SMSF Association valuation guidelines for SMSFs

Since the 2012–13 income year, SMSFs have been required to use market value reporting for their financial accounts and statements.
The current valuation guidelines apply as per normal for CGT Relief and valuations for the Transfer Balance Cap and Total Superannuation Balance.

A valuation of assets is required to confirm your SMSF has complied with relevant super law for:	
Preparing the SMSF financial accounts and statements	An asset must be valued at its market value. The valuation should be based on objective and supportable data.
Collectables and personal use assets – acquired on or after 1 July 2011 Transfer or sale to a related party	Must be made at a market price determined by a qualified independent valuer.
Collectables and personal use assets – acquired before 1 July 2011 Transfer or sale to a related party	For the period 1 July 2011 to 30 June 2016 transfers to related parties do not require valuation by a qualified independent valuer. However, these transfers should be made at an arm's length price that is based on objective and supportable data. From 1 July 2016 transfers to related party must be made at a market price determined by a qualified independent valuer.
Transfers between SMSFs and related parties (subject to collectables and personal use asset rules above)	Acquisitions of permitted assets must be made at market value. A valuation is not required when an asset is disposed of to a related party however it must occur on an arm's length basis.
Transfers between SMSFs and unrelated parties	A valuation is not required however the transfer must occur on an arm's length basis.
Determining the value of assets that support a super pension This includes for calculating amounts that count towards the transfer balance cap	The market value of the account balance needs to be determined on the commencement day of the pension or, for ongoing pensions, on 1 July of the financial year in which the pension is paid. The valuation should be based on objective and supportable data.
Testing whether the market value of the SMSF's in-house assets exceed 5% of the value of total assets held by the fund	The value of a fund's total assets needs to be determined on 30 June of the financial year that the in-house assets are held. The valuation should be based on objective and supportable data.
Determining the market value of assets that are eligible for transitional CGT relief in the 2016–17 income year	The assets' market values need to be determined on the date that their cost bases are reset. The valuation should be based on objective and supportable data.
Determining the market value of assets supporting members' retirement phase and accumulation accounts for the purposes of calculating the members' total superannuation balances	The value of these accounts needs to be determined on 30 June each financial year, as the total superannuation balance is calculated at this time for a number of purposes. The valuation should be based on objective and supportable data.

General valuation principles

Generally, a valuation can be undertaken by anyone as long as it is based on objective and supportable data. You must be able to demonstrate that the valuation has been arrived at using a 'fair and reasonable' process.

Generally, a valuation is considered fair and reasonable where it meets all the following:

- It takes into account all relevant factors and considerations likely to affect the value of the asset.
- It has been undertaken in good faith.
- It uses a rational and reasoned process.
- It is capable of explanation to a third party.

When to undertake an external valuation for financial report purposes

The ATO expects trustees to consider the value of the assets in their fund each year. This does not mean that an external valuation for all assets is needed each year. For example, assets such as real property may not need an annual valuation unless a significant event occurred that may change its value since it was last valued.

Qualified independent valuer

You should consider the use of a qualified independent valuer if either the:

- Value of the asset represents a significant proportion of the fund's value.
- Nature of the asset indicates that the valuation is likely to be complex or difficult.

The ATO will be looking closely at situations where it appears that circumstances have been engineered to achieve a particular total super balance, transfer balance or to gain access to CGT Relief

Specific requirements for asset classes	
Listed securities	Use the closing price on each listed security's approved stock exchange.
Real property	A recent valuation however would be prudent if you expect that the valuation is now materially inaccurate or an event occurred that may have affected the value of the property since it was last valued. This may be due to a change in market conditions or a natural disaster.
	When valuing real property, relevant factors and considerations may include: ▪ the value of similar properties ▪ the amount that was paid for the property in an arm's length market ▪ independent appraisals ▪ whether the property has undergone improvements since it was last valued ▪ for commercial properties, net income yields.
Unlisted securities and unit trusts	When valuing unlisted securities and trusts, relevant factors and considerations may include: ▪ value of the assets in the entity - a potential method being the net asset value (NAV) reflected for market values of assets ▪ current valuation of large assets held in unlisted trusts and securities such as property can be attained to gain more objective and supportable data ▪ any valuation and distribution statements which supply objective information ▪ consideration paid on acquisition of the unlisted securities or units. In a practical sense, where there have been recent purchases or sales in the unlisted security it may be possible to use the price of that transaction to derive the market value of the investment.
Investments without a ready market	It is expected that you would be aware of the value of an asset at the time of acquisition, its potential for capital growth and its capacity to produce income. It is unlikely that an asset with no known value or potential for capital or income growth would be considered a prudent investment to support members' retirement goals. It is acknowledged that there may be instances where investments fail and there is neither a current value nor a ready market. This may mean the asset is held and recorded in the financial reports and statements at a nil or nominal amount.

Definitions

In the SIS Act, **"market value"**, in relation to an asset, means the amount that a willing buyer of the asset could reasonably be expected to pay to acquire the asset from a willing seller if the following assumptions were made:

- the buyer and the seller dealt with each other at arm's length in relation to the sale,
- the sale occurred after proper marketing of the asset, and
- the buyer and the seller acted knowledgeably and prudentially in relation to the sale (SISA s 10(1)).

'Arm's length' refers to investments needing to be made and maintained on a commercial basis. A test would be whether a prudent person, acting with due regard to his or her own commercial interests, would have agreed to the terms.

'Collectables and personal use' assets can include an investment in artwork, jewellery, antiques, artefacts, coins, postage stamps, rare folios, memorabilia, wine or spirits, motor vehicles, recre-ational boats.

An **'in-house asset'** of an SMSF, after 11 August 1999, is either a loan to, or an investment, in a related party of a fund, an investment in a related trust of a fund or an asset of a fund, other than business real property, that is subject to a lease between the trustees of an SMSF and a related part of the fund.

Read this guide in conjunction with:

- Valuation guidelines for self-managed super funds
- Market valuation for tax purposes
- TR 2010/1 Income tax: superannuation contributions – this ruling includes the Commissioner's view on when a super provider acquires beneficial or legal ownership of an asset.