

(11) The amount of income derived or expenditure incurred by the holder or issuer in respect of the Income Year ending on that balance date will be—

- (a) The Present Value at the balance date,
less (b) Any amounts payable by the holder or receivable by the issuer (as the case may be) during the Income Year,
plus (c) Any amounts payable by the issuer or receivable by the holder (as the case may be) during the Income Year,
less (d) The Present Value as at the preceding balance date (or date of issue or acquisition if later).

In most normal commercial financial arrangements, the yield to maturity will be unique, positive and less than 100 percent per annum; arrangements that do not meet these criteria are excluded and may be submitted for individual consideration by the Commissioner.

2. *Reference*—(1) This Determination is made pursuant to section 64E (1) (a) and section 64E (6) of the Income Tax Act 1976.

(2) Determination G11: Present Value Based Yield to Maturity Method is hereby rescinded with effect from the date on which this Determination G11A is signed.

3. *Scope of Determination*—This Determination applies to the class of financial arrangements that has the following attributes—

- (a) All amounts payable or receivable under the financial arrangements, and the dates on which those amounts are payable or receivable, are known (or, in the case of perpetuities, able to be determined) not later than the first balance date of the issuer or holder following the date of issue or acquisition, as the case may be; and
 (b) All amounts are determined in a single currency,

but does not apply to any financial arrangement in respect of which the Annual Yield To Maturity Rate as defined in clause 5 of this Determination would be—

- (a) Not unique; or
 (b) Less than zero; or
 (c) Greater than 100 percent.

4. *Principle*—The yield to maturity method apportions the total income or expenditure under a financial arrangement between income years so that the principal outstanding and accrued interest calculated as at any balance date represents the then Present Value of all amounts payable after that balance date, calculated in accordance with the formulae and method used to calculate the yield to maturity rate as at the date of issue or acquisition of the financial arrangement.

5. *Interpretation*—(1) In this Determination, unless the context otherwise requires—

“Annual Yield To Maturity Rate”, in relation to a person and a financial arrangement, means the constant annual rate of interest at which the Present Value of all amounts payable to and by the person after the date of acquisition or issue of the financial arrangement, calculated as at that date, is equal to the net amount payable to or by the person on that date;

“Income Year” has the same meaning as in sections 64B to 64M of the Act;

“Present Value”, in relation to a person and a financial arrangement and a day, means the discounted value on that day of all amounts payable to or by the person after that day, calculated in accordance with a formula and method specified in Determination G10B: Present Value Calculation Methods, the amounts being discounted at a constant annual rate of interest; and for this purpose the Present Value of a financial arrangement shall be calculated using the Annual Yield To Maturity Rate in

accordance with the formula and method that were used in the calculation of the Annual Yield To Maturity Rate of that financial arrangement.

(2) For convenience, words and phrases defined in this Determination are indicated by initial capital letters, but the absence of a capital letter shall not alone imply that the word or phrase is used with a meaning different from that given by its definition.

(3) In this Determination, unless the context otherwise requires, expressions used that are not defined in clause 5 (1) have the same meanings as in sections 2 and 64B to 64M of the Income Tax Act 1976.

(4) 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, restrict or extend that Determination.

6. *Method*—(1) This Determination may, at the election of the taxpayer, be used instead of Determination G3: Yield to Maturity Method. Once a taxpayer has made the election to use this Determination to apply the yield to maturity method to a financial arrangement the taxpayer shall then apply this Determination in respect of the financial arrangement until it matures or is remitted, sold or otherwise transferred by the taxpayer unless the prior consent of the Commissioner is obtained to change methods. Any such consent may be given conditionally.

(2) The amount of income derived or expenditure incurred by the holder or issuer in respect of any Income Year (other than an Income Year to which section 64F of the Income Year 1976 applies) shall be—

- (a) The Present Value of the financial arrangement as at the balance date on which the Income Year ends,
less (b) Any amounts payable by the holder or receivable by the issuer (as the case may be) during the Income Year,
plus (c) Any amounts payable by the issuer or receivable by the holder (as the case may be) during the Income Year,
less (d) The Present Value (if any) of the financial arrangement as at the balance date on which the immediately preceding Income Year ended.

7. *Examples*—(1) *Example A*

(a) This is the same example as in Determination G3: Yield to Maturity Method (except for the dates). It is used to demonstrate that the methods give similar results.

On 12 March 1991 a holder acquires for \$1,012,500 the right to receive the following income:

	\$
15 May 1991	70,000
15 November 1991	70,000
15 May 1992	70,000
15 November 1992	1,070,000
	<u>\$1,280,000</u>

The holder balances on 31 March. All amounts are in New Zealand currency.

It will be found that the Annual Yield To Maturity Rate (R) is 16.2308% per annum; see Example A in Determination G10B: Present Value Calculation Methods.

(b) The present values at the end of each Income Year, calculated according to Determination G10B: Present Value Calculation Methods, are set out in the following schedule—

<i>Year Ending 31 March</i>	<i>1991</i>	<i>1992</i>
Next period—End date	15/5/87	15/5/88
Present Value (A) (see note)	\$971,315	\$989,683