

SUPERANNUATION AUDIT ALERT 2020

According to a recent media release, Self Managed Superannuation Fund (SMSF) auditors will need to check closely that assets in SMSF portfolios are held at market value for the 2020 tax year. Under regulation 8.02B of the Superannuation Industry Supervision Regulations 1994, SMSF trustees are required to value fund assets at market value in the financial statements.

Auditors of SMSFs are required to ensure that they obtain sufficient evidence to support any determination of market value made by the trustee of a SMSF. Assets such as shares are openly traded and relatively easy to assess. In the case of property assets, the easiest and safest way of establishing market value is with an independent valuation by a Licensed Valuer.

The market for property assets has been tumultuous to say the least over the last 6 months since the onset of COVID-19. Some asset classes either have been affected or could expect to be affected by the pandemic, while others will be more resilient. The Australian Property Institute (API) has published information addressing Significant Market Uncertainty which provides guidance for valuations in the current market circumstances. In summary, valuations will need to have regard to the impact of the pandemic on specific market sectors and asset classes using available market evidence, and will need to articulate clearly any limitations or circumstances which affect properties being assessed. Importantly, the API recommends more frequent assessments of properties to monitor the ongoing effects of changing market conditions on property values.

Valuation standards and the Code of Practice for Western Australia require empirical evidence to establish value and precludes the making of predictions which are not based on evidence or well-founded research. Typically, evidence of market-based transactions will be limited during times such as these, with vendors generally choosing not to sell unless compelled to. Accordingly, reliance on historical evidence will be necessary. It is essential to properly qualify transactions that occur during the pandemic period to ensure that they meet the test of market value under the accepted definitions. Sales under duress or isolated transactions generally will not meet the test of market value and therefore will not be sufficient to properly establish market value. It is therefore essential that SMSF trustees to not jump to conclusions regarding changing market circumstances and ensure that they undertake adequate due diligence in establishing the market value of asset in these uncertain times.

Ascribing the incorrect value to SMSF assets can have a flow on effect for the members of a SMSF. Firstly, it may affect available pension payments to members of a fund. Another impact may arise from the fund value falling to the point where the \$1.6 million transfer balance cap no longer applies, meaning that there could be an impact on a fund's calculation for exempt current pension income. A tax accountant or financial advisor will be the best resource to understand whether there are impacts that could adversely affect a SMSF.

Our team of valuers at Property Valuation & Advisory have extensive experience in the valuation of property assets. Please contact us if you would like more information, or to discuss a valuation requirement.

Gavin Chapman – Managing Director

gavin.chapman@pvawa.com.au

(08) 6500 3600

Property Valuation & Advisory (WA)

Unit 2, 168 Stirling Highway, Nedlands WA 6009