ending
30 June

Amount =

Value of in USD

(a - b) - (c - d)

1988 1,185,805 1,198,113 1,169,811 1,198,113 15,994 E
1989 1,116,471 1,185,805 1,120,754 1,169,811 -20,277 I
1990 1,051,191 1,169,811 1,084,905 1,120,754 -29,431 I

I = Income derived; E = Expenditure incurred

(c) The amounts of income derived or expenditure incurred in each income year have then to be converted to NZD at the spot price at 30 June, as follows—:

Income

Year ending
30 June

Amounts in USD

Rate at 30 June

Value of in USD

1988 15,994 E 0.6200 25,797 E
1989 20,277 I 0.5940 34,136 I
1990 29,431 I 0.5750 51,184 I

(d) In the 30 June 1991 income year, the Base Price Adjustment given in section 64F is calculated by applying the formula:

\[ a - (b + c) \]

where all amounts are expressed in NZD, and—

- \( a \) = Consideration paid or payable to the holder (section 64F (2))
  - USD 1,050,943
  - NZD 1,186,792

- \( b \) = Acquisition price
  - consideration provided by the holder (section 64BA (1) (d) and (2))
  - USD 1,000,000
  - NZD 1,795,332

- \( c \) = Income already derived — Expenditure already incurred
  - NZD 85,320 — NZD 25,797
  - NZD 59,523

Therefore, the Base Price Adjustment

\[ a - (b + c) \]

and since this is positive, the amount of NZD 31,937 is deemed to be income derived (section 64F (4) (a)).

EXAMPLE D: BUYER OF BASE CURRENT; DEPRECIATING NON-BASE CURRENT

(a) A New Zealand corporate borrower enters into a long term forward foreign exchange contract to buy 1 million US dollars (USD) against delivery of New Zealand dollars (NZD) in three years time. The contract was entered into on 30 April 1988 and the corporate has a balance date of 30 June. The contract forward rate is 0.5300 USD to 1 NZD, so settlement will require delivery of NZD 1,886,792.

The corporate chooses USD as the base currency for this contract.

Suppose that over the term of the contract the spot USD/NZD rates are:

<table>
<thead>
<tr>
<th>Spot USD/NZD price</th>
<th>Spot Value in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 April 1988</td>
<td>0.6350</td>
</tr>
<tr>
<td>30 June 1988</td>
<td>0.6200</td>
</tr>
<tr>
<td>30 June 1989</td>
<td>0.5940</td>
</tr>
<tr>
<td>30 June 1990</td>
<td>0.5750</td>
</tr>
<tr>
<td>30 April 1991</td>
<td>0.5570</td>
</tr>
</tbody>
</table>

Using Method A of Determination G10: Present Value Calculation Methods, at yearly intervals, the annual yield to maturity rate is \(-5.847\%\) p.a., at which rate the present value of USD 1,000,000 payable on 30 April 1991 is equal to USD 1,198,113, the spot value on 30 April 1988.

(b) The present values of USD 1,000,000 at the three subsequent balance dates are as follows:

<table>
<thead>
<tr>
<th>Income Year ending</th>
<th>Amount in USD</th>
<th>Rate at 30 June</th>
<th>Value of CTBV in NZD</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 1988</td>
<td>1,185,805</td>
<td>0.6200</td>
<td>51,184 E</td>
</tr>
<tr>
<td>30 June 1989</td>
<td>1,116,471</td>
<td>0.5940</td>
<td>34,136 E</td>
</tr>
<tr>
<td>30 June 1990</td>
<td>1,051,191</td>
<td>0.5750</td>
<td>51,184 E</td>
</tr>
</tbody>
</table>

I = Income derived; E = Expenditure incurred

(c) The amounts of income derived or expenditure incurred in each income year are then converted to NZD at the spot price at 30 June, as follows—:

Income

Year ending
30 June

Amounts in USD

Rate at 30 June

Value of in NZD

1988 1,185,805 1,198,113 1,169,811 1,198,113 15,994 I
1989 1,116,471 1,185,805 1,120,754 1,169,811 -20,277 I
1990 1,051,191 1,169,811 1,084,905 1,120,754 -29,431 I

Notes:

(1) Discount by the 304 days from 30 April 1991 to 30 June 1990—

\[ 1,000,000 / (1 - 0.05847 \times 304/365) = 1,051,191 \]

(2) Discount by a further year to 30 June 1989—

\[ 1,051,191 / (1 - 0.05847) = 1,116,471 \]

(3) And by a further year to 30 June 1988—

\[ 1,116,471 / (1 - 0.05847) = 1,185,805 \]

The following schedule sets out the calculations. Since the corporate is purchaser of the base currency, positive amounts are income derived and negative amounts are expenditure incurred:

<table>
<thead>
<tr>
<th>Income Year ending</th>
<th>Amounts in USD</th>
<th>Rate at 30 June</th>
<th>Value of CTBV in NZD</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 1988</td>
<td>1,185,805</td>
<td>0.6200</td>
<td>25,797 I</td>
</tr>
<tr>
<td>30 June 1989</td>
<td>20,277 E</td>
<td>0.5940</td>
<td>34,136 I</td>
</tr>
<tr>
<td>30 June 1990</td>
<td>29,431 I</td>
<td>0.5750</td>
<td>51,184 I</td>
</tr>
</tbody>
</table>

(d) In the 30 June 1991 income year, the Base Price Adjustment given in section 64F is calculated by applying the formula:

\[ a - (b + c) \]

where all amounts are expressed in NZD, and—

- \( a \) = Consideration paid or payable to the holder (section 64F (2))
  - USD 1,000,000
  - NZD 1,795,332

- \( b \) = Acquisition price
  - consideration provided by the holder (section 64BA (1) (d) and (2))
  - USD 1,050,943
  - NZD 1,886,792

- \( c \) = Income already derived — Expenditure already incurred
  - NZD 85,320 — NZD 25,797
  - NZD 59,523

Therefore, the Base Price Adjustment—

\[ a - (b + c) \]

= \( a \) = 1,186,792 — (1,886,792 — 59,523)

= NZD -31,937

and since this is negative, the amount of NZD 31,937 is deemed to be an allowable deduction (section 64F (4) (a)).

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

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