

As the result is negative it is deemed to be expenditure incurred of NZ\$27,592 in the 1989 income year.

(b) At the end of the arrangement on 15 September the base price adjustment  $a - (b + c)$  is calculated to determine income or expenditure for the 1990 financial year where—

- a = NZ\$2,460,526 (deposit/spot rate date paid plus balance of consideration/closing spot rate)
- b = NZ\$2,330,238 (acquisition price/opening spot rate)
- c = NZ\$27,592 (expenditure incurred in the previous income year)

Therefore  $bpa = NZ\$102,696$

As this is positive it is deemed to be expenditure incurred in the 1990 income year.

Total expenditure claimed in relation to the deferred property settlement is NZ\$(27,592 + 102,696) = NZ\$130,288.

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

R. D. ADAIR,  
Deputy Commissioner of Inland Revenue.  
go2593

### **Determination G17A: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in New Zealand Currency**

This determination may be cited as "Determination G17A: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in New Zealand Currency".

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

(1) This determination rescinds and replaces Determination G17: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in New Zealand Currency made by the Commissioner on 10 July 1989. This determination differs from Determination G17: Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in New Zealand Currency by—

- (a) Requiring that the interest rate used to determine the discounted value of amounts payable in relation to a deferred property settlement be ascertained as at the transfer date of the specified property rather than as at the date of entry into the contract (which can be difficult to determine); and
- (b) Requiring that the discounted value of the amounts payable be used to calculate income derived or expenditure incurred for any income year (which is an extension made to the method for completeness).

(2) In this determination an agreement for the sale and purchase of property or a specified option, where payment in full is not made at the time at which the first right in the specified property is to be transferred, will be called a "deferred property settlement". Where the first right in the property is transferred at the time of payment of the purchase price in full, the purchase price will be the lowest price determined for the purposes of section 64BA (1) (c) (i) and the discounting provisions described in this determination will not apply.

(3) This determination does not apply—

- (a) To short-term agreements for the sale and purchase of property; or
- (b) To short-term options; or
- (c) To private or domestic agreements for the sale and purchase of property; or
- (d) To deferred property settlements where any amount payable is denominated in foreign currency; or

(e) To deferred property settlements where the total deposits and other amounts payable more than 31 days prior to the transfer date exceed 20% of the total purchase price; or

(f) Where in relation to the deferred property settlement any amount payable or the date on which any amount is payable is not known at the first balance date after transfer date; or

(g) Where the credit term of the deferred property settlement is not known at the date of entry into the deferred property settlement.

(4) Short-term agreements for the sale and purchase of property and short-term options are agreements or options under which settlement is required within—

- (a) 93 days of entry into the contract in the case of real property; or
- (b) 63 days of entry into the contract in the case of other property.

Such short-term agreements or options are excepted from the accruals provisions of the Act. A private or domestic agreement for the sale and purchase of property as defined in section 64B (1) is also an excepted financial arrangement.

(5) For all deferred property settlements, a core acquisition price must be determined as at the date on which the first right in the property is transferred; for ease of reference, this date is called the "transfer date" in this determination. Sections 64BA (2) and (3) of the Act define "acquisition price" in terms of the "core acquisition price", which is itself defined in section 64BA (1). In section 64BA (1) (c) (i) an amount "w" is defined as the lowest price that the buyer and seller would have agreed upon for the property on the basis of payment in full at the time at which the first right in the specified property is to be transferred. If there is no such lowest price, paragraph (c) (ii) provides that "w" shall be "the discounted value of the amounts payable for the specified property as determined pursuant to a determination made by the Commissioner under section 64E (1) (f) of this Act".

(6) This determination requires that an interest rate be ascertained in accordance with Determination G13: Prices or Yields, as at the transfer date of the specified property. This interest rate is the market yield applying to bank bills of a similar term to the credit term; if the credit term is longer than 12 months the market yield on New Zealand Government securities must be used.

(7) The amounts payable are then discounted to the transfer date, using the yield so ascertained and the present value calculation method A in Determination G10: Present Value Calculation Methods, or an alternative method producing not materially different results. The sum of the discounted amounts and any deposit or other amounts paid on or before the transfer date is the amount of "w" to be used for calculating the core acquisition price.

(8) The core acquisition price is used to determine the acquisition price of a deferred property settlement in accordance with sections 64BA (2) or (3) of the Act.

(9) Income derived or expenditure incurred in relation to a deferred property settlement, shall be calculated as if the value of the specified property were equal to the amount of the core acquisition price using the yield to maturity method which could be that determined in Determination G3: Yield to Maturity Method or Determination G11: Present Value Based Yield to Maturity Method or an alternative method producing a result which is not materially different.

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

(2) Determination G17: Discounted Value of Amounts Payable in Relation to a Deferred Property Settlement Denominated in