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OLD NET ATTRIBUTABLE CFC INCOME OR LOSS CALCULATION

Net attributable CFC income/(loss) is determined under the formula in section EX 20C(2) as follows:

Attributable CFC Amount – (Limited Funding Costs x Fraction) – Other Deductions – Later Losses

Attributable CFC amount is found by applying section EX 20B to determine the amounts of each item to be included in the attributable CFC amount. (Refer to the separate PDF attachment on Attributable CFC Amount.)

Limited funding costs is found by following the rules in section EX 20C – see Flowchart 1 on page 2 of this PDF attachment.

Fraction is found by applying the rules in sections EX 20C to EX 20E – see Flowchart 2 and Charts 3 to 5 on pages 3 to 6 of this PDF attachment.

Other Deductions under section EX 20C(9) is expenditure that is:

(a) Incurred for the purpose of deriving an attributable CFC amount; and

(b) Not incurred for the purpose of deriving an amount that is not attributable CFC amount; and

(c) A deduction of the CFC (under section BD 2).

Later losses is the adjustment that may be available under sections EZ 32C and DZ 9:

- The deduction is aimed at reversing the denial of Limited Funding Costs deductions when Fraction is less than 1.
- The basis for the deduction is that income relating to currency movements has been brought to tax in the current or a previous year in the offset period (the current year and up to 4 previous income years that began on or after 1 July 2009).
- The deduction is a temporary concession and will not apply to any income years commencing after 30 June 2013.

Refer to pages 7 to 14 of this PDF attachment.

FLOWCHART 1: DETERMINATION OF LIMITED FUNDING COSTS

Limited Funding Costs

1[A]
Is Funding = 0?

Funding as defined in section EX 20C(6)(b) (amended as proposed in clause 19B(3) of the International Investment 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 (from 1/7/11); and

  (ii) Are fixed rate foreign equity or shares giving rights to deductible foreign equity distributions (see Attributed CFC Income or Loss page 6)

No → 1[B]

Yes: Limited Funding Costs are Funding Costs in s. EX 20C(6)(a) → 1[C]

1[B]
Does the interest holder choose to rely on section EX 20C(5)(b)?

No: Limited Funding Costs are Funding Costs as defined in s. EX 20C(6)(a) → 1[C]

Yes: Limited Funding Costs are as per formula in s. EX 20C(5)(b) → 1[D]

1[C]
Funding costs as defined in s. EX 20C(6)(a):

Funding costs is the total of the following amounts in the accounting period:

(a) Amounts for which the CFC would have a deduction relating to financial arrangements to which the CFC is a party and which provide funds for the CFC.

(b) Amounts that are distributions paid by the CFC, relating to fixed foreign equity or deductible foreign equity distributions of the CFC, paid to:
- Companies resident in New Zealand; or
- Another CFC; or
- A FIF for which the interest holder uses the AFI method (insertion proposed in clause 19B(1) of the International Investment bill).

1[D]
Funding costs as per formula in section EX 20C(5)(b) and amendment in clause 19B(2)

$$\text{Funding costs} \times \frac{\text{Funding} - \text{Group Funding}}{\text{Funding}}$$

Funding costs = as defined in s. EX 20C(6)(a) – see box **1[C]** on the left.

Funding = as defined in s. EX 20C(6)(b) – see box **1[A]** above.

Group funding in s. EX 20C(6)(c) is lesser of:

(a) Funding - as defined in s. EX 20C(6)(a); and

(b) The total outstanding balances of financial arrangements included in the CFC's attributable amount under s. EX 20B(4) under which the CFC provides funds to a CFC or FIF for which the interest holder uses the AFI method (from 1/7/11) associated with the CFC under s. YB 2 (when 2 companies are associated).

FLOWCHART 2: DETERMINING THE FORMULA FOR CALCULATING FRACTION

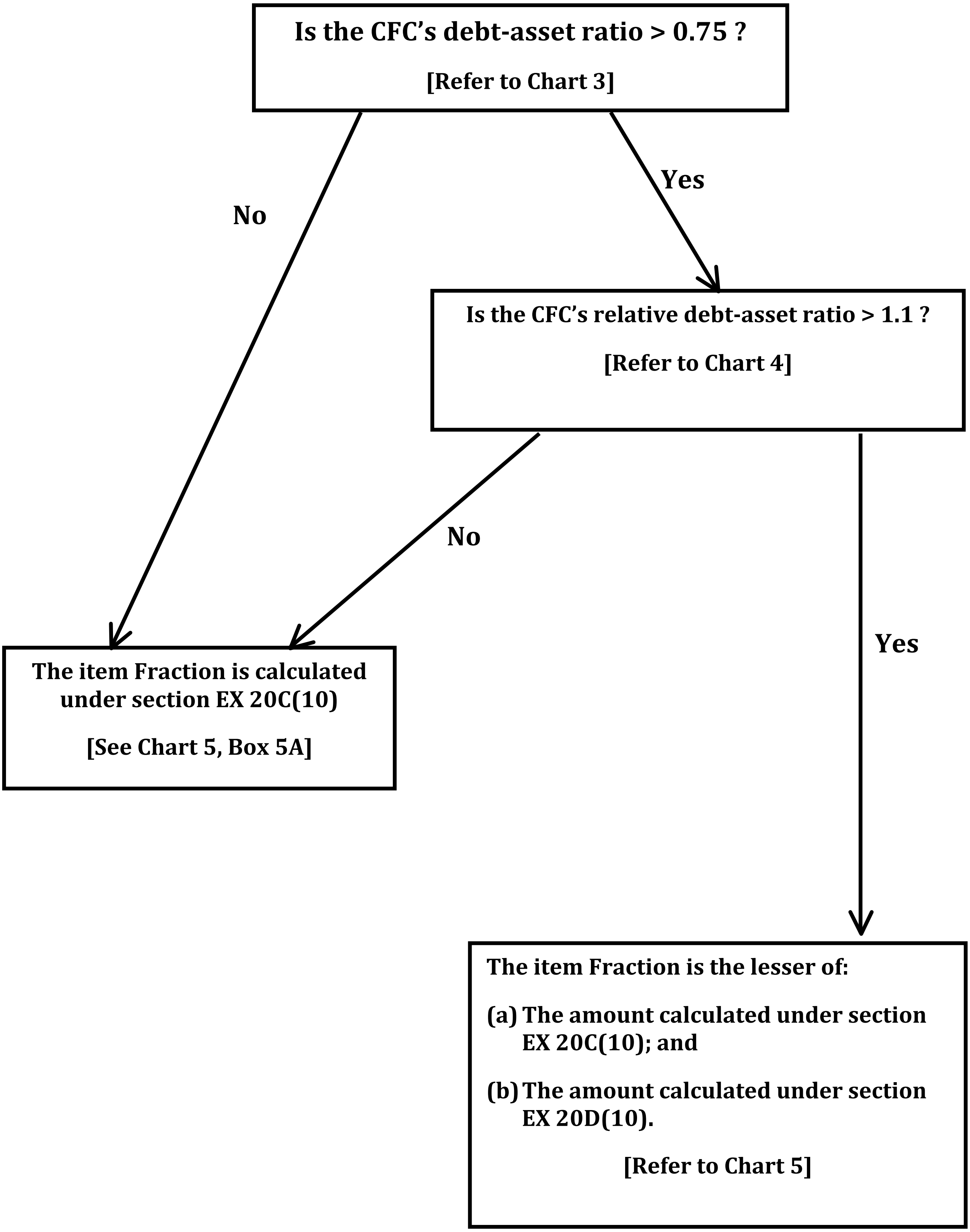

CHART 3: CFC's DEBT-ASSET RATIO

Section EX 20D(2)(a): Is the CFC's debt-asset ratio > 0.75?

$$\frac{\text{total CFC's debts} - \text{group funding}}{\text{total CFC's assets} - \text{group funding}} > 0.75\ ?$$

3[A]

Section EX 20D(6):

Total CFC's debts are the sum of:

1. Total financial arrangements each of which:
   (a) Provides funds to the CFC; and
   (b) Gives rise to an amount for which the CFC would have a deduction.

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

2. Fixed rate foreign equity issued by the CFC and held by:
   (a) A New Zealand resident company; or
   (b) Another CFC; or
   (c) A FIF for which the interest holder uses the AFI method (from 1/7/11: clause 19C(1) of the International Investment bill).

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

3. Shares issued by the CFC on which the CFC makes deductible foreign equity distributions to:
   (a) A New Zealand resident company; or
   (b) Another CFC; or
   (c) A FIF for which the interest holder uses the AFI method (from 1/7/11: clause 19C(1) of the International Investment bill).

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

3[B]

Section EX 20D(7) and clause 19C(2):

Group funding is:

1. If total CFC's assets > total CFC's debts and the interest holder wishes to use this rule: The lesser of:

   (a) Total CFC's debts; and

   (b) The total outstanding balances of financial arrangements included in the CFC's attributable amount under s. EX 20B(4) under which the CFC provides funds to a CFC or FIF for which the interest holder uses the AFI method (from 1/7/11) associated with the CFC under s. YB 2 (when 2 companies are associated).

2. If total CFC's assets ≤ total CFC's debts, or the interest holder does not wish to use this rule:

   - Zero.

3[C]

Section EX 20D(8)

Total CFC's assets is:

- The total value of the CFC's assets determined under generally accepted accounting practice.

Section EX 20D(2)(b): Is the CFC's relative debt-asset ratio > 1.1 ?

$$\frac{\text{CFC's debt – asset ratio}}{\text{Group debt asset ratio}} > 1.1 ?$$

[For the CFC's debt-asset ratio: See Flowchart 3]

4[A]

Section EX 20E: <u>CFC's group debt-asset ratio:</u>

$$\frac{\textbf{Total group debt}}{\textbf{Total group assets}}$$

1. **<u>The members of the CFC's group are:</u>**
   (a) The CFC; and
   (b) If the interest holder is a company, the members of the worldwide group that the interest holder would have under sections FE 31B, FE 31C and FE 32 if the interest holder were an excess debt outbound company; and
   (c) If the interest holder is a trustee, the members of the trustee's worldwide group under section FE 3(1)(b); and
   (d) If the interest holder is a natural person, the person's worldwide group referred to in section FE 5(1C)(a) to (c).

2. **<u>The measurement rules are:</u>**
   - The debts and assets of the CFC's group are determined under sections FE 8 to FE 11 and FE 18 as if the interest holder, if a company, were an excess debt outbound company.

3. **<u>Total group debt is</u>**:

   (a) <u>Total financial arrangements</u> entered into by the group members each of which:
      (i) Provides funds to a group member; and
      (ii) Gives rise to an amount for which a group member would have a deduction.

   [Section EX 20E(5)(a)]

   (b) <u>Fixed rate foreign equity</u> issued by a member of the group and held by:
      (i) A New Zealand resident company; or
      (ii) Another CFC; or
      (iii) A FIF for which the interest holder uses the AFI method (from 1/7/11: clause 19C(1) of the International Investment bill)

   [Section EX 20E(5)(b) as replaced by clause 19D of the International Investment bill]

   (c) <u>Equity interests</u> issued by a member of the group on which the member makes <u>deductible foreign equity distributions</u> to:
      (i) A New Zealand resident company; or
      (ii) Another CFC; or
      (iii) A FIF for which the interest holder uses the AFI method (from 1/7/11: clause 19C(1) of the International Investment bill).

   [Section EX 20E(5)(c) as replaced by clause 19D of the International Investment bill]

4. **<u>Total group assets</u>** is:
   - The total value, consolidated under generally accepted accounting practice for the accounting period, of the assets of the CFC's group.

CHART 5: FORMULAE FOR FRACTION CALCULATIONS

5[A]

Section EX 20C(10) Formula for calculating fraction:

$$\frac{\text{Attributable CFC's assets} - \text{group funding}}{\text{Total CFC's assets} - \text{group funding}}$$

1. Attributable CFC's assets is the total value of the CFC's assets to the extent to which each asset:
   (a) Is used for the purpose of deriving an attributable CFC amount; and
   (b) Is not used for the purpose of deriving an amount that is not an attributable CFC amount.
2. Total CFC's assets is:
   - The total value of the CFC's assets.
3. Group funding is:
   (a) If the interest holder is able to, and chooses to, use the formula for funding costs in section EX 20C(5)(b) - see Flowchart 1, Boxes 1[B] & 1[D] – group funding is determined under section EX 20C(6)(c) – see Flowchart 1, Boxes 1[D] & 1[A].
   (b) Otherwise, zero.

5[B]

Section EX 20D(10) Formula for calculating fraction:

$$\frac{\text{Attributable foreign company assets}}{\text{Total foreign company assets}}$$

1. Attributable foreign company assets is the total value of assets, consolidated under GAAP for the accounting period of all the interest holder's CFCs and all FIFs for which the interest holder uses the AFI method, to the extent to which each asset:
   (a) Is used for the purpose of deriving an attributable CFC amount or an amount included in net attributable FIF income or loss; and
   (b) Is not used for the purpose of deriving an amount other than an amount referred to in paragraph (a) above.
2. Total foreign company assets is the total value of assets consolidated under GAAP for the accounting period, of:
   (a) All the interest holder's CFCs; and
   (b) All FIFs for which the interest holder uses the AFI method.

[Section EX 20D as replaced by clause 19C(3) of the International Investment bill]

LATER LOSSES

(1) Introduction to section EZ 32(C)	**<u>When and how this section applies:</u>** 1. This is a temporary concession for investors in a CFC that applies to income years beginning on or after 1 July 2009 and before 1 July 2013 [Section 44(3) of the Taxation (Tax Administration and Remedial Matters) Act 2011] 2. Use of this provision is optional, but once it is used, it must continue to be used in every later income year. 3. It applies to CFC holding companies that debt-fund the capitalisation of subsidiaries. 4. It applies on a per-CFC basis. 5. It applies when both the following conditions are met: (a) An investor's taxable net foreign exchange gains from a CFC's loans exceed the CFC's net foreign exchange gains on those loans (because some deductions have been denied under the limited funding costs fractional deduction rule); and (b) Net gains from the CFC's loans (from the whole arrangements including currency movements) have been included in the investor's income. 6. The net gains and losses are calculated over a period that includes the current year and the preceding 4 years (providing they begin on or after 1 July 2009) – the period is referred to as "the offset period". 7. The CFC must have had exchange gains or losses from its loans in at least two periods within the offset period. The provision is only useful when an exchange loss has been ignored in one period, but a gain in another period has been taxed. 8. It works by allowing deductions for financial arrangement expenditure that would otherwise be denied under section EX 20C(2) because the item "fraction" in the formula in that section would be less than 1. 9. Deductions denied in the current period or in a prior period in the offset period can be reversed (i.e. deducted) by the amount by which the foreign exchange gains that are taxed exceed the total net foreign exchange gains. 10. The total reversal of denied deductions cannot exceed the total net gains (from the whole arrangements including exchange gains) from the CFC's arrangements that have been included in the investor's income. 11. If the investor has a net loss from the CFC as a result of reversing the denial of deductions, or an increased net loss, the net loss or the increased net loss can be carried back to an earlier year in the offset period. 12. The amount of the loss that may be carried back to a year must not exceed the lesser of: (a) The amount of net income in that year due to exchange gains on loans; or (b) The amount of net income in that year from the whole arrangements, including exchange gains.

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<td>(2) Requirements: section EZ 32C(1) & EZ 32C(9)</td>
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<u>Requirements to deduct and/or carry back excess taxable exchange gains:</u>

The CFC must not carry on the business of banking or insurance and must not be controlled by a bank or insurance company.
The CFC’s main activity must be borrowing to invest in another foreign company controlled by the CFC for the <u>offset period</u>, which is a period for which all the following requirements in section EZ 32C(9) are met:
(a) It is the CFC’s current accounting period or 1 of 4 accounting periods immediately before the current period; and
(b) It is an accounting period of the CFC that begins on or after 1 July 2009; and
(c) The CFC is resident under section YD 3 in the same country or territory for the entire <u>continuity period</u> which is the period that:
(i) Starts at the beginning of the accounting period (the chosen offset period); and
(ii) Ends at the end of the current accounting period (and includes all the intervening accounting periods); and
(d) For the entire continuity period a group of persons exists that has:
(i) Voting interests in the CFC of 49% or more in total; and
(ii) Market value interests of 49% or more in total.
The CFC is a party to <u>funding arrangements</u> which are financial arrangements each of which satisfy both the following conditions:
(a) The financial arrangement is a liability of the CFC and provides funds to the CFC; and
(b) When the financial arrangement was entered into, none of the following persons had a reasonable expectation that the CFC would have more income than expenditure under the financial arrangement:
(i) The parties to the financial arrangement;
(ii) The person required to attribute the CFC’s income; and
(iii) The associated persons.
Due to exchange rate changes, the CFC has a <u>loan currency amount</u> from a funding arrangement for the current accounting period (I.e. exchange gain or loss from a financial arrangement that is a ‘funding arrangement’).
The CFC has an exchange gain or loss (a <u>loan currency amount</u>) from a funding arrangement for an accounting period:
(a) Other than the current period; and
(b) In the offset period for the current period.
For either accounting period (i.e. the current period or the offset period) a <u>loan currency amount</u> is included in the calculation for the funding arrangement of expenditure that contributes to the item Limited Funding Costs in the Net Attributable CFC Income or Loss formula in section EX 20C(2) – see the separate PDF on Net Attributable CFC Income or Loss.
For the relevant accounting period (i.e. the period the loan currency amount is included), Limited Funding Costs are reduced because Fraction < 1 in the formula in section EX 20C(2) – see the separate PDF as above.
The person chooses in a return of income to have this section apply to the income year corresponding to the accounting period or has applied it in an earlier income year (in the latter case, there is no choice - it must be used).

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<td>(3) Included currency amount: sections EZ 32C(2) & (3)</td>
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<u>Calculation of included currency amount</u>

<u>Included currency amount</u> is the portion (specified as follows) of the exchange gain or loss included in each item (except the item ‘later losses’) of the formula for calculating Net Attributable CFC Income or Loss in section EX 20C(2), for a <u>funding arrangement</u> (i.e. a financial arrangement meeting the requirements in paragraph 3 in (2) above) having a <u>loan currency amount</u> (i.e. exchange gain or loss) for the <u>currency movement period</u> (i.e. an accounting period that is within the offset period).

The items in the formula in section EX 20C(2) <u>excluding later losses</u> are:
(a) Attributable CFC amount
(b) [Limited funding costs x Fraction]
(c) Other deductions.

<u>For each item:</u>

[Included currency amount] = [currency contribution] x [fraction] – [earlier adjustments]

1. The <u>currency contribution</u> is determined (i.e. the portion of the exchange gain or loss for a funding arrangement and an accounting period that is included in the calculation of the item).
2. A <u>fraction</u> is applied to the currency contribution, depending on the item in the formula that the currency contribution is included in:
(a) If the affected item is ‘attributable CFC’ the fraction is: 1.
(b) If the affected item is ‘limited funding costs’ the fraction is: the value of the fraction in the formula in section EX 20C(2).
(c) If the affected item is ‘other deductions’ the fraction is: the fraction (i.e. proportion) of the loan currency amount (i.e. exchange gain or loss) for a funding arrangement that is included in ‘other deductions’.
3. <u>Earlier adjustments</u> (treated as positive amounts), which are deducted are: the included currency amount adjustments made under section EZ 32C(7) in earlier periods in relation to the funding arrangement and the currency movement period.

<u>For example:</u>

A CFC holding company’s total exchange loss in a year, on a loan used to debt-fund a subsidiary, is $5 million (the ‘Loan Currency Amount’):
(i) 60% of the loan currency amount is included in ‘Limited Funding Costs’ and the Fraction is 0.2
(ii) The remaining 40% is included in ‘Other Deductions’

(a) For the item ‘Limited Funding Costs’:
(i) Currency contribution = ($5m x 60%) = $3m
(ii) Included currency amount = ($3m x 0.2) = $0.6m

(b) For the item ‘Other Deductions’:
(i) Currency contribution = ($5m x 40%) = $2m
(ii) Included currency amount = ($2m x 1) = $2m
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<td>(4) Reduction of included currency amount: sections EZ 32C(4) to (6)</td>
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<u>Adjustments downwards of included currency amounts</u>
These rules specify the circumstances in which a foreign exchange gain is reduced, and the limits to the amount of the reduction.
<u>Requirement to adjust downwards [section EZ 32C(4)]</u>
Included currency amounts that are zero or negative may be adjusted downwards (i.e. made negative or more negative) under section EZ 32C(7) if, for the offset period and the funding arrangements of the CFC:
(a) [Total included currency amounts] > [zero]; and
(b) [Total included currency amounts] > [total loan currency amounts].
<u>Limit to the downwards adjustment [sections EZ 32C(5) & (6)]</u>
The <u>total current adjustment</u> (i.e. the amount of the reduction) to be made under section EZ 32C(7) is limited to the <u>lowest of the following 3 amounts</u>:
1. Total included currency amounts for the offset period and the funding arrangements (i.e. total net exchange gain included in the calculation of the net attributable CFC amounts).
2. The amount by which total included currency amounts exceed total loan currency amounts for the offset period and the funding arrangements (i.e. the amount by which the total net exchange gain included in the calculation of the net attributable CFC amounts exceeds the actual total net exchange gain/(loss) from the funding arrangements).
3. The total of the <u>amounts brought to tax</u> for each financial arrangement - interest expenditure as well as exchange gains/(losses) - calculated using the following formula for each accounting period in the offset period and each funding arrangement:
[Loan contribution] x [fraction] – [earlier adjustments]
(a) The <u>loan contribution</u> is the amount included, for the funding arrangement and the accounting period, in the calculation of each item in the formula in section EX 20C(2) (other than later losses) – i.e. for each of: attributed CFC, funding costs and other deductions.
(b) A <u>fraction</u> is applied to the currency contribution, depending on the item in the formula that the loan contribution is included in:
(i) If the affected item is ‘attributable CFC’ the fraction is: 1.
(ii) If the affected item is ‘limited funding costs’ the fraction is: the value of the fraction in the formula in section EX 20C(2).
(iii) If the affected item is ‘other deductions’ the fraction is: the fraction (i.e. proportion) of the loan contribution from a funding arrangement that is included in ‘other deductions’.
(c) <u>Earlier adjustments</u> which are deducted are: the total amount of adjustments (treated as positive amounts) to the amount made under section EZ 32C(7) in earlier accounting periods (that are in the offset period) in relation to the funding arrangement and the accounting period.
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(5) Application rules for the total current adjustment: sections EZ 32C(7) & (8)	**Application rules for the adjustment of the included currency amount** The amount of the total current adjustment that is allowed (i.e. the lowest of the three amounts referred to **(3)** above) under section **EZ 32C(7)** is: (a) Applied: (i) First to the current period; and (ii) Then, in the order of earliest to latest, to the other accounting periods in the offset period. (b) Reduced, for each accounting period, by an amount corresponding to the total amount subtracted under paragraph (d) for the accounting period, with the result being the amount (the available current adjustment) available to be applied to the next accounting period: $\begin{bmatrix} \textit{Total current adjustment} \\ \textit{for the accounting period} \end{bmatrix} - \begin{bmatrix} \textit{Amount subtracted} \\ \textit{under paragraph}(d) \end{bmatrix} = \begin{bmatrix} \textit{Available current adjustment} \\ \textit{for the next accounting period} \end{bmatrix}$ (c) Applied for funding arrangements having, for an accounting period: (i) A negative loan currency amount that contributed an amount of expenditure to the item Limited Funding Costs in the formula in section EX 20C(2) (i.e. a foreign exchange loss that contributed to Limited Funding Costs); and (ii) An included currency amount that is negative or zero (i.e. either a foreign exchange loss or zero is included in the calculation of the net attributable CFC amount) and from which the loan currency amount can be obtained by subtracting a positive amount – referred to as the difference (i.e. the included foreign exchange loss is less than the actual foreign exchange loss): [*included currency amount*] - [*the difference*] = [*loan currency amount*] Note: There can be no adjustment if the included currency amount is positive – i.e. if a foreign exchange gain is the included currency amount. (d) Applied for each such funding arrangement, for the accounting period, by reducing the included currency amount by the following amount: $[\textit{difference} \times \dfrac{\textit{available}}{\textit{total differences}}]$ The items in the amount subtracted are explained as follows: Difference: is 'the difference' under paragraph (c) for the funding arrangement and the accounting period. Available: is the lesser of (i) Available current adjustment for the accounting period; and (ii) Total differences Total differences: is the total amount of differences for the accounting period.

(6) Some examples of the application rules

<u>Some examples of the application rules:</u>

<u>Example 1: No Difference</u>

In 2011 ABC Ltd has financial arrangement income of $100 from Loan 1:

Currency gain	$200
Interest expense	<u>($100)</u>
Total financial arrangement income	$100

The included currency amount of $200 is a foreign exchange gain, and is positive. Therefore, ABC Ltd has no <u>difference</u> for Loan 1 and there can be no adjustment for Loan 1,

<u>Example 2: Positive Difference</u>

In 2011 ABC Ltd has financial arrangement expenditure of $300 from Loan 2:

Currency loss	($200)
Interest expense	<u>($100)</u>
Total financial arrangement expenditure	($300)

Assume the item ‘Fraction’ in the formula for calculating Net Attributable CFC Income/(Loss) is zero – i.e. the Limited Funding Costs deducted is zero. Therefore, the included currency amount is zero – i.e. the currency loss on Loan 2 has not been deducted in the Net Attributable CFC Income/(Loss).

There is a positive difference of $200 – being the positive amount that must be subtracted from zero (which is the included currency amount), to obtain the actual currency loss on the loan of $200.

<u>Example 3: Calculating the Total Current Adjustment</u>

There is an available current adjustment in 2011 for Loan 2 of $200:

$$[\textit{difference of \$200} \ \times \ \frac{\textit{available of } \$200}{\textit{total differences of } \$200}]$$

This can be applied to Loan 2 in 2011 because for Loan 2 there is:

(i) A negative loan currency amount (exchange loss) of ($200); and

(ii) An included currency amount that is zero with a positive difference of $200.

However, the Total Current Adjustment for ABC Ltd for 2011 for both Loans 1 & 2 is the lowest of:

(a) The Total Included Currency Amounts:

(Gain of $200 from Loan 1) + (Zero from loan 2) = $200

(b) The amount by which the Total Included Currency Amounts (of $200) exceed the Total Loan Currency Amounts (of zero: the currency gain for Loan 1 of $200 plus the currency loss for Loan 2 of ($200)):

$200 - 0 = $200

(c) The total amounts brought to tax for the 2 Loans:

($100 income for Loan 1) + (Zero, due to no deduction for Loan 2) = $100

The Total Current Adjustment for ABC Ltd for 2011 is limited to $100, the lowest of the above.

(6) Examples (cont.)	**<u>Some examples of the application rules (continued)</u>** <u>Example 4: Applying the remaining 2011 Available Difference in a later year</u> In 2012 ABC Ltd again has financial arrangement income of $100 from Loan 1: Currency gain $200 Interest expense ($100) Total financial arrangement income $100 In 2012 ABC Ltd has financial arrangement income of $100 from Loan 2: Currency gain $200 Interest expense ($100) Total financial arrangement income $100 There is no available difference for either Loan in 2012 because the included currency amounts are positive for both loans. The Total Current Adjustment for ABC Ltd for 2012 for both Loans 1 & 2 is the lowest of: (a) The Total Included Currency Amounts for 2011 & 2012: (Loan 1: $400 Gain)+(Loan 2: $200 Gain)–(2011 Adjustment: $100)= $500 (b) The amount by which the Total Included Currency Amounts (of $500) exceed the Total Loan Currency Amounts (of $400: the currency gain for Loan 1 of $400 plus $0 for Loan 2, being the loss of $200 in 2011 and the gain of $200 in 2012): $500 - $400 = $100 (c) The total amounts brought to tax for the 2 Loans over 2011 & 2012: ($200 income for Loan 1) + ($100 for Loan 2) = $300 The Total Current Adjustment for ABC Ltd for 2012 is limited to $100, the lowest of the above. There is nothing to apply this to in 2012 because the currency movements for both loans 1 & 2 are positive. However, the remaining difference of $100 calculated as follows is available in 2011. $$\left[\textit{difference (= \$200)} \text{ x } \frac{\textit{available}(=\$100)}{\textit{total differences}(=\$200)}\right]$$ The 2012 Total Current Adjustment of $100 may be applied to Loan 2 in 2011 – i.e. the denial of the exchange loss deduction in 2011 for Loan 2 is reversed to the extent that there has been exchange gain that is taxed in 2012.

(7) Inclusion in 'Later Losses' in the formula in section EX 20C(2): section EZ 32C(10)	**<u>Including the adjustment in 'Later Losses': section EZ 32C(10)</u>** The amount of an adjustment under section EZ 32C(7) for a CFC's funding arrangement and an accounting period is included in the item 'Later Losses', in the formula in section EX 20C(2), for the funding arrangement and the accounting period. In <u>Example 4</u> above, the 2102 Total Current Adjustment of $100 that is applied in 2011 will result in a 'Later Losses' deduction in the calculation of Net Attributable CFC Income/(Loss) for 2012. The result will be: (a) A reduction in Net Attributable CFC Income in 2012; or (b) An amount of Net Attributable CFC Loss in 2012; or (c) An increased amount of Net Attributable CFC Loss in 2012. If paragraphs (b) or (c) above apply, the net loss or increase in net loss may be carried back to an earlier income year in the offset period – see **(9)** below.
(8) The adjustment is expenditure for the purposes of the base price adjustment formula: section EZ 32C(11)	**<u>The adjustment must be included as expenditure in the BPA</u>** For the purposes of section EW 31 (Base price adjustment formula), the amount of an adjustment under section EZ 32C(7) for a CFC's funding arrangement and an accounting period is expenditure incurred by the CFC under the funding arrangement in the accounting period to the extent that the included currency amount corresponding to the adjustment is not, in the absence of section EZ 32C(11), included in expenditure incurred under the funding arrangement in the accounting period.
(9) Carrying back losses from adjustments: sections EZ 32C(12) to EZ 32C(14)	**<u>Carrying back loss amounts arising from adjustments</u>** If adjustments for a CFC under section EZ 32C(7) for an accounting period result in a net loss, or an increase in the net loss, of the person for the corresponding income year, the person: (a) May carry back to an earlier income year in the offset period, the net loss, or increase in the net loss, to the extent that it <u>does not exceed the lesser of the following two amounts</u> calculated for the earlier year in the absence of adjustments under section EZ 32C(7) or offsets under section EZ 32C(12): (i) The net income, or increase in net income, of the person for the earlier income year, produced by including foreign currency amounts (exchange gains and losses) in the calculation of Net Attributable CFC Income/(Loss) from CFCs; or (ii) The net income, or increase in net income, of the person for the earlier income year, produced by including Net Attributable CFC Income/(Loss) from funding arrangements of CFCs. (b) May, under section DZ 19 treat the loss carried back as being an attributed CFC loss from the CFC in the earlier income year. (c) May use the net loss, or increase in the net loss that is carried back to offset net income in the earlier income year, to the extent that earlier net income has not been previously offset under section EZ 32C(12). (d) May claim a refund of any overpaid tax for the earlier income year, but use-of-money-interest will not be paid on the overpaid tax.