

\$

100,000	amount payable
- 75,000	amount received
25,000	

whence a = 25,000

The length of each Period is a year therefore b=1.

The principal outstanding is \$100,000 in the first (one year) Period, and \$70,000 in the subsequent Periods. Hence the Total Finance Charges are allocated as follows:

Period	Length (years)	Principal outstanding	(bxc)	Expenditure
	b	c	e	$\frac{a \times b \times c}{d}$
1	1	100,000	100,000	8,065
2	1	70,000	70,000	5,645
3	1	70,000	70,000	5,645
4	1	70,000	70,000	5,645
		Total d =	310,000	25,000

The expenditure incurred in each Period would be spread between income years using Determination G1A: Apportionment of Income and Expenditure on a Daily Basis.

(Note that in practice the income in the final year would be determined using the base price adjustment).

(7) Example G (discounted Government Stock)

A taxpayer buys New Zealand Government Stock on the secondary market. Details are as follows:

Face value	\$500,000
Coupon	16 per cent p.a. payable half yearly
Maturity	15 August 1994
Settlement	1 March 1992
Price	\$548,978 (YTM = 11.6% pa)

The taxpayer is not a cash basis holder but is eligible to use the straight line method to account for its financial arrangements, and decides to do so.

The Total Finance Charges are—

\$	
500,000	maturity value
+ 200,000	five coupons of \$40,000
- 548,978	purchase price
151,022	

whence a = 151,022

There is a broken first Period of 167 days, followed by five half year Periods. A time unit of half years is appropriate.

Since the Periods are of unequal length, Method B applies.

The 167 days represents $167 \times 2/365 = 0.9151$ of a half year.

Therefore b = 0.9151 in the first Period and b = 1 in the remaining periods as there is one time unit of half a year in each Period.

The following table can be constructed:

Half year Period	Principal outstanding	(bxc)	Expenditure
	c	e	$\frac{a \times b \times c}{d}$
1	500,000	457,550(i)	28,117(ii)
2	500,000	500,000	30,726
3	500,000	500,000	30,726
4	500,000	500,000	30,726
5	500,000	500,000	30,727
		Total d =	151,022

(i) $e = b \times c = 0.9151 \times 500,000 = 457,550$

(ii) a = 151,022 Total Finance Charges
 b = 0.9151 Length of Period
 c = 500,000 Principal outstanding
 d = 2,457,550 sum of all items 'e' above

The income derived in each Period would be spread using

Determination G1A: Apportionment of Income and Expenditure on a Daily Basis.

(Note that in practice the income in the final year would be determined using the base price adjustment.)

(8) Example H (transition to the straight line method)

This is similar to Example A, which is summarised as follows:

An amount of \$9,250 (after fees and discount) is borrowed on 12 February 1991, repayable by 10 half yearly interest payments of \$800 each, plus a final payment of \$10,000.

The yield to maturity is 18.356 per cent.

Assume the borrower is a New Zealand taxpayer with a 31 March balance date and used the yield to maturity method for the first income year.

Then the expenditure deemed to be incurred in the income year ending 31 March 1991 is calculated as follows:

(a) Amount attributable to period 12 February–11 August 1991:

$$\$9,250 \times 18.356\%/2 = \$849$$

(b) Amount attributable to income year ending 31 March 1991:

$$\$849 \times 47 \text{ days}/181 \text{ days} = \$220$$

Assume that in the 1991/1992 income year the taxpayer meets the criteria for the straight line method and decides to use Method A of this determination.

Then the amount of expenditure calculated in accordance with section 64C (2B) (b) is as follows:

(a) From example A, the amount of expenditure that would have been deemed to be incurred under the straight line Method A up to 31 March 1992 is as follows:

	\$
(i) period 12 February–11 August 1991:	875
(ii) period 12 August–11 February 1992:	875
(iii) period 12 February–31 March 1992	
$875 \times 48 \text{ days}/182 \text{ days}$	= 231
	1,981

(b) Therefore, using the formula in section 64C (2B) (b)

a = 0 income derived using the straight line method

b = \$1,981 expenditure incurred using the straight line method

c = 0 income derived in prior income years

d = \$220 expenditure incurred in prior income years

(c) The amount calculated in accordance with the formula is—

$$a - b - c + d = 0 - 1,981 - 0 + 220 = -\$1,761$$

and since this is a negative amount, it is deemed to be expenditure incurred by the borrower.

This determination is signed by me on the 10th day of July in the year 1991.

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

Queen Elizabeth the Second Arts Council of New Zealand Act 1974

Northbridge and Birkenhead Community Arts Councils—Boundary Change

Pursuant to section 32 (i) of the Queen Elizabeth II Arts Council of New Zealand Act 1974, on the recommendation of