

4 September 1989) is 185 days (or 2 quarters). As this is under 12 months the yield on bank bills must be ascertained.

(2) The yield on bank bills of a similar term to the credit term ascertained on 20 December 1988 pursuant to Determination G13: Prices or Yields, is 13.2%.

(3) In this case, the seller is the "holder" for purposes of the accruals legislation.

(4) Method A of Determination G10: Present Value Calculation Methods, is applied to calculate the present value as at 3 March 1989 (the "specified date") as follows—

$$R = 13.2\% \text{ (the specified rate)}$$

$$N = 4 \text{ (since the payments are at quarterly intervals)}$$

$$F = \frac{R}{100 \times N} = 0.03300$$

(a) At 3 June 1989:

$$A = 0$$

$$B = \$675,000 \text{ (payable by the issuer or receivable by the holder)}$$

$$C = 0 \text{ (payable by the holder or receivable by the issuer)}$$

$$\text{whence present value at 3 June 1989} = \frac{A + B - C}{1 + F} = \$653,437$$

(b) At 3 March 1989:

$$A = \$653,437$$

$$B = \$675,000$$

$$C = 0$$

$$\text{whence present value at 3 March 1989} = \frac{A + B - C}{1 + F} = \$1,285,999$$

(c) To this must be added the \$150,000 deposit, giving a total present value of \$1,435,999 which is the item "w" used in calculating the core acquisition price.

(5) For the purposes of recognising the income derived in the 1989 and 1990 income years Determination G3 is used (alternatively, G11 could be used), where—

$$R = 13.2\%$$

$$N = 4$$

$$F = 0.0330$$

The income derived for the first 3 months is—

$$\$1,285,999 \times 0.0330 = \$42,437.96$$

This income is allocated to the 1989 income year in accordance with Determination G1A—

$$1989 \text{ income year} - 28 \text{ days} = \$12,915.90$$

(6) On the maturity of the financial arrangement, in the 1990 income year, a base price adjustment is calculated to arrive at the income deemed to be derived.

Base Price Adjustment = a - (b + c) where—

$$a = \text{all consideration paid} = \$1,500,000$$

$$b = \text{the acquisition price} = \$1,435,999$$

$$c = \text{income derived in previous income years} = \$12,915.90$$

$$\text{bpa} = \$51,085.10$$

As this is a positive amount it is deemed to be income derived by the holder in that income year.

This determination is signed by me on the 9th day of February in the year 1990.

R. D. ADAIR,
Deputy Commissioner of Inland Revenue.
go2594

Determination G20: Discounted Value of Amounts Payable in Relation to Trade Credits Denominated in a Foreign Currency

This determination may be cited as "Determination G20: Discounted Value of Amounts Payable in Relation to Trade Credits Denominated in a Foreign Currency".

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

(1) This determination provides the method to be used to calculate the core acquisition price for a trade credit under subparagraph (iii) of the definition of "u" in section 64BA (1) (b) of the Act where—

- (a) Any right or obligation of the parties is expressed in a "base currency" other than New Zealand dollars; and
- (b) All amounts payable in relation to the trade credit and the dates on which they are payable are known at the first balance date after the supply date; and
- (c) The term of the trade credit is known at the first balance date after the supply date; and
- (d) Section 64BA (1) (b) (i), the cash price of the goods or services to which the trade credit relates as determined in the Credit Contracts Act 1981, is not applicable; and
- (e) Section 64BA (1) (b) (ii), the lowest price at which the specified goods or services could be purchased under a short-term trade credit, is not applicable.

The core acquisition price is a component of the acquisition price, which is—

- (i) Required to calculate income derived or expenditure incurred in an income year in accordance with the Income Tax Act 1976 and relevant determinations (and for this purpose the acquisition price must be expressed in the base currency); and
- (ii) Converted to New Zealand dollars for the purposes of the base price adjustment.

(2) A short-term trade credit, where payment is required within 63 days after supply of the specified goods or services, is exempted from the scope of the accrual provisions by the definitions in section 64B (1) of the Act. This determination cannot apply to a short-term trade credit.

(3) Any other trade credit is subject to the accrual provisions of the Act and relevant determinations. Where paragraph (iii) of the definition of "u" applies the acquisition price (and therefore the core acquisition price) must be determined as at the supply date of the specified goods or services.

(4) Sections 64BA (2) and (3) of the Act define acquisition price in terms of the core acquisition price, which is itself defined in section 64B (1). Paragraphs (i) and (ii) of the definition of "u" in that section provide two ways of determining the amount "u" which is required for calculating the core acquisition price. Where neither of these apply, paragraph (iii) of the definition of "u" in section 64BA (1) provides that "u" shall be "the discounted value of the amounts payable for the specified goods and services, as determined pursuant to a determination made by the Commissioner under section 64E (1) (f) of this Act".

(5) For these purposes any amount determined in a currency other than New Zealand dollars is required to be discounted using an interest rate appropriate to the currency. This determination allows the use of—

- (a) A foreign currency interest rate ascertained using a method consistent with Determination G13: Prices or