
Property Valuations and Regulation 8.02B of SISR

The Australian Taxation Office (ATO) has recently issued an update to their guidance on approach to valuations. [Why assets need to be valued | Australian Taxation Office \(ato.gov.au\)](#)

This update clarifies that an asset valuation is required to verify that a SMSF has complied with super laws when preparing the annual financial statements.

A property **asset must be valued at market value** for this purpose. The ATO guidance indicates that the valuation should be based on objective and supportable data.

As SMSF auditors, our responsibility is to check the valuation of the fund assets whilst undertaking the audit of the financial statements. The scope of the audit procedures considers whether the trustees have:

- Valued assets at market value in preparation of the annual financial statements of the SMSF;
- That the valuation is based on objective and supportable data.

The **trustees are responsible for providing the objective and supportable evidence** to the auditor of the SMSF to support the valuation of the fund assets. This includes further documents that we may request as part of the audit process. The ATO continues to employ a “look-through” approach, therefore trustees should ensure that this information is also gathered and provided for associated, closely held unit trust property investments.

The trustees may choose to utilise an independent valuer in gathering this information. This person must base their information on objective and supportable data, and is not required to be a formal valuer, but must have relevant specific experience or knowledge.

The trustees are responsible for demonstrating that the valuation has been arrived at using a “fair and reasonable” process. The ATO guidance indicates the following attributes would meet this definition of “fair and reasonable”:

- All relevant factors and considerations that likely to affect the value of the asset are taken into account;
- The valuation has been undertaken in good faith;
- Uses a rational and reasoned process; and
- Is capable of explanation to a third party.

Where the asset represents a significant proportion of the fund assets or when the valuation is likely to be complex or difficult due to the nature of the asset, the ATO recommends using a qualified independent valuer. For commercial and special purpose properties, we note that it is often easier for the trustees to enlist a specialist real estate agent to obtain a valuation due to the lack of readily available data within the marketplace.

A valuation from a qualified independent valuer does not always need to be obtained each year. **Annually a trustee must** consider whether the previous valuation can be used to support the valuation of the property asset. **The trustee is responsible for documenting that this valuation is appropriate and how they came to this conclusion.** The trustees' annual minute or a separate minute must consider this, together with attached supporting documentary evidence. This will assist in clearly supporting how the trustees have considered Regulation 8.02B SISR compliance. In addition, information in this format provides support for the trustees' deliberations and conclusions, should an ATO review occur. When employing an administrator to support the documentation process, the responsibility for ensuring such documentation is in place remains with the trustee.

We outline the importance of documentation and specific supporting data that may evidence the valuation struck for a class of asset to support the trustees in considering this guidance update.

Property Valuations and the application of Regulation 8.02B of SISR

Overview of available information sources

The Trustees' annual minutes document the market value struck, the valuation basis, including the consideration of the supporting data. It also includes, as an attachment, the supporting market data evidence.

The following tables provide guidance to assist trustees in providing this documentation for audit purposes.

<p>Residential property</p>	<p>Information sources available to trustees to support market value dated at or within 6 months of year end:</p> <ul style="list-style-type: none"> ▪ Formal Sworn Valuation; or ▪ Market appraisal. Our guidance is updated to: Should include comparable sales at or around year end of at least 2 like properties for future market appraisals obtained; or ▪ Automated Valuation report, such as Core Logic, or comparable property sales data available from Domain.com.au and realestate.com.au. Our guidance is updated to: Should document a comparison of at least 2 like property sales at or around year end for future market data reports or property sales information obtained. <p>These like property sales should be referred to by the trustees in their valuation considerations.</p> <p>The like properties must be referred to when analysing the reported range and the mid-point where the property data is not populated, or where the standard deviation is > 10%. This supports that the property is representative of the data set with 68% statistical certainty that the value is within 10% of the midpoint of the range.</p> <p>Although not supporting evidence on a standalone basis, the rental yield of the fund property in comparison with suburb market data or regional city market data report may provide indirect supporting evidence of the market value of a property. This may be usefully employed in conjunction with a market appraisal or market data report which is not within the date range, or where the standard deviation is > 10%.</p>
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<p>Commercial and Rural property</p>	<p>Information sources available to trustees to support market value:</p> <ul style="list-style-type: none"> ▪ Formal Sworn Valuation; or ▪ Market appraisal. Our guidance is updated to: Should include comparable sales at or around year end of at least 2 like properties for future market appraisals obtained, and /or leasing capitalisation comparisons; or <p>There is an obligation to consider annually for financial reporting purposes, whether a significant event has occurred that may have impacted the market value of the fund property, or the valuation has become materially inaccurate.</p> <p>The suggestion is that a valuation or market appraisal should be obtained at least every 3 years, or when the property has materially changed due to the above circumstances or change in nature such as a major renovation or rezoning.</p> <p>During the intervening years the following general information may assist in trustee considerations of whether there has been a material change in the value that requires an updated Sworn Valuation or Market appraisal. Information sources are not always readily available or in relevant format, together with statistical significance. The following are noted as generally available to support the trustee in their consideration:</p> <ul style="list-style-type: none"> ○ Direct comparison sales of like property. ○ Stated based Valuer-General data. ○ Commercial yield, when the property is leased to a non-related party, may provide indirect evidence of market value changes. This is based on the capitalisation rate applied benchmarked for the property type, including arable nature of land, size, and location.
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Enquiries in respect of this guidance should be directed, in the first instance, to your client service director or manager. We are happy to consider specific client circumstances or any changes you may be considering to your process.