

DETERMINATION > FOREIGN CURRENCY APPROVAL

Foreign exchange rates

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This Approval approves foreign exchange rate sources that may be used by any person who is required to convert a foreign currency amount into New Zealand Dollars (NZD) for the purpose of determining their tax liability. This Approval also approves the use of mid-month, end-of-month and rolling average currency conversion methods, where appropriate. These sources and methods may be applied unless the Income Tax Act 2007 or the Commissioner states otherwise. In addition, this Approval explains how foreign exchange rates should be used to convert foreign currency amounts to NZD.

All legislative references are to the Income Tax Act 2007 (the Act) unless otherwise stated.

Contents

Summary	2
Conditions for using this Approval	3
When the Approval applies.....	3
Obtaining a daily rate	3
Level of accuracy required.....	4
Records you must keep	4
Choosing your own rate sources and methods	4
Approval of foreign exchange rate sources.....	4
Approval of mid-month, end-of-month and rolling average rates.....	5
Currency conversion calculations	7
Finding the mid-rate	8
Base currency	8
New Zealand Dollar as the base currency.....	8
Foreign currency as the base currency	9
Finding a rate where the New Zealand dollar is not quoted.....	10
Foreign exchange transactions involving cryptoassets.....	11
GST and currency conversions.....	12
References.....	12

Summary

1. The Act requires foreign currency amounts to be converted to NZD to calculate a taxpayer's New Zealand income tax liability.
2. In some cases, the Act prescribes a currency conversion method or a foreign exchange rate source to use, but in most cases it does not. Where the Act does not prescribe a currency conversion method or a foreign exchange rate source, the default method is to use the "close of trading spot exchange rate" on the date the amount is required to be measured or calculated (s YF 1(2)).¹ However, the Commissioner can also approve other rates and methods to help minimise compliance costs (s YF 1(5)).²
3. The Commissioner publishes foreign currency exchange rates for certain currencies on the Inland Revenue website at <https://www.ird.govt.nz/managing-my-tax/overseas-currency-conversion-to-nz-dollars>. The Commissioner publishes mid-month, end-of-month and rolling average rates for each currency. From 1 May 2021, the Commissioner changed the source from which she obtains the rates to the Reserve Bank of New Zealand. As a result, the number of rates published has decreased.
4. This Approval approves three foreign currency exchange rate sources.
 - Rates published by the Commissioner.
 - Rates published by the Reserve Bank of New Zealand.
 - Rates published by another country's central bank.
5. This Approval also approves three currency conversion methods.
 - The mid-month rate.
 - The end-of-month rate.
 - The rolling average rate.
6. The currency conversion methods listed at [5] must use the rates published in, or calculated from, the sources listed at [4].
7. This Approval does not apply where the Act or the Commissioner prescribe a source, method or rate for a particular transaction or arrangement.

¹ "Close of trading spot exchange rate" is defined in s YA 1 and adopts some of the foreign exchange rate sources and currency conversion methods set out in [Determination G6D](#). [Determination G6D](#) provides foreign exchange rate sources and methods for the financial arrangement rules.

² See for example, FX 20/01 Approval - foreign residential rental property amounts - currency conversion, *Tax Information Bulletin* Vol 32, No 7 (August 2020): 28. The Commissioner can also approve specific foreign exchange rate sources and currency conversion methods for use by a particular person (s YF 1(6)).

8. You are not required to use the foreign exchange rates from the sources approved in this Approval. However, if you use a rate that is not from one of these sources (and you are not required to use a prescribed method or rate), you will need to ensure that the exchange rate you use is appropriate given the nature of your transaction. You must also keep sufficient records in case you later need to verify the exchange rates used.
9. Finally, this Approval provides guidance on cryptoassets and GST, and examples on how a foreign currency exchange rate should be used to convert foreign currency amounts to NZD.

Conditions for using this Approval

When the Approval applies

10. This Approval applies where a person is required to convert a foreign currency amount into NZD for the purpose of calculating their income tax liability.
11. This Approval **does not apply** where the Act or the Commissioner prescribe a source, currency conversion method or rate for a particular transaction or arrangement. For example, you must use the specified currency conversion methods and exchange rate sources for the financial arrangement rules, the foreign investment fund rules, and the controlled foreign company rules. Similarly, the Goods and Services Tax Act 1985 (the GST Act) generally prescribes that the consideration for a supply should be converted to NZD at the time of supply.

Obtaining a daily rate

12. If you need a rate for a particular day, but a rate is not quoted for that day in the foreign exchange rate source you are using (for example, because it is a weekend or a holiday), you may use the daily rate for the preceding day on which a daily rate was quoted.
13. Similarly, the Commissioner will take a practical approach where the foreign exchange rate source is situated in a different time zone from New Zealand. A daily rate quoted in the source time zone could arise on a different date based on New Zealand time. These timing mismatches can be disregarded, and a practical approach taken, when selecting a rate.

Level of accuracy required

14. Exchange rates are typically quoted to four decimal places. This level of accuracy is required for rates you have sourced and for your mid-rate, cross rate, or rolling average rate calculations. If you need to round your figures, round to the nearest 4th decimal place.

Records you must keep

15. You must keep sufficient records of the exchange rates you use including source, type and date of rate. You must also keep a record of any calculations you undertake (for example, if you calculate a rolling average or a cross rate). As noted at [18], if you change your foreign exchange rate source you should record the reasons for the change.

Choosing your own rate sources and methods

16. Subject to [11], you are free to choose your own rates and methods when converting foreign amounts to NZD. You may continue to use exchange rates from other sources for reasons such as established practices, integration with accounting software or to reduce compliance costs.
17. However, if you use a different foreign exchange rate source you must ensure that the rate you use is appropriate given the nature of your transaction. For example, it is not appropriate to use cash or foreign cheque rates.
18. Further, you should use exchange rates consistently, both in terms of using the same source of rates for converting all your foreign currency amounts, and in doing this consistently over time. If this is not possible (for example, if you change your exchange rate source provider or you change accounting software with in-built exchange rates), you can use a different source without notifying the Commissioner. However, you must keep a record of the change and the reasons for it.

Approval of foreign exchange rate sources

19. The Commissioner approves all the following foreign exchange rate sources under s YF 1(5) for converting foreign currency amounts to NZD, subject to the conditions at [11].

- Foreign exchange rates published on the Inland Revenue website at <https://www.ird.govt.nz/managing-my-tax/overseas-currency-conversion-to-nz-dollars>.
- Foreign exchange rates published by the Reserve Bank of New Zealand
- Foreign exchange rates published by another country's central bank.³

Approval of mid-month, end-of-month and rolling average rates

20. Daily rates published by Inland Revenue, the Reserve Bank of New Zealand or another country's central bank (as approved at [19]) can be used where you need a rate for a particular day.
21. The Commissioner also approves the following currency conversion methods under s YF 1(5) for converting foreign currency amounts to NZD, subject to the conditions at [11].
 - The mid-month rate.
 - The end-of-month rate.
 - The rolling average rate.
22. These currency conversion methods are approved where their use would be appropriate for the transactions being converted to NZD. The Commissioner considers that where there is a large volume of repeated transactions, it will generally be appropriate to use a rolling average rate to reduce the compliance costs of making daily conversions. Where foreign income is derived and foreign expenditure is incurred regularly throughout a period, using mid-month, end-of-month or rolling average rates is likely to be appropriate. However, significant and one-off transactions should be converted at a daily rate, as shown in *Example 1*.

Example 1: Appropriate rates

Villem, a New Zealand tax resident, has an export/import business to and from Estonia. Estonia uses the Euro currency.

³ Although central bank rates are approved, for some countries the central bank rates might not accurately reflect the actual value of the foreign currency or might only be relevant for transactions with the government of that country. In those situations, a more appropriate rate should be used.

In the 2021 income year, Villem purchased a warehouse property in Estonia to use in his business. Settlement of the purchase was on 2 February 2021.

In preparing Villem's income tax return for the year, Villem's accountant determines that because of the volume of regular income and expenditure amounts arising from the business each month, it is appropriate to use the end-of-month rates published by Inland Revenue to convert the foreign currency amounts to NZD. This reduces the compliance costs of converting each transaction at the daily rate.

However, Villem's accountant considers that as the purchase price of the warehouse sets the capital cost of the warehouse for ongoing depreciation purposes, it should be converted to NZD using the exchange rate published by the Reserve Bank for 2 February 2021.

Villem pays tax in Estonia twice a year and is eligible to claim foreign tax credits. Villem's accountant considers that because of the low volume of this type of transaction, it is also appropriate to convert these amounts using a daily rate (on the date that the tax was paid).

23. If your foreign exchange rate source does not publish the monthly and rolling average rates, these can be obtained as follows:
- **Mid-month rate:** This is the exchange rate on the 15th day of the month, or if no exchange rates were quoted on that day, on the preceding working day on which they were quoted.
 - **End-of-month rate:** This is the exchange rate for the last day of the month, or if no exchange rates were quoted on that day, on the preceding working day on which they were quoted.
 - **Rolling average rate:** This is the average of the mid-month exchange rate for the relevant month and the previous months in the relevant period. For example, a rolling 12-month average would be the mid-month exchange rate for the relevant month and the previous 11 months. The rolling average rate is calculated by adding together the mid-month rates for all the months in the period, and then dividing by the total number of months in the period. This calculation is illustrated in *Example 2*.

Example 2: Rolling average rates

Jamie needs to find the rolling 12-month average rate for the Samoan tala (SAT⁴) for April 2021 because Inland Revenue no longer publishes it.

She goes to the Central Bank of Samoa website and downloads the Historical Daily Rates schedule. From that schedule she identifies the mid-month SAT/NZD exchange rate for April 2021 and the preceding 11 months, as follows:

Month	Rate (for 1SAT)
April 2021	0.5533
March 2021	0.5516
February 2021	0.5502
January 2021	0.5492
December 2020	0.5532
November 2020	0.5619
October 2020	0.5718
September 2020	0.5709
August 2020	0.5786
July 2020	0.5770
June 2020	0.5802
May 2020	0.6034
Total	6.8013

To calculate the rolling average rate for April 2021, Jamie adds together the rates for April 2021 and the preceding 11 months and then divides the total by 12 ($6.8013 \div 12$).

This gives a rolling 12-month average rate for April 2021 of 1SAT = 0.5668NZD. (Note this exchange rate is expressed with the Samoan Tala as the base currency. See from [27] about the two different ways exchange rates can be expressed.)

Currency conversion calculations

24. The following discussion explains how foreign exchange rates should be used to convert foreign currency amounts to NZD.

⁴ Some publications use the abbreviation WST, which reflects the country's earlier name of Western Samoa (used up to 1997).

Finding the mid-rate

25. The Inland Revenue website quotes only one rate per currency, but other foreign exchange rate sources may quote two rates. These rates are:
- a **Bid Rate** or **Buy Rate**, which is the exchange rate at which the service provider is willing to purchase the foreign currency; and
 - an **Offer Rate** or **Sell Rate**, which is the exchange rate at which the service provider is willing to sell the foreign currency.
26. Where a source quotes two rates, you need to calculate the mid-rate by adding the two rates together and then dividing that number by two. You then use the mid-rate in your currency conversion calculations.

Base currency

27. Foreign exchange rates are expressed with one currency as the base currency. The way the foreign exchange rate is expressed affects how you convert the foreign currency amount to NZD.

New Zealand Dollar as the base currency

28. Exchange rates can be quoted with the NZD as the base currency. This is the way Inland Revenue expresses its rates. It means the exchange rate is expressed based on the amount of foreign currency that it would take to purchase one NZD. For example, on 31 March 2021, the Reserve Bank of New Zealand was quoting:
- NZD/USD (United States Dollar) foreign exchange rate as $1\text{NZD} = 0.6989\text{USD}$.
 - NZD/AUD (Australian Dollar) foreign exchange rate as $1\text{NZD} = 0.9182\text{AUD}$.
29. Where the exchange rate is quoted in this way with NZD as the base currency, you need to divide the foreign currency amount by the exchange rate to calculate the NZD equivalent of the foreign currency amount. This is illustrated in *Example 3*.

Example 3: Converting a United States dollar amount with the New Zealand dollar as the base currency

On 1 April 2021, Madison enters into an USD100,000 term investment for one year with a United States bank. Madison needs to calculate the NZD opening balance amount of her investment.

Madison goes to the Reserve Bank of New Zealand's website www.rbnz.govt.nz, selects "Statistics", "B1 Exchange rates and TWI" and downloads the spreadsheet "Exchange rates and TWI – B1 Daily (2018-current)". In column C of that spreadsheet, Madison identifies the NZD/USD exchange rate of 0.6981 for 1 April 2021.

The exchange rate is quoted with the NZD as the base currency (that is, it will take 1NZD to purchase 0.6981USD). Therefore, Madison must divide the opening balance by the exchange rate. Madison's opening balance in NZD is calculated as:

$$\begin{aligned}\text{Opening balance} &= \text{USD}100,000/0.6981 \\ &= \text{NZD}143,245.95\end{aligned}$$

Foreign currency as the base currency

30. Alternatively, exchange rates can be quoted with the foreign currency as the base currency. This means the exchange rates are expressed based on the amount of NZD it takes to purchase one unit of a foreign currency. This is likely to be the case on other central bank webpages where the local currency is expressed as the base currency. For example, on 31 March 2021 the Reserve Bank of Australia quoted the AUD/NZD exchange rate as 1AUD = 1.0893NZD.
31. Where the exchange rate is quoted in this way with the foreign currency as the base currency, you need to multiply the foreign currency amount by the relevant exchange rate to calculate the NZD equivalent of the foreign currency amount. This is illustrated in *Example 4*.

Example 4: Converting an Australian dollar amount with the Australian dollar as the base currency

On 1 April 2021, Jarli enters into an AUD100,000 term investment for one year with an Australian bank. Jarli needs to calculate the NZD opening balance amount of his investment.

Because Jarli has previously used rates from the Reserve Bank of Australia for amounts he has needed to convert to NZD, he continues to use that bank's website: www.rba.gov.au. He selects "Statistics", then "Exchange Rates", and then scrolls down to "Historical Data" and downloads the spreadsheet

“Exchange rates – Daily – 2018 to Current”. He identifies in column L of that spreadsheet an AUD/NZD exchange rate of 1.0849 for 1 April 2021.

Jarli notes that the AUD/NZD exchange rate is quoted with the AUD as the base currency. Therefore, Jarli must multiply the opening balance by the exchange rate. Jarli’s opening balance in NZD is calculated as follows:

$$\begin{aligned}\text{Opening balance} &= \text{AUD}100,000 \times 1.0849 \\ &= \text{NZD}108,490\end{aligned}$$

Finding a rate where the New Zealand dollar is not quoted

32. For some currencies, a rate may not be quoted where the foreign currency is expressed against the NZD. In that case, you need to manually calculate the exchange rate for that currency against the NZD by using a third currency. The USD is usually used for this purpose. This is referred to as a cross-rate. The method for calculating the NZD exchange rate is as follows:
- **Step 1:** Determine the NZD/USD exchange rate.
 - **Step 2:** Determine the exchange rate for the foreign currency against the USD.
 - **Step 3:** Use the two rates expressed against the USD to calculate the NZD rate against the foreign currency. The method for doing this will depend on whether the USD/foreign currency rate is expressed with the USD or the foreign currency as the base currency.
33. You should use this method only when no rate is quoted for the foreign currency in NZD. Most of New Zealand’s main trading partners quote a NZD exchange rate. Where that is not the case, the USD is usually expressed as the base currency.
34. Where the foreign currency is expressed against the USD with the USD as the base currency, you need to multiply this rate by the NZD/USD exchange rate on the same day (expressed with the NZD as the base currency) to determine the exchange rate against the NZD for that currency. *Example 5* and *Example 6* show how to calculate the exchange rate in these circumstances.

Example 5: Calculating a New Zealand dollar cross rate with USD as the base currency

On 31 May 2021, Yasmin needed to calculate the NZD amount of income she had received in Nigerian naira (NGN). She went to the Central Bank of Nigeria

website, but could not find an NGN exchange rate expressed against the NZD. However, the NGN was expressed against the USD as $409.50\text{NGN}=1\text{USD}$ as at 31 May 2021.

As the NGN/USD rate was expressed with the USD as the base currency, Yasmin multiplied this rate against the NZD/USD foreign exchange rate of 0.7252 as at 31 May 2021 (note this rate is expressed with the NZD as the base currency). This calculation gave her a NZD/NGN exchange rate as at 31 May 2021 of $1\text{NZD}=296.97\text{NGN}$ ($409.50/0.7252$).

Example 6: Calculating a New Zealand dollar cross rate with USD as the base currency

On 30 June 2021, Claudio needed to calculate the NZD equivalent amount of expenditure he had incurred on a business transaction in Chile. Claudio went to the website of a US bank that he deals with, but he could not find an exchange rate showing the Chilean Peso (CLP) expressed against the NZD. However, he found the exchange rate of the Chilean Peso against the USD and the exchange rate of the USD against the NZD on that date. The rates were $735.28\text{CLP}=1\text{USD}$ and $1\text{USD}=1.4323\text{NZD}$.

As both the CLP/USD and the USD/NZD rates were expressed with the USD as the base currency, Claudio divided the CLP/USD rate by the USD/NZ rate. This calculation gave him a CLP/NZ cross rate of $513.3561\text{CLP}=1\text{NZD}$ ($735.28/1.4323$).

Foreign exchange transactions involving cryptoassets

35. Cryptoassets are considered a form of property, rather than money. Therefore, foreign exchange transactions involving cryptoassets may require a two-step calculation. First, you may need to obtain a market value for the cryptoasset. On many exchanges, the market value is expressed in USD. Second, if the market value you have obtained is in USD or another foreign currency, you need to calculate the value in NZD. You may use the foreign exchange rate sources and methods in this Approval unless [11] applies to your transaction.
36. Some cryptoasset exchanges publish the value of cryptoassets in a choice of different currencies. To rely on these built-in currency conversions, you need to ensure the rates used by the exchange are appropriate for your transaction.

GST and currency conversions

37. You may need to convert foreign currency amounts to NZD for GST purposes. Section 77 of the Goods and Services Tax Act 1985 (the GST Act) requires that all amounts of money must be expressed in NZD. Where an amount is consideration in money for a supply, the conversion to NZD must generally be performed at the time of supply (s 77(1)). This means the foreign currency amounts must be converted using daily rates. Monthly and rolling average rates cannot be used.
38. Specific rules in s 77(2) to (5) of the GST Act apply to non-resident suppliers of distantly taxable goods or remote services. These suppliers can elect to express foreign currency amounts in NZD at a choice of dates set out in s 77(3). For example, a non-resident supplier of distantly taxable goods can choose to convert foreign currency amounts into NZD on the last day of the relevant GST taxable period.
39. While the monthly and rolling average rates cannot be used for GST purposes, the daily rates from the foreign exchange rate sources approved at [19] may be appropriate for GST purposes.

References

Legislative references

Income Tax Act 2007, ss YA 1, YF 1(2), YF 1(5), YF 1(6)

Goods and Services Tax Act 1985, s 77

Other references

Determination G6D: Foreign currency rates (Inland Revenue, 1991).

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FX 20/01: Approval – foreign residential rental property amounts – currency conversion, *Tax Information Bulletin* Vol 32, No 7 (August 2020): 28.

www.taxtechnical.ird.govt.nz/determinations/foreign-currency/foreign-residential-rental-properties/fx-20-01

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