have been apportioned to that Period. Note that as a result the Total Finance Charges might be negative, if the Variable Rate Financial Arrangement was issued at a premium.

(6) For this determination to apply—

(a) The amounts and due dates of all principal repayments must be known or reasonably able to be anticipated, and

(b) Interest, if any, must be calculated on the principal outstanding from time to time.

(7) This determination can be applied to financial arrangements denominated in a foreign currency, in conjunction with Determination G9A: Financial Arrangements that are Denominated in a Currency or Commodity other than New Zealand Dollars.

(8) Where a Period spans two income years, the amount of income derived or expenditure incurred in respect of the Period is apportioned between income years on a daily basis using Determination G1A: Apportionment of Income and Expenditure on a Daily Basis.

(9) Section 64C (2B) (b) of the Act sets out the procedure to be followed on changing from the method previously used to account for the financial arrangement, to the straight line method. Example H illustrates how this procedure is applied.

(10) Section 64C (2A) (c) of the Act says that a person using the straight line method must apply that method consistently to a financial arrangement until it matures, is sold, remitted or transferred unless the prior consent of the Commissioner to adopt another method is obtained.

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

3. *Scope of Determination*—This determination applies where a person decides pursuant to section 64C (2A) of the Act to calculate the income or expenditure in relation to a financial arrangement using the straight line method, and the financial arrangement meets the following criteria:

(1) The financial arrangement is a Variable Rate Financial Arrangement as defined in this determination, or the interest rate, if any, is specified in the financial arrangement and is fixed; and

(2) The amounts of principal (including any fees and any premium or discount at the time of issue or acquisition) and the times or intervals at which they are to be advanced and repaid are known or can reasonably be anticipated or are able to be determined as at the first balance date after issue or acquisition; and

(3) Interest, if any, is calculated on the amount of principal outstanding from time to time.

4. *Principle*—For financial arrangements which meet the criteria of this determination, the Total Finance Charges may be apportioned over the term of the financial arrangement pro rata with the principal expected to be outstanding in each Period Between Payments and the length of that Period. In the case of Variable Rate Financial Arrangements interest payable is excluded from the calculation of the Total Finance Charges; instead the actual interest payable in respect of a Period is added to the Total Finance Charges (excluding interest) which have been apportioned to that Period. In all other cases interest is included in the calculation of Total Finance Charges.

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

Expressions used have the same meaning 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 it shall have the same meaning as in the said sections 64B to 64M:

"the Act" means the Income Tax Act 1976:

"Period" or "Period Between Payments" means the term, commencing immediately after a payment is payable or receivable and ending when the next payment is payable or receivable:

Provided that if a Period exceeds one year it shall be deemed to comprise one or more Periods each of one year followed (or preceded, at the option of the holder or issuer as the case may be) by a Period of less than one year:

"Total Finance Charges" in relation to a financial arrangement means—

(a) in respect of an issuer, the total of all amounts payable by the issuer <u>less</u> the total of all amounts receivable by the issuer, pursuant to the financial arrangement;

(b) in respect of a holder, the total of all amounts receivable by the holder <u>less</u> the total of all amounts payable by the holder, pursuant to the financial arrangement;

excluding amounts of interest payable or receivable under a Variable Rate Financial Arrangement:

Provided that any amounts payable in relation to the financial arrangement shall be reduced by the amount of item z as defined in section 64BA (2) or 64BA (3) of the Act:

"Variable Rate Financial Arrangement" means a financial arrangement under which the interest rate is determined by a fixed relationship to economic, commodity, industrial or financial indices or prices, or banking rates or general commercial rates.

(2) The length of all the Periods or Periods Between Payments of a financial arrangement shall be measured in time units of days, weeks, fortnights, months, quarters, half years or years as is appropriate to the smallest Period Between Payments, provided that where such a time unit is inappropriate for only one or two Periods this fact shall be disregarded, and the length of those one or two Periods shall be measured in days and expressed as a fraction of the time units appropriate to the remaining Periods Between Payments.

(3) Any reference in this determination to another 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.

(4) 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.

6. *Method*—

(1) *Method A*

(a) Method A may be applied to any financial arrangement where the amount of principal is fixed and interest, if any, is payable at regular intervals throughout the term of the financial arrangement, and the length of all Periods Between Payments is the same. The financial arrangement may be issued at a premium or discount and fees may be payable.

(b) The amount of income deemed to be derived or expenditure deemed to be incurred in a Period is an amount equal to—

(i) The Total Finance Charges divided by the number of Periods in the financial arrangement,

plus

(ii) In the case of a Variable Rate Financial Arrangement the amount of interest payable or receivable in respect of that Period.

(c) Income deemed to be derived or expenditure deemed to be incurred using this method shall be allocated to income years in accordance with Determination G1A: Apportionment of Income and Expenditure on a Daily Basis.

(2) *Method B*

(a) Method B may be applied to any financial arrangement.