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Departmental Notices

Inland Revenue

Income Tax Act 1976

Agreements for Sale and Purchase of Property Denominated in Foreign Currency: - Exchange Rate to Determine the Acquisition Price and Method for Spreading Income and Expenditure

This Determination may be cited as "Determination G29 : Agreements for Sale and Purchase of Property Denominated in Foreign Currency: Exchange Rate to Determine the Acquisition Price and method for spreading income and expenditure".

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

What financial arrangements does this determination apply to?

(1) This determination applies to any agreement for the sale and purchase of property (or 'ASAP') which is subject to the accrual rules, if the price for the property is denominated in a foreign currency (a 'foreign currency ASAP'), and certain other conditions are met. It does not apply to a short term ASAP or a private or domestic ASAP (as those terms are defined in the Act), because these agreements are excepted financial arrangements.

General Principles of taxation of foreign currency ASAPs

(2) For all ASAPs (whether or not denominated in a foreign currency) which are subject to the accrual rules, you must calculate a core acquisition price. This is the total of:

(a) the lowest price that you and the other party would have agreed upon for the property at the time the ASAP was entered into, on the basis of payment in full at the time the first right in the specified property is to be transferred; or

if there is no such lowest price, the discounted value of the amounts payable for the property, calculated in accordance with Determination G21A;

and

(b) any other amounts paid by the seller to the buyer (for purposes of explanation, these can safely be ignored).

(3) The difference, if any, between the NZ$ value of the core acquisition price (plus or minus certain non-contingent fees) and the NZ$ value of the amount paid by the buyer to the seller (the price) is income or expenditure, under the accrual rules. This difference may arise for a number of reasons:

(a) In the case of an ASAP where the price is fixed in NZ$, the reason for this difference will generally be the time value of money. If the buyer pays in advance for the goods, the buyer will often require a discount from the cash price. If the buyer pays on a deferred basis, the seller will often require an additional amount as compensation for the deferral. This can be equivalent to:

- a loan from the buyer to the seller in the case of a prepayment, with the discount to the purchase price representing interest payable by the seller; or

- a loan from the seller to the buyer in the case of a deferred settlement, with the additional amount required by the seller representing interest payable by the buyer.

(b) In the case of a foreign currency ASAP, there can be another reason for the difference between the NZ$ value of the core acquisition price and the NZ$ value of the price paid by the buyer to the seller. That is that different exchange rates could be used to convert these amounts into NZ$. The price must be converted into NZ$ using the spot exchange rate on payment date, while the core acquisition price is converted into NZ$ using the forward exchange rate from the contract date to either the date of payment or the date of transfer of the property. If the exchange rates are different, then there will be a difference between the NZ$ value of the core acquisition price and the NZ$ value of the price, even if the amounts are identical when determined in the foreign currency.

(4) Regardless of why it arises, this difference will be recognised:

- under section EH 1(5) of the Act, if you are a party to the ASAP at the end of an income year, by way of an allocation of income or expenditure to that income year;
- under the base price adjustment in section EH 4 of the Act, when the ASAP matures or is transferred by you.

(5) Section OB 7(1) deals with the calculation of the core acquisition price in the case of a foreign currency ASAP. It provides that the lowest price is the lowest price the parties would have agreed to in the foreign currency, converted into NZ$ using:

- the forward exchange rate, on the contract date, for exchange of the foreign currency into NZ$ on the rights date (this is the date on which first rights in the property pass to the buyer, and will often be the date on which goods are delivered) under the foreign currency ASAP (Rate A); or
- the forward exchange rate, on the contract date, for exchange of the foreign currency into NZ$ on the final payment date under the foreign currency ASAP (Rate B); or
- such other rate as is approved by the Commissioner by determination.

What this determination does

(6) This determination approves the adoption of three alternative exchange rates for converting the foreign currency lowest price into NZ$. This is in accordance with paragraph (c) of section OB 7(1) (which clarifies the calculation of the 'core acquisition price' in the case of a foreign currency ASAP) and section 90(1)(k) of the Tax Administration Act 1994. This determination also prescribes the method you must use to calculate income or expenditure from a foreign currency ASAP under section EH 1(5). The method you must use depends on the exchange rate you have used. The rates approved by this determination are:

- *Spot rate on the rights date* (Rate C). The effect of using this rate is that currency fluctuations between the rights date and the payment date will give rise to income or expenditure under the accrual rules. This rate can only be used for ASAPs which are for trading stock (excluding land or shares). If you use this rate you must apply Method C to calculate income or expenditure from the ASAP under section EH 1(5).
- *Spot rate on the contract date* (Rate D). The effect of using this rate is that currency fluctuations between the contract date (the date on which you enter into the ASAP) and the payment date will give rise to income or expenditure under the accrual rules. This rate can only be used for ASAPs which are for trading stock (excluding land or shares). If you use this rate you must apply Method D to calculate income or expenditure from the ASAP under section EH 1(5).
- *Spot rate on payment date* (Rate E). The effect of using this rate is to ensure that foreign currency fluctuations do not give rise to accrual income or expenditure under the foreign currency ASAP. You can only use Rate E if your annual gross income is less than $2,500,000 in the income year you become a party to the ASAP. In calculating that amount, you should exclude income from foreign currency ASAPs not completed at balance date. As an anti-avoidance measure, in calculating the $2,500,000 you must also take into account the annual gross income of associated persons. If you use this rate you must apply Method E to calculate income or expenditure from the ASAP under section EH 1(5).

(7) The NZ$ value of the foreign currency lowest price is also the price at which the property is deemed to have been sold or acquired by you for income tax purposes (under section EH 8(2)). If you use Rate E and Method E, you may have to convert the relevant payments into NZ$ using the spot rate at the first balance date following acquisition of the property. This ensures that the price can be established in the year the property is transferred to you.

2. *Reference*—This determination is made under paragraphs (c) and (k) of section 90(1) of the Tax Administration Act 1994.

3. *Scope*

General

(1) Subject to (3), (4) and (5) below, this determination applies to the calculation of income or expenditure under any foreign currency ASAP with respect to which you either:

- become a party in your 1996-97 income year or a subsequent income year; or
- calculate the core acquisition price using section OB 7(1)(a),(b) or (c), under section EZ 10(2).

(2) Method A is available to all taxpayers for all foreign currency ASAPs if they use Rate A.

(3) Method B is available to all taxpayers who use Rate B, which may only be used if the period between the rights date and the settlement date (date of final payment) is not more than five years.

(4) Rates C and D, and Methods C and D

You may use rates C or D, and Methods C or D only if the property that is the subject of the ASAP is trading stock in relation to you, other than land or shares.

(5) Rate E and Method E

You may apply Rate E and Method E only if the aggregate of your gross income (as defined in the Act) and that of all associated persons, in the income year you became a party to the foreign currency ASAP, does not exceed $2,500,000. For this purpose, gross income should be adjusted by excluding any income from foreign currency ASAPs which are subject to section EH 1 in the income year.

(6) Where both this determination and Determination G9A could apply to an ASAP, you should apply this determination, and not Determination G9A to the ASAP. You may however apply G9A to a loan which is part of the ASAP (see paragraph 6(4)).

4. *Principle*—(1) Under the qualified accrual rules a foreign currency ASAP gives rise to income or expenditure

equal to the difference between the NZ$ value of the acquisition price of the ASAP and the NZ$ value of the price.

(2) The acquisition price is equal to the core acquisition price, less (in the case of the holder) or plus (in the case of the issuer) any non-contingent fees paid by that party that qualify as item z in the definition of acquisition price in section OB 1.

(3) The core acquisition price is defined in section OB 1. The main component of the core acquisition price is, broadly, the lowest price the parties would have agreed upon, assuming payment in full at the time of delivery. You should refer to the detailed definition of core acquisition price contained in the Act.

(4) In the case of a foreign currency ASAP, the lowest price is denominated in a foreign currency, and must be converted into NZ$. Section OB 7 allows the use of two forward rates, Rates A and B (contained in paragraphs (a) and (b) of section OB 7(1) and described in paragraph 1(5) of this determination), but not all taxpayers will wish to use forward rates. This determination approves the use of the spot rate on certain alternative dates.

(5) If you are a party to an ASAP you will have to determine the lowest price, using either one of the statutory rates, or one of the rates prescribed by this determination. You will then have to spread any income or expenditure arising from the ASAP using the method described in this determination which is applicable to the rate you are using.

5. *Interpretation*—In this determination:

(1) a reference to the "Act" is a reference to the Income Tax Act 1994.

(2) 'ASAP' means an agreement for sale and purchase of property which is subject to the accrual rules;

'Contract date' means the date on which the foreign currency ASAP was entered into;

'Foreign currency ASAP' means an ASAP under which the price for the property the subject of the ASAP is denominated in foreign currency;

'Forward rate' means the rate for a forward contract as defined in paragraph 6(4) of Determination G6D: Foreign Currency Rates;

'Lowest price' is the lowest price referred to in paragraph (c) of the definition of "core acquisition price";

'Payment date' means a date on which any part of the price for the property transferred under an ASAP is paid by the buyer;

'Price' means the foreign currency price agreed to be paid in consideration for the property under an ASAP, including any agreed interest charges;

'Rights date' is the day on which the first right in the specified property subject to an ASAP is to be transferred;

'Settlement date' means the day on which final payment is to be made under the financial arrangement;

'Spot rate' means the rate for a spot contract as defined in paragraph 6(3) Determination G6D: Foreign Currency Rates.

(3) all other terms used have the same meaning given to them for the purposes of the qualified accruals rules in the Act.

As an aid to interpretation only, and not as a definitive list, the following are the terms defined in the Act that are of particular note: right in the specified property, trading stock, associated persons, agreement for the sale and purchase of property.

6. *Rate and Method—General*—(1) All the methods approved by this determination require you to treat yourself as a party to a foreign currency loan or loans. The nature of the foreign currency loan or loans is set out in paragraphs (2) to (4).

(2) To the extent that the price is paid before the rights date, treat yourself as a party to a loan:

- from the buyer to the seller:
- of an amount equal to the amount of the price paid before the rights date;
- advanced on the date the amounts are paid;
- repaid on the rights date;
- with a repayment amount equal to the amount of the lowest price, less any amount paid on the rights date, and less the amount attributable to the advance under any loan referred to in (3).

(3) To the extent that the price is paid after the rights date, treat yourself as a party to a loan:

- from the seller to the buyer;
- of an amount equal to the lowest price, less any amount paid on the rights date, and less any amount attributable to the repayment of any loan referred to in (2);
- advanced on the rights date;
- repaid on the payment date or payment dates occurring after the rights date;
- with a repayment amount equal to the price, less any amount paid on or before the rights date.

(4) In many cases you may be able to apply Determination G9A to the loan.

7. *Method A—Forward Rate to Rights Date*—(1) If you adopt method A you must use Rate A to calculate the NZ$ value of the lowest price.

(2) In a year before the year in which you are required to do a base price adjustment for the foreign currency ASAP, calculate your income or expenditure by applying an available method under the qualified accruals rules as if you were party to a loan or loans as set out above in 'Method—General'.

Also take into account, as income or expenditure in any year up to and including the year in which the rights date occurs, the amount

$a - b$

where

'a' is the NZ$ value of the lowest price converted using either

(i) if the rights date is after the end of the year, the forward rate from the last day of the relevant income year to the rights date;

(ii) in any other case, the spot rate on rights date.

'b' is the NZ$ value of the lowest price converted using the forward rate to the rights date from whichever is the later of:

(i) the last day of the previous income year;

(ii) the contract date.

using a reasonable estimate of the rights date at that time (unless a(ii) applies).

(3) If $a - b$ is a negative, this amount will be income if you are the buyer, and expenditure if you are the seller. If $a - b$ is a positive, the amount will be income if you are the seller, and expenditure if you are the buyer.

8. *Method B—Forward Rate to Settlement Date*—(1) If you adopt method B, you must use Rate B to calculate the NZ$ value of the lowest price.

(2) In a year before the year in which you are required to do a base price adjustment for the foreign currency ASAP, calculate your income or expenditure by applying an available method under the qualified accruals rules to calculate the foreign currency income or expenditure you would have if you were party to a foreign currency loan or loans as set out above in 'Method—General'.

(3) In calculating this income or expenditure, treat the foreign currency loan or loans as if they were in NZ$. In particular, do not apply Determination G9A to the loan contract. Then convert the foreign currency income or expenditure into NZ$ using the spot rate on the payment date. If there is more than one payment date, use the weighted average of the spot rates, For payment dates occurring after the last day of the year, use the spot rate on that day.

(4) Also take into account as income or expenditure in any year up to and including the year in which the settlement date occurs, the amount

$$a - b$$

where

'a' is the NZ$ value of the lowest price converted using either

(i) if the settlement date is after the end of the year, the forward rate from the last day of the relevant income year to the settlement date;

(ii) in any other case, the spot rate on settlement date.

'b' is the NZ$ value of the lowest price converted using the forward rate to the settlement date from whichever is the later of:

(i) the last day of the previous income year;

(ii) the contract date.

using a reasonable estimate of the settlement date at that time (unless a(ii) applies).

(5) If a – b is a negative, this amount will be income if you are the buyer, and expenditure if you are the seller. If a – b is a positive, the amount will be income if you are the seller, and expenditure if you are the buyer.

9. *Rate C and Method C—Spot Rate at Rights Date*—(1) If you adopt Method C, you must use rate C to calculate the NZ$ value of the lowest price.

(2) In a year before the year in which you are required to do a base price adjustment for the foreign currency ASAP, calculate your income or expenditure by applying an available method under the qualified accruals rules as if you were party to a loan or loans as set out above in Method—General'.

(3) Because you are using the spot rate at rights date to convert the foreign currency core acquisition price to NZ$, you will not have any income or expenditure for tax purposes in the period between the contract date and the earlier of the rights date or the first payment date.

10. *Rate D and Method D—Spot Rate at Contract Date*—(1) If you adopt Method D, you must use Rate D to calculate the NZ$ value of the lowest price.

(2) If you adopt Method D, then even if there is no difference between the foreign currency price and the foreign currency lowest price, you will have income/expenditure if there is a change in the spot rate from the contract date to the payment date.

(3) In a year before the year in which you are required to do a base price adjustment for the Foreign currency ASAP, calculate your income or expenditure by applying an available method under the qualified accruals rules as if you were party to a loan or loans as set out above in 'Method—General'.

(4) Because you are using the spot rate at contract date to convert the foreign currency core acquisition price to NZ$, you must take into account as income or expenditure, in any year up to and including the year in which the rights date occurs, the amount

$$a - b$$

where:

'a' is the NZ$ value of the lowest price converted using the spot rate on the earlier of the last day of the relevant income year and the rights date

'b' is the NZ$ value of the lowest price converted using the spot rate on whichever is the later of the last day of the previous income year and the contract date.

(5) If a – b is negative, this will be income if you are the buyer, and expenditure if you are the seller. If a – b is positive, this will be income if you are the seller, and expenditure if you are the buyer.

11. *Rate E and Method E—Spot Rate at Payment Date*—(1) If you adopt Method E, you must use Rate E to calculate the NZ$ value of the lowest price, subject to (2)(ii) below. If there is more than one payment date, you must use the weighted average of the spot rates on the payment dates.

(2) If you need to know the NZ$ price of the property for the purpose of calculating your assessable income for an income year (other than under the qualified accrual rules), and any payments under the foreign currency ASAP are made after the end of the relevant year, you must determine the NZ$ value of the lowest price by converting those payments into NZ$ at either:

(i) the spot rate on the payment date if the agreement is completed before you are required to file your income tax return for the relevant year, and you elect to use that rate; or

(ii) the spot rate on the last day of the relevant year.

(3) If you choose to use Method E, and if there is no difference between the foreign currency price and the foreign currency lowest price (plus any amount comprised in item x in the core acquisition price definition), you will have no income or expenditure under the qualified accruals rules from the foreign currency ASAP (unless paragraph 2(ii) applies).

(4) In a year before the year in which you are required to do a base price adjustment for the foreign currency ASAP, calculate your income or expenditure from the ASAP as the result of

$$a - b - c$$

where:

'a' is the NZ$ value of the price. Determine this NZ$ value by converting the price into NZ$ using the spot rate on the payment date or payment dates. Convert any payments required to be made after the end of the year:

at the spot rate on the last day of the year; or

if the agreement matures before the date on which you must file your tax return for the year, at the spot rate on the relevant payment date, if you elect to use that rate;

'b' is the NZ$ value of the lowest price. Determine this NZ$ value by converting the lowest price into NZ$ using the spot rate used to calculate 'a', or the weighted average of the spot rates if there is more than one payment date. However, if you have taken the cost of the property into account in calculating your assessable income (other than under the qualified accrual rules) in a previous income year, you must calculate the NZ$ value of the lowest price using the same exchange rate used to calculate the lowest price in that previous income year.

'c' is the NZ$ value of the unaccrued difference between the price and lowest price, calculated in accordance with paragraph (6).

(5) If the result of the calculation in paragraph (4) is positive, that amount will be income if you are the seller of the property and expenditure if you are the buyer. If the result is negative, the amount will be income if you are the buyer of the property and expenditure if you are the seller.

(6)'c' in paragraph (4) is calculated as follows:

Apply an available method under the accrual rules to calculate the foreign currency income or expenditure you would have if you were a party to a foreign currency loan or loans as set out above in "Rate and Method—General". In calculating this expenditure, treat the foreign currency loan or loans as if they were in NZ$. In particular, do not apply Determination G9A to the loan contract;

Convert this foreign currency income or expenditure into NZ$ using the exchange rate used to calculate 'a' in paragraph (4).

12. *Example*—(1) A US resident agrees to sell a quantity of plate glass to a New Zealand resident glass wholesaler for US$140,000. The parties agree that the price will be paid six months after the glass is landed in Auckland, and will remain the seller's risk until it is landed. The parties also agree that if the price were paid at the time the glass is landed, the price would be US$130,000.

(2) The New Zealand resident wholesaler must calculate the 'lowest price' by converting the US$130,000 to NZ$ using one of the rates set out in section OB 7(1) of the Act, or in this determination. The difference between that amount in NZ$, and US$140,000 at the spot rate on payment date, will be income or expenditure to the New Zealand resident. It must then apply the appropriate method to spread that income or expenditure over the life of the ASAP.

Determination signed the 16th day of September 1996.

ROBIN OLIVER, General Manager, Policy Advice Division.

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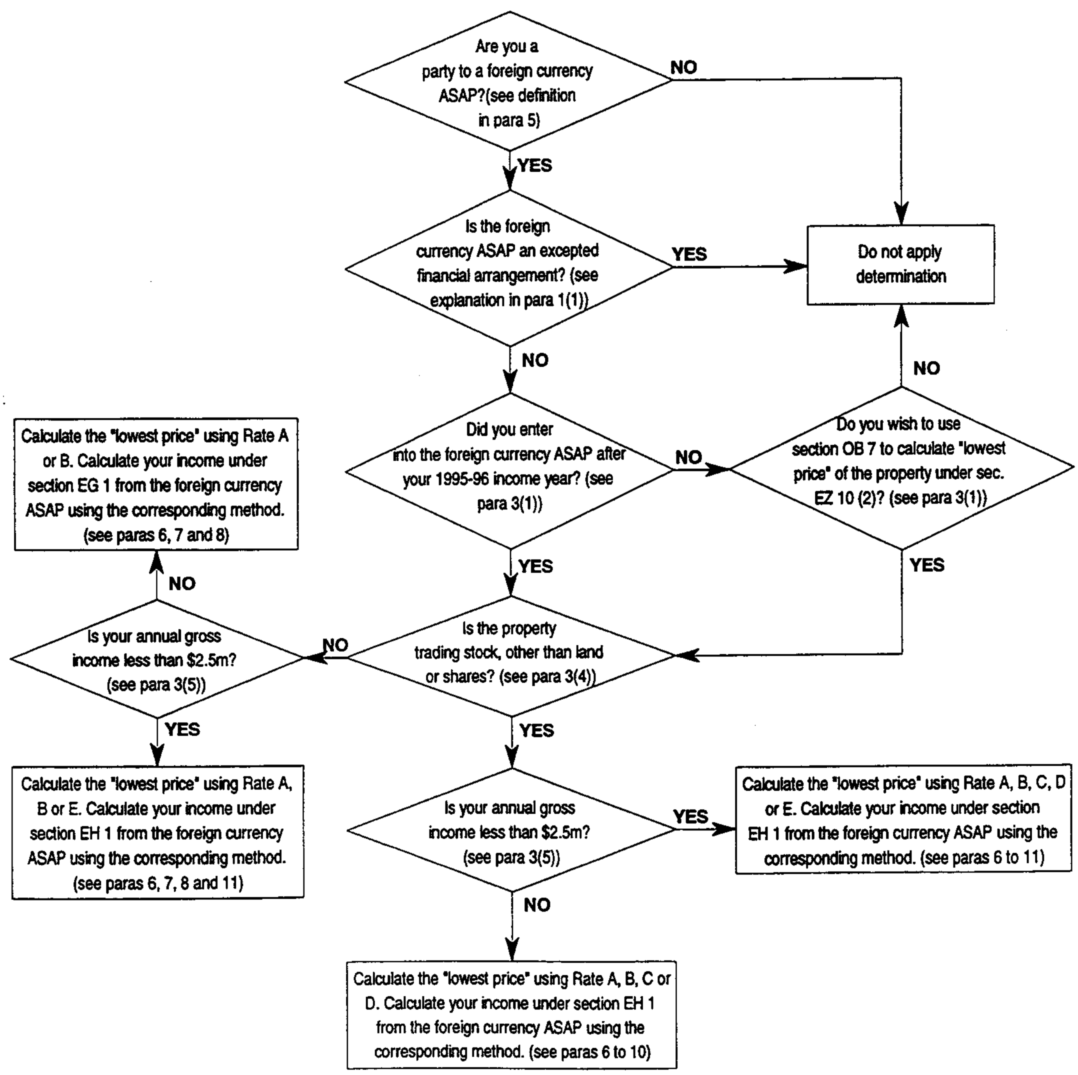
Summary flowchart - calculating accrual income from foreign currency agreements for sale and purchase

This chart is included for illustration purposes only. It does not form part of the determination.



Agreements for Sale and Purchase of Property Denominated in Foreign Currency: Discounted Value of Amounts Payable

This Determination may be cited as "Determination G21A : Agreements for Sale and Purchase of Property Denominated in Foreign Currency: Discounted Value of Amounts Payable".

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

What financial arrangements does this determination apply to?

(1) This determination applies to any agreement for the sale and purchase of property (or 'ASAP') which is subject to the accrual rules, if the price for the property is denominated in a foreign currency (a 'foreign currency ASAP'), and certain other conditions are met. It does not apply to a short term ASAP or a private or domestic ASAP (as those terms are defined in the Act), because these agreements are excepted financial arrangements.

General principles of taxation of foreign currency ASAPs

(2) For all ASAPs (whether or not denominated in a foreign currency) which are subject to the accrual rules, you must calculate a core acquisition price. This is the total of

(a) (i) the lowest price that you and the other party would have agreed upon for the property at the time the ASAP was entered into, on the basis of payment in full at the time the first right in the specified property is to be transferred; or

(ii) if there is no such lowest price, the discounted value of the amounts payable for the property as determined under a determination; or

(iii) if there is no such lowest price, and no applicable determination, the value of the property provided by the seller; and

(b) any other amounts paid by the seller to the buyer (for purposes of explanation, these can safely be ignored).

(3) This determination prescribes the method for determining the discounted value, in the foreign currency, of the amounts payable for the property, as set out in paragraph (2)(a)(ii).

(4) For these purposes any amount determined in a currency other than NZ$ is required to be discounted using an interest rate appropriate to the currency. This determination requires the use of a foreign currency interest rate ascertained as at the rights date using a method consistent with Determination G13A: Prices or Yields—this interest rate is the interbank offer rate for the currency and the term of the foreign currency ASAP.

(5) The amounts payable are then discounted to the rights date, using the interest rate so ascertained and present value calculation Method A in Determination G10B: Present Value Calculation Methods or an alternative method producing not materially different results.

(6) Once this amount has been determined, you must convert it into NZ$, using one of the following rates:

forward rate to rights date (Rate A);

forward rate to settlement date (Rate B);

spot rate at rights date (Rate C);

spot rate at contract date (Rate D); or

spot rate at settlement date (Rate E);

as set out in paragraph (5) of Method. Use of these rates is subject to certain restrictions, set out in paragraphs 3(2),(3),(4) and (5) below.

(7) Having calculated the NZ$ value of the core acquisition price, you must calculate your income or expenditure from the foreign currency ASAP using the corresponding method in determination G29.

(8) The NZ$ value of the foreign currency lowest price is also the price at which the property is deemed to have been sold or acquired by you for income tax purposes (under section EH 8(2)).

How does this determination differ from G21?

(9) This determination differs from Determination G21 by:

(a) removing the option to discount future amounts payable under a foreign currency ASAP using a NZ$ interest rate;

(b) removing the requirement to convert the discounted value of amounts payable using the spot rate on the rights date.

2. *Reference*—(1) This determination is made pursuant to section 90(1)(h) of the Tax Administration Act 1994.

(2) This determination rescinds and replaces Determination G21:Discounted Value of Amounts Payable in Relation to Deferred Property Settlements Denominated in a Foreign Currency, with effect from the 1996/97 income year.

3. *Scope of Determination*—(1) Subject to paragraphs (2), (3), (4) and (5), this determination applies to the calculation of income or expenditure under any foreign currency ASAP:

(a) if there is no lowest price; and

(b) with respect to which you become a party in your 1996-97 income year or a subsequent income year.

(2) This determination does not apply:

(a) To any deferred property settlement where more than 20% of the sum of all the amounts payable is due before 31 days prior to the rights date; or

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

(c) Where the term of the deferred property settlement is not known at the first balance date after the transfer date.

(3) You may use Rate B only if the period between the rights date and the settlement date (date of final payment) of the foreign currency ASAP is not more than five years.

(4) You may use Rates C and D only if the property that is the subject of the foreign currency ASAP is trading stock in relation to you, other than land or shares.

(5) You may use Rate E only if the aggregate of your gross income (as defined in the Act) and that of all associated persons, in the income year you became a party to the foreign currency ASAP, does not exceed $2,500,000. For this purpose, gross income should be adjusted by excluding any income from foreign currency ASAPs which are subject to section EH 1 in the income year.

4. *Principle*—(1) Under the qualified accrual rules a foreign currency ASAP gives rise to income or expenditure equal to the difference between the NZ$ value of the acquisition price of the ASAP and the NZ$ value of the price.

(2) The acquisition price is equal to the core acquisition price less (in the case of the holder) or plus (in the case of the issuer) any non-contingent fees paid by that party that qualify as item z in the definition of core acquisition price in the Act.

(3) The core acquisition price is defined in section OB 1. In the case of an ASAP, the definition provides that in certain circumstances, the core acquisition price should be the discounted value of the amounts payable for the property, determined under a determination made by the Commissioner.

(4) This determination provides for the determination of the discounted value of the amounts payable for the property under a foreign currency ASAP. The discounted value must be calculated.

(a) in the base currency as if it were New Zealand $;

(b) using an interest rate appropriate for the currency, the rate being a rate ascertained using a method consistent with Determination G13A, Prices or Yields, that is the foreign interbank offer rate appropriate to the term of the foreign currency ASAP;

(c) by then converting that amount to NZ$ using an appropriate rate as set out in paragraph (5) of Method.

(5) You will have to spread any income or expenditure arising from the ASAP using the method in Determination G29 which is applicable to the rate you have used.

5. *Interpretation*—In this determination:

(1) a reference to the 'Act' is a reference to the Income Tax Act 1994;

(2) 'Acceptable present value calculation method' means calculation Method A in Determination G10B: Present Value Calculation Methods, or an alternative method producing not materially different results:

'ASAP' means an agreement for sale and purchase of property which is subject to the accrual rules;

'Foreign currency ASAP' means an ASAP under which the price for the property the subject of the ASAP is denominated in a foreign currency;

'Forward rate' means the rate for a forward contract as defined in paragraph 6(4) of Determination G6D: Foreign Currency Rates;

'Interbank offer rate' in relation to a term means the rate at which a bank makes funds available to another bank which is a highly reliable credit risk and a trader in the market for such funds and for such a term; and includes, according to the circumstance, the rates collectively referred to as "LIBOR" and "SIBOR";

'Lowest price' is the lowest price referred to in paragraph (c) of the definition of core acquisition price';

'Price' means the Foreign Currency price agreed to be paid in consideration for the property under an ASAP, including any agreed interest charges;

'Rights date' is the day on which the first Right in the specified property subject to an ASAP is to be transferred;

'Specified property' means property that is acquired or sold pursuant to a deferred property settlement:

'Spot rate' means the exchange rate for a spot contract as defined in Determination G6D: Foreign Currency Rates;

(3) all other terms used have the same meaning given to them for the purposes of the qualified accruals rules in the Act.

As an aid to interpretation only, and not as a definitive list, the following are the terms defined in the Act that are of particular note: right in the specified property, agreement for the sale and purchase of property.

6. *Method*—(1) For the purposes of paragraph (ii) of the definition of "w" in the definition of the core acquisition price in section OB 1, you must calculate the discounted value of the foreign currency amounts payable for the property subject to a foreign currency ASAP to which this determination applies by summing—

(a) Every amount payable to or, as the case may be, by you for the property on or before the rights date expressed in the foreign currency; and

(b) The amount of foreign currency equal in value to the present value as at the rights date of amounts payable to or, as the case may be, by the person for the property after the rights date.

(2) For the purposes of this determination, the present value as at rights date of amounts payable shall be calculated by applying an acceptable present value calculation method to the interest rate determined under subclause (3).

(3) The annual rate of interest at which the present value of the amounts payable is required to be calculated shall be: the interbank offer rate for the currency and the term of the foreign currency ASAP at rights date, being a market yield determined in a manner consistent with Determination G13A: Prices or Yields. For this purpose the spot rate and the forward rate are to be determined in accordance with Determination G6D: Foreign Curency Rates.

(4) The present value of the amounts payable together with any deposit or other amounts paid on or before the rights date is the amount "w" to be used to calculate the core acquisition price.

(5) This amount is then converted to NZ$ using one of the following rates as appropriate;

(a) the rate, on the contract date, available to the taxpayer from a New Zealand registered bank for the exchange of NZ$ for that foreign currency on the rights date (Rate A); or

(b) the rate, on the contract date, available to the taxpayer from a New Zealand registered bank for the exchange of NZ$ for that foreign currency on the settlement date (Rate B); or

(c) Spot rate on the rights date (Rate C)

(d) Spot rate on the contract date (Rate D)

(e) Spot rate on payment (Rate E).

(6) The core acquisition price shall be used to determine the acquisition price of a foreign currency ASAP in accordance with section OB 1.

(7) In a year before the year in which you are required to do a base price adjustment for the foreign currency ASAP, calculate your income or expenditure by applying the Method in Determination G29 which corresponds with the rate you use to determine the NZ$ value of the core acquisition price.

7. *Example*—(1) A commercial property is sold for US$1,400,000 under a sale and purchase agreement subject to certain repairs being made to the building. An initial deposit of $140,000 is made on 1 February 1989. On 1 March 1989 repairs on the building are complete and the sale becomes unconditional. The balance of US$1,260,000 is due six months after the date possession passes. Possession of the property passes on 15 March 1989. Therefore the term of the arrangement is 15 March 1989 to 15 September 1989 - 184 days.

The purchaser's balance date is 31 March.

The USD/NZD exchange rates for the various dates are—

1 February 1989	0.5600
15 March 1989	0.5800
31 March 1989	0.5750
15 September 1989	0.5700

In this case the purchaser is the "issuer" for the purposes of the accruals legislation.

(2) The US interbank offer rate on 15 March 1989 for a period of six months is 8.0 percent ascertained using a method consistent with Determination G13A: Prices or Yields.

(3) Method A of Determination G10B: Present Value Calculation Methods, is applied to calculate the present

value as at 15 March 1989 (the "specified date") as follows—

R = 8.0 percent (the specified rate)

N = 2 (since the payments are at half yearly intervals)

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

$= 0.04$

(a) At 15 March 1989:

A = 0
B = \$1,260,000
C = 0

Therefore present value at 15 March 1989

$$= \frac{A + B - C}{1 + F}$$

= US\$1,211,538

(b) To this total must be added US\$140,000 deposit, giving a total present value of US\$1,351,538, which is the item "w" used in calculating the core acquisition price.

Determination signed the 16th day of September 1996.

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