



When to revalue SMSF property

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 Author:  Kris Kitto (<https://www.superfundpartners.com.au/blog/author/kriskitto/>)

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A common question SMSF trustees who invest in direct property have is: When does our SMSF property investment need to be revalued?

In this article I will not only confirm *when* properties held by SMSF need to be valued, but also *how* they can be valued and *who* can value them.

Why SMSF property investments must be revalued?

There are four main reasons why SMSF trustees need to revalue any real estate investments held by their fund:

1. **Pensions** – when a SMSF commences a pension, the value of the underlying investments that support that pension need to be determined to accurately calculate the minimum and maximum pension amounts.
2. **Performance** – it is essential for SMSF members and trustees to be able to measure the performance of their investments – which needs to include any change in the valuation of real property.
3. **In-house Assets** – SMSFs are limited to having 5% of their assets invested into 'in-house' assets. For this ratio to be accurately measured, all investments of the fund must be valued at fair market value.
4. **Contribution Caps** – the current Labor government has slated a reduction in the current \$50,000 concessional (tax deductible) contribution cap to a measly \$25,000 for persons over the age of 50 where their member balance exceeds \$500,000. To accurately determine whether the lower cap will apply, all assets of the SMSF need to be accurately valued at market value.

When MUST property in a SMSF be revalued?

The ATO in Superannuation Circular 2003/1 (<http://law.ato.gov.au/atolaw/view.htm?Docid=ASC/SC20031/00001&PiT=99991231235958>) has stated “*self managed superannuation funds should use market value reporting for their financial statements*” – considering that each SMSF must prepare accounts each financial year, then it makes sense that market valuations for any property held by a SMSF should also be valued each and every 30 June right?

Not necessarily....

SMSFs are generally not considered to be reporting entities, and hence they are not forced to comply with the same strict reporting standards as larger superannuation funds. If you look at the ATO Circular mentioned above, it uses the phrase “*should use market value reporting*” – NOT “*must use market value reporting*”

However, SMSFs trustees do not get off the hook that easily. The independent auditor of the SMSF each year must ensure that the financial statements are presented as a fair and accurate representation of the assets of the fund. The following is an extract from a 2011 SMSF audit report:

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, in accordance with the accounting policies described in the notes to the financial statements, the financial position of the fund at 30 June 2011 and the results of its operations for the year then ended.

SMSF auditors (the competent ones at least) take the above very seriously – and I would too in their situation. The auditor of the fund must be provided with evidence that the valuation of any property held by the SMSF is valued accurately enough for them to sign off on the above

Auditor's Opinion.

The general rule of thumb used by the majority of SMSF auditors is that property investments held by a SMSF must be valued at least every three years.

There are some situations where property held by a SMSF must be revalued on a more frequent basis:

- When a pension is commenced, a valuation from within 12 months prior to the commencement of the pension must be used
- When the auditor believes that the valuation used in the accounts is either too high or too low
- Where the SMSF has in-house assets and the auditor needs to ensure that the 5% in-house asset ratio has not been exceeded

The most important (and most common) exception of the above three is when a pension is commenced. Many SMSF members who have started a pension still contribute to their fund on an annual basis. This means that a new pension is potentially started each year. In this situation, Tax Determination TD 2000/29 (<http://law.ato.gov.au/atolaw/view.htm?rank=find&criteria=AND~TD~basic~exact::AND~2000%2F29~basic~exact&target=FA&style=java&sdoid=TXD/TD200029/NAT/ATC>) require the trustees to undertake a valuation each year, as the valuation must be within 12 months prior to the commencement of the pension.

Who can undertake the valuation?

When it comes to obtaining the actual valuation of a property, it does not always need to be done by an independent valuer. It is not so much *who* does the valuation – rather *how* the valuation is performed which is the key factor in determining whether the valuation can be relied upon by the auditor or not.

Valuations can be conducted by:

- Independent valuers
- Real estate agents
- Other unqualified persons (including trustees of the fund)

From an auditors perspective, something from an independent party holds a lot more weight than something from a trustee of a SMSF.

The method of determining market value – the ‘how’ is significantly more important than who conducts the valuation. The methodology must be objective, based on a reasonable process, take into account all relevant factors and be able to be explained to a third party.

For example, when determining the valuation of property, the following factors would be considered:

- the value of similar properties
- how much was paid for the property
- valuations for council rates purposes
- independent appraisals
- rental yield

For SMSF trustees wishing to complete their own valuations, for residential properties they should obtain either a Street Sales History (<http://www.myrp.com.au/showProductDetail.do?reportTypeId=4&propertyId=>) report or a Suburb Sales History (<http://www.myrp.com.au/showProductDetail.do?reportTypeId=5&propertyId=>) report from RP Data. These reports are significantly cheaper than a full independent valuation, and they can form the basis for the valuation of the SMSF property – especially when combined with information freely available from RealEstate.com.au (<http://www.realestate.com.au>) and similar sites.

When it comes to commercial, industrial and other more unique properties that a SMSF can hold as part of its investment strategy, it becomes more complex. The above historical RP Data reports may provide some helpful information, however more detailed analysis will normally be required to obtain a valuation that will be accurate enough to satisfy the auditor.

In these situations, an independent appraisal should be obtained every three years, and the methodology used in the valuation combined with up to date market information (freely available on the internet) to determine valuations in the intermediary years.

Summary:

SMSF trustees wishing to undertake their own property valuations need to be aware of the above requirements and their obligations to the auditor, the ATO and themselves as members of the fund.

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Kris Kitto (<https://www.superfundpartners.com.au/blog/author/kriskitto/>)

SMSF Specialist at Superfund Partners. I love working in the SMSF space. Self-managed super funds are more than just a savings vehicle - they enable people to truly take control of their financial situation which is key to achieving happiness. I can assist with SMSF setup, SMSF tax and accounting, SMSF pensions and ensure SMSF investments comply with the SMSF laws and regulations.

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