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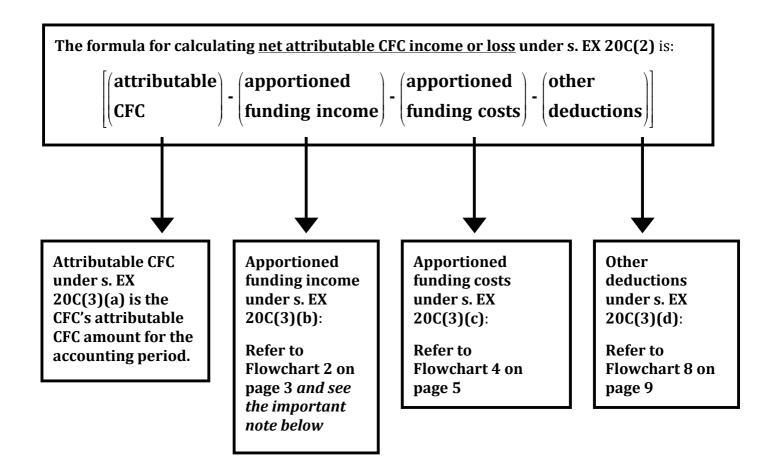
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NEW CALCULATION OF NET ATTRIBUTABLE CFC INCOME OR LOSS

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FLOWCHART 1: FORMULA



Important Note: Under s. EZ 32D Apportioned Funding Income is calculated in 2 parts when:

- (a) A CFC is excessively debt funded (see Flowchart 5 on page 52); and
- (b) The CFC entered into a financial arrangement before 21 June 2012 (an **old funding arrangement**) that provides funds for the CFC.

Part 1 - Old funding arrangements: The calculation rules in Flowchart 2 on page 50 are adjusted, so that:

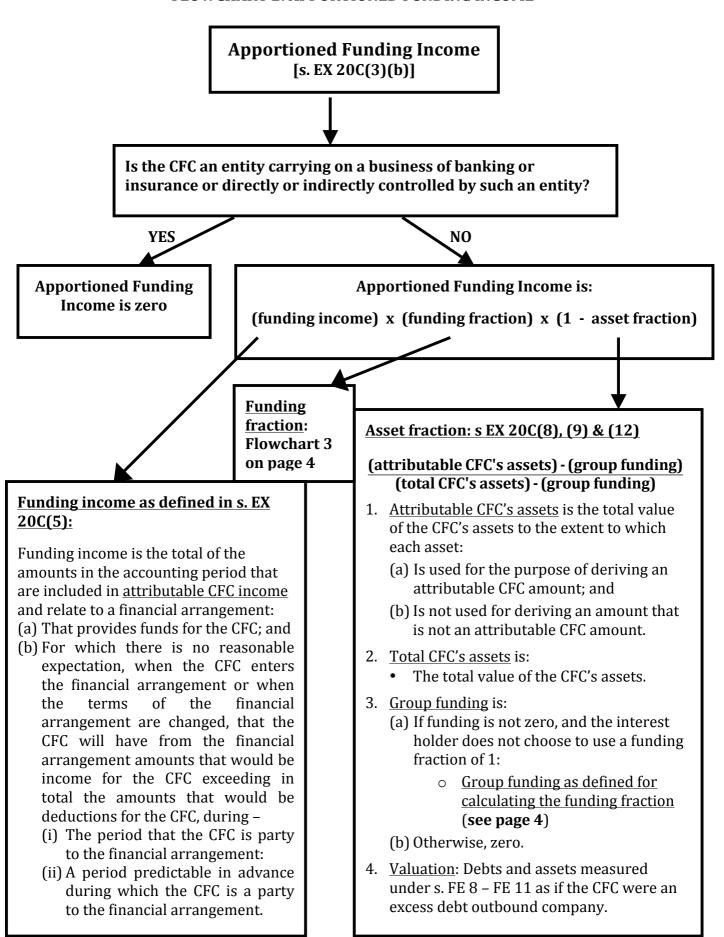
- (a) The value of **funding income** relates only to old funding arrangements (entered into before 21 June 2012); and
- (b) The value of **asset fraction** is the **cost fraction** calculated under s. EX 20D(10) as set out in Flowchart 5 on page 53:

Cost fraction = (attributed foreign company assets)/(total foreign company assets).

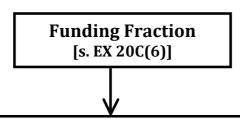
Part 2 – Funding arrangements entered into on or after 21 June 2012: The calculation rules are exactly as set out in Flowchart 2 on page 50 with the value of funding income relating only to financial arrangements (entered into on or after 21 June 2012) that are not old funding arrangements.

[s. EZ 32D]

FLOWCHART 2: APPORTIONED FUNDING INCOME



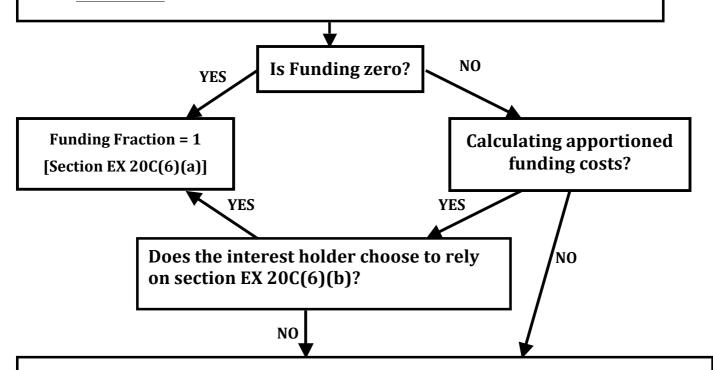
FLOWCHART 3: FUNDING FRACTION



Funding

Funding as defined in section **EX 20C(7)(a)** (as proposed in **clause 22D(2)** of the Annual rates Tax Bill) is the sum of:

- (a) Financial arrangements to which the CFC is a party and which provide funds for the CFC; and
- (b) Shares issued by the CFC that:
 - (i) Are held by a NZ resident, or a CFC, or a FIF for which the interest holder uses the AFI method (for income years starting on or after 1/7/11); and
 - (ii) Are <u>fixed rate foreign equity</u> or shares giving rights to <u>deductible foreign equity</u> distributions



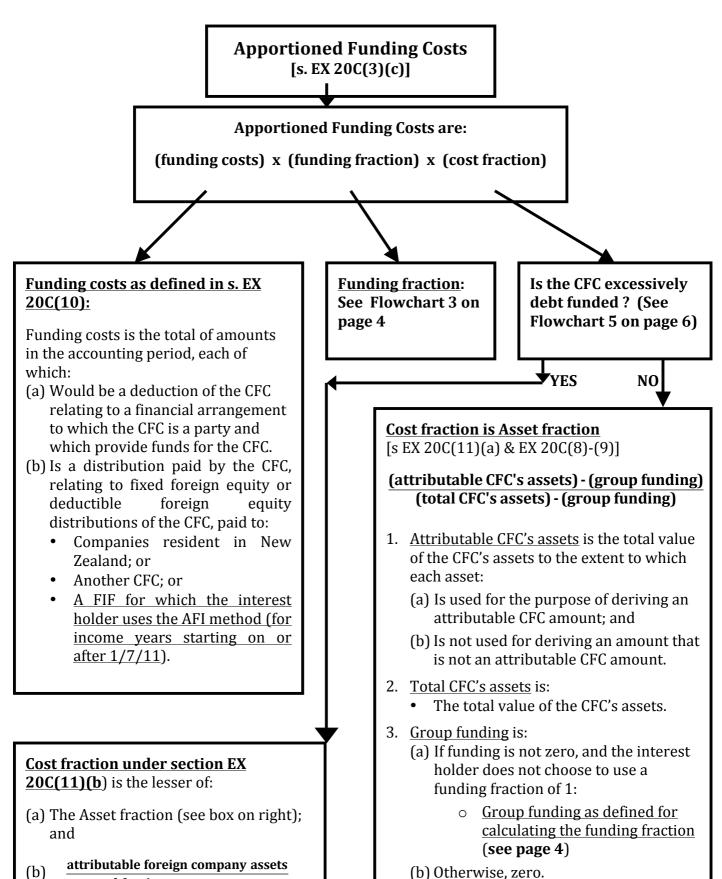
Funding Fraction =
$$\frac{\text{funding - group funding}}{\text{funding}}$$

<u>Funding</u> = as defined in s. EX 20C(7)(a) – **see above**

Group funding in s. EX 20C(7)(b) is lesser of:

- (a) Funding as defined in s. EX 20C(7)(a) see above; and
- (b) The total of amounts, each of which is the outstanding balance for a financial arrangement:
 - (i) Under which the CFC provides funds: to a CFC associated with the CFC under s. YB 2 (when 2 companies are associated) or to a FIF for which the interest holder uses the AFI method and that is associated with the CFC under s. YB 2 (coming into force on 1/7/11); and
 - (ii) That produces for the CFC an amount included in "arrangement" under section EX 20B(4).

FLOWCHART 4: APPORTIONED FUNDING COSTS



total foreign company assets

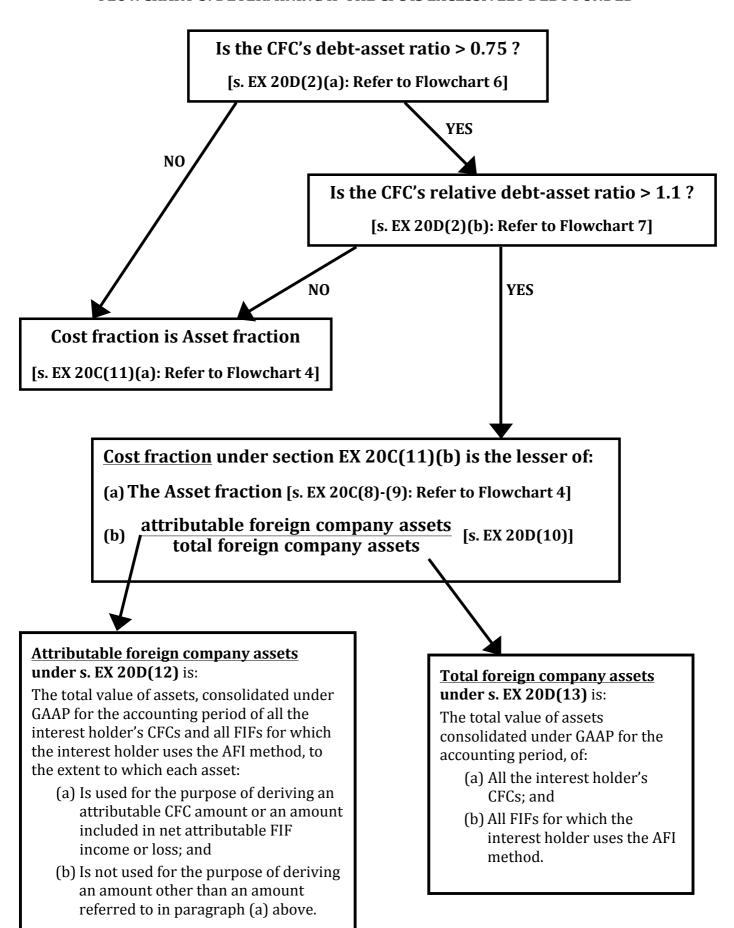
(See Flowchart 5 on page 6)

4. Valuation: Debts and assets measured

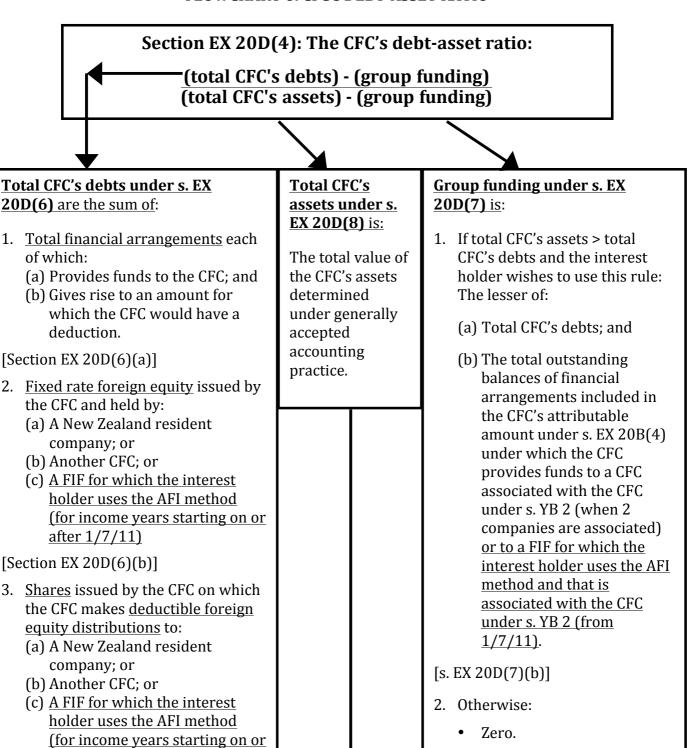
excess debt outbound company.

under s. FE 8 – FE 11 as if the CFC were an

FLOWCHART 5: DETERMINING IF THE CFC IS EXCESSIVELY DEBT FUNDED



FLOWCHART 6: CFC's DEBT-ASSET RATIO



The measurement rule in s. EX 20D(3) is:

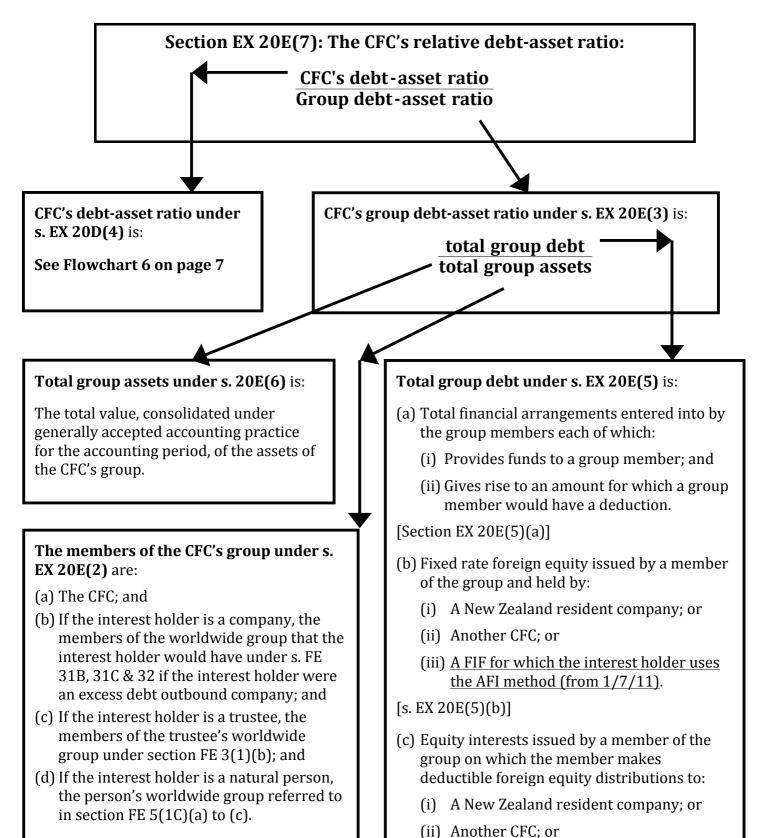
after 1/7/11)

[Section EX 20D(6)(c)]

• The debts and assets of the CFC are determined under sections FE 8 to FE 11 as if the CFC were an excess debt outbound company and the only member of the CFC's NZ group.

[s. EX 20D(7)(a)]

FLOWCHART 7: CFC's RELATIVE DEBT-ASSET RATIO



The measurement rules are: the debts and

under sections FE 8 to FE 11 and FE 18 as if the interest holder, if a company, were an

assets of the CFC's group are determined

excess debt outbound company.

[s. EX 20E(5)(c)]

(iii) A FIF for which the interest holder uses

the AFI method (from 1/7/11).

FLOWCHART 8: OTHER DEDUCTIONS

Other deductions under section EX 20C(13): Amounts that do Amounts that relate to a Amounts that relate to a not relate to a + | financial arrangement that | + | financial arrangement that does financial arrangement provides funds to the CFC not provide funds to the CFC Amounts that do not relate to a Amounts: financial arrangement or share (a) That do not relate to financial and arrangements that provide funds for the CFC; and (a) Are incurred for the purpose of deriving an attributable CFC (b) That relate to financial arrangements amount: and referred to in s. EX 20B(4) - i.e. result in amounts included in "arrangement" (b) Are not incurred for the purpose of deriving an amount when calculating the attributable CFC that is not an attributable CFC amount. amount. [s. EX 20C(13)(c)] [s. EC 20C(13)(a)] Amounts that: (a) Relate to financial arrangements or shares referred to in the definition of the item funding

- in s. EX 20C(7)(a); and
- (b) **Exceed** in total: **[(funding costs) x (funding fraction)]** as used in calculating apportioned funding costs in s. EX 20C(3)(c).
- [s. EX 20C(13)(b)]

Funding as defined in section EX 20C(7)(a) (as proposed in **clause 22D(2)** of the Annual rates Tax Bill) is the sum of:

- (a) Financial arrangements to which the CFC is a party and which provide funds for the CFC; and
- (b) Shares issued by the CFC that:
 - (i) Are held by a NZ resident, or a CFC, or a FIF for which the interest holder uses the AFI method (for income years starting on or after 1/7/11); and
 - (ii) Are fixed rate foreign equity or shares giving rights to deductible foreign equity distributions

Refer to Flowchart 4: **Apportioned Funding** Costs on page 5