



30 June asset valuation guidelines

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How do trustees go about determining market values?

Each year, in its financial statements, an SMSF must value its assets at market value. Some of these values may be easy to obtain, such as listed company shares and bank account balances. However, with certain types of assets such as real estate, market value may not be that obvious and a valuation may be required from an appropriately qualified person, such as an independent registered valuer or real estate agent.

The following guide provides an outline of what is required to help in valuing fund investments where market values are not readily available.

Platform assets

In addition to providing the year end portfolio reports for investments held on a platform/portfolio, you may also be asked to provide a GS007 or 'internal controls audit report' by the Auditor. This independent auditor's report is necessary if the auditor is to rely on the information and market values provided in the portfolio reports. In the event no GS007 report is available and shareholdings cannot be verified by other means, the Auditor may need to qualify the report to disclaim that they cannot guarantee the accuracy of the reports they are relying on.

Real estate valuations

Real estate needs to be valued at market value every year at 30 June, but this does not necessarily mean that the trustees must obtain a formal external valuation each year.

Generally, evidence of the market value of a property must be provided relating to a period within 3 months either side of 30 June of the relevant year. Even if Trustees believe there has been no change in market value from the prior year, there must be evidence provided to substantiate that opinion.

An external valuation would be prudent if an event has occurred that has affected the value of the property, such as a renovation, extension or rezoning. External events such as COVID-19 or substantial movement in local property market trends can also affect the need for an external valuation.

Valuation of real estate can be undertaken by anyone as long as it is based on objective and supportable data. The following would generally be considered adequate audit evidence in order of reliability:

- Formal valuation from a qualified and independent valuer (required for commercial properties leased to related parties)
- Real estate agent valuation (appraisal letter) with comparable sales data or other justification of the valuation figure
- Medium-high confidence valuations from online real estate services, provided they include comparable data for sales of similar properties
- Valuation from trustees (with evidence of market valuation such as recent sales or online valuations)
- A contract of purchase, where the purchase is close to 30 June and there have been no events that would materially affect the value since purchase
- A contract of sale, where the sale is close to 30 June, to an unrelated person, and there have been no events that would materially affect the value since sale

The following would NOT be considered adequate audit evidence:

- Valuation from the trustees (with no supporting evidence of market valuation)
- Real estate agent appraisal letter that doesn't provide comparable sales data or other justification of the valuation figure

Commercial and unique residential properties can be difficult to value without a formal valuation, which are often costly to obtain. SMSF Auditors are usually prepared to work with Trustees to determine an acceptable value for properties where a formal valuation was provided in the two last financial years. In these situations other factors such as rental yield for unrelated commercial properties, comparable sales or trend data analysis for residential properties can be factored in.

The SMSF auditor may request an independent valuation of the real estate where they do not feel the information provided is sufficient evidence.

If the fund owns residential or commercial real estate, the auditor will also assess if the rental income received by the fund is paid on commercial terms. Audit evidence that would be considered satisfactory:

- Lease agreement organised via a real estate agent or other written lease agreement covering the lease of the property during the year
- Rental statements from a real estate agent covering the lease of the property during the year
- Rental appraisal by an independent real estate agent (for related party transactions)
- Supporting evidence and an explanation from the trustees if no rental income was received during the year

Unlisted trusts and companies

It can sometimes be tricky to obtain reliable audit evidence to support the value of unlisted investments. The company or trust may not be required to value their assets at market value and trustees must consider the value of the assets held by the entity. For example, where the trust or company holds property, any value should be based on the guidelines for real estate outlined above.

Another consideration is that unlisted entities may not be required to get their financial statements independently audited, which make them less reliable from an audit perspective.

The following would generally be considered adequate audit evidence:

- Audited financial statements of the entity
- Financial statements of the entity, with evidence that underlying assets are valued at market value
- Independent valuation of the underlying assets of the entity
- A share/unit price based on recent sales or purchases to a third party, generally within 3 months either side of 30 June in the relevant year

The following would NOT be considered adequate audit evidence:

- Written confirmation from a director of the entity
- Unaudited financial statements of the entity with no evidence of the market value of the underlying assets
- Valuation from the trustees for the underlying asset of the unlisted investment

Loans to related and non-related parties

When a fund makes a loan to another entity or individual (who is not a fund member or relative of the member), the loan agreement will specify the terms and conditions of the loan, including whether the loan is secured or unsecured. Generally, the auditor will also require information regarding the borrower such as their business activities and the purpose of the loan. The market value of a loan is determined by its recoverability which could be:

- Evidence of repayment of the loan (if applicable)
- Details on the financial position of the borrower confirming their ability to repay (e.g. net asset position, sources of cash)
- Details and value of security held as collateral for the loan (if applicable)

The following would NOT be considered adequate audit evidence:

- Statement by the trustees assessing recoverability
- Statement by the borrower assessing recoverability

In addition, the loan agreement and evidence of interest repayments substantiates that the loan exists. However, it does not provide sufficient and appropriate evidence of valuation and recoverability of the loan or the borrower's financial position to repay the loan to the SMSF. It is important that the loan is repaid on commercial terms to show it is an arms-length transaction.

Business assets

Business assets cover items such as equipment, machinery and licenses. Similar to real estate, they must be valued at market value each year at 30 June, but it is not compulsory for the trustees to obtain a formal external valuation. A recent valuation is prudent if an event has occurred that has affected the value of the asset. Trustees also need to consider depreciation of the asset. For certain business assets the ATO provides guidelines on a depreciation rate to be used for taxation purposes. This may be accepted by the auditor where the value of the asset is considered appropriate. Trustees may organise a formal valuation of the business asset from a:

- Registered valuer
- Professional valuation service provider
- Member of a recognised professional valuation body
- Person without formal valuation qualifications but who has specific experience of knowledge in a particular area

The following would NOT be considered adequate audit evidence:

- Valuation from the trustees (with no supporting evidence of market valuation)

Collectables and personal use assets

Collectable and personal use assets cover items such as artwork, memorabilia, wine and vintage cars. Metals such as gold and silver are only considered collectable items if their value exceeds the value of the metal based on its weight. When a precious metal is not considered a collectible item, the value is determined by its spot price.

In most cases collectables and personal use assets must be valued by a qualified independent valuer. The valuer should generally be a current member of a relevant professional body or trade association.

What if assets are not recorded at market value in the fund's annual financial statements?

A check is made by the fund's auditor as to whether the annual financial statements have investments shown at market value based on objective and supportable evidence.

If assets are not valued at market value, delays can occur in lodging the fund's tax return and lack of adequate information can result in a qualified audit opinion. A Part A qualification can be issued where the auditors aren't satisfied they have sufficient evidence of market value to ascertain the accounts are free from material misstatement. The use of Part A qualifications has increased as Auditors are under scrutiny to communicate their inability to confirm aspects of financial statements are compliant but are rarely followed up on by the ATO. Part B qualifications can be issued where the Auditor has sufficient evidence that an asset is not valued at market value and is materially misstated. Where possible, Auditors will give Trustees the opportunity to correct their market values prior to reporting Part B qualifications and possibly contravention reports.

Any qualified opinion will be reported by the auditor to the ATO. The ATO takes a risk-based approach to any qualifications and contravention reports, and Trustees should take action where possible to rectify the issues raised by the qualification as soon as possible.

Where no effort has been made record assets at market value in the fund's financial accounts, a fine of 10 penalty units (currently \$2,750) per trustee can be imposed.

Where can I get more information?

The ATO provides guidelines on their website to assist SMSF trustees when valuing assets for superannuation purposes. If trustees follow the ATO's guidelines they will accept the valuation provided by the trustees, as a general rule.

Market value is important for all SMSFs

Ensuring investments of an SMSF are valued appropriately is important to comply with the superannuation law and avoiding penalties. Appropriate valuations can be used to determine:

- Accurate member balances
- The minimum and maximum amount of the pensions a member should be drawing from the fund
- A member's non-concessional contribution cap
- Eligibility to receive government co-contributions
- Eligibility for a tax offset where contributions are made for a spouse
- Whether a member will have access to the new catch-up concessional contribution cap
- The value of a pension commenced on or after 1/7/2017 for Transfer Balance Cap purposes

Further information



CALL
1300 023 170



EMAIL
enquiries@superconcepts.com.au



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