

An update on the ATO Property Valuation Guidance (released Nov 2022) and our audit approach.

The ATO focus within the Guidance is on the expectation that the trustees are required to determine the market value of the assets in the fund annually, basing the market value assessment on objective and supportable data. This does not mean that a valuation by an expert needs to be undertaken for all assets each year.

Unless the property has been recently purchased, the ATO Guidance provides that the trustee should consider a variety of sources to substantiate the market value of the property. A valuation can be undertaken by anyone with the precursor that it must be based on objective and supportable data.

An external valuation of a property asset is prudent if the trustee believes the valuation is materially inaccurate or a significant event has occurred since it was last valued.

PROPERTY MINUTE TEMPLATES

As an SMSF trustee, it is critical to document the fund's property valuation to support the SMSF trustee assessment of the market value at year end. This responsibility is clearly articulated within the ATO guidance ([ATO Link](#))

We have established example minute templates to support the trustee consideration of this documentation process.

The trustees **are not required** to provide a **separate minute** to document property valuation at year end if the annual minute includes the fund property address, market value, valuation date and source of evidence. The example templates to support the documentation of property valuation considerations at year-end have been developed as follows:

	(Example) Minute Template 1: ALL PROPERTY	(Example) Minute Template 2: RURAL & COMMERCIAL PROPERTY	(Example) Minute Template 3: RESIDENTIAL PROPERTY
	Appraisal or Valuation as at 30/06/20CY	Appraisal or Valuation not current at 30/06/20CY	Appraisal or valuation not current at 30/06/20CY
Residential	Yes	N/A	Yes
Commercial	Yes	Yes	N/A
Rural	Yes	Yes	N/A

RESIDENTIAL PROPERTY

Valuation information is readily available in most geographical locations to provide supportable data on an annual basis. Please refer to our detailed [guidance](#).

Where the trustee has obtained a supporting valuation or appraisal for the property in the prior year, and direct comparable sales data is not currently available, the market data movement for the district or suburb may be considered to determine whether there has been a material movement in the market value.

Should this indicate a material movement in market value, a valuation, appraisal or other objective and supportable data should be obtained to support the market value at 30/06/2023.

RURAL (FARMLAND) PROPERTY

The [rural property market data report for 2022](#) indicates a material movement in market value for the period. This data is applicable for rural property over 30 hectares. Please refer to our detailed [guidance](#).

A valuation, appraisal or other objective and supportable data should be obtained to support the market value for 30/06/2023 where this was not obtained for the 30/06/2022 financial year.

RURAL (FARMLAND) PROPERTY CONSIDERATION OF VALUATION OVER A 3 YEAR CYCLE FOR FY2023

Year 1: Recent valuation report at or around year end including comparable properties (as provided in the ATO Guidance)

Year 2: Review of recent valuation report obtained in Year 1.

- [Question 1](#) - Are the comparable properties relevant for year 2?
- [Question 2](#) - Date of report at Year 1 is recent, and no macro event has occurred that may impact on the market value post the date of the report.

Year 3: Obtain further valuation or supplementary information (as per the minute) for 30/06/2023. Where there is no material movement, the process would follow year 2.

If YES to either Question 1 or 2 – see [\(Example\) Minute Template 2: RURAL & COMMERCIAL PROPERTY](#).

If NO to Question 1 and 2, obtain supplementary support for the valuation.

This could be any one of the following, or other objective and supportable data –

- I. Valuation or Appraisal – obtain confirmation from agent of no change to estimated market value from original valuation; **or**

- II. New Valuation or Appraisal; **or**
- III. Supplemental Comparable sales data to evidence no material change in property at or around year end; **or**
- IV. General Sales Market data for geographical location – to evidence no material change in property.

See [\(Example\) Minute Template 2: RURAL & COMMERCIAL PROPERTY](#).

COMMERCIAL PROPERTY

Commercial property often represents a significant proportion of the assets of the fund.

The commercial property market is opaque, and it is not always easy for trustees to obtain relevant objective and supportable data.

We spent some time early this year considering available market data for commercial property that may provide an indication of whether a material movement is likely to have occurred since the last valuation or appraisal of a property.

Rental yield for FY2023 does not appear to be a direct predictor of change in market value

Our audit team has been examining the second quarter data for the calendar year 2023. Where reports are available, this indicates across varying commercial sectors and regions, a material movement in rental yield has occurred in most instances. This rental yield material variance does not appear to directly correlate to a material movement in market value for the report period.

Where both rental yield and Market Value data were available, rental yield varied materially, Market Value did not for the FY2023. Rental yield therefore does not appear to be a direct predictor of change in commercial property market value for FY2023.

For audit purposes, there are no indicators within the market data subject to review, that a valuation, or appraisal undertaken within the 18 months to 30/06/2023 is materially inaccurate. Materially being assessed based on total asset value.

A valuation, appraisal or other objective and supportable data should be obtained to support the market value for 30/06/2023 where the last information is dated prior to 01/01/2022 and comparable data was not obtained.

Prior to this date the valuation or appraisal would have been obtained whilst the macro event – COVID-19 was taking place. This event impacted the volume of sales and the pricing in some instances by agents in response to the uncertainty of the event. The lack of volume of sales potentially impacts the data set not being within the relevant 3-year period ending 30/06/2023. The agent's response may have resulted in the market value being variant due to market uncertainty.

The inclusion of comparable data within the report assists the trustees in ensuring the data point is in the relevant period and that it has been appropriately applied in considering the estimated value.

COMMERCIAL VALUATION CONSIDERATION OF VALUATION OVER A 3 YEAR CYCLE FOR FY2023

Year 1: Recent valuation report at or around year end including comparable properties.

Year 2 & 3: Review of Recent valuation report obtained in Year 1

- Question 1 - Are the comparable properties relevant for year 2 or 3?
- Question 2 - Date of report at Year 1 is recent, within an 18 month period or is within the 3 year period that details comparable data within this period, and no macro event has occurred that may impact on the market value post the date of the report.

If YES to either Question 1 or 2 – see [\(Example\) Minute Template 2: RURAL & COMMERCIAL PROPERTY](#).

If NO to both Question 1 and 2, obtain supplementary support for the valuation.

This could be any one of the following or other objective and supportable data:

- I. Valuation or Appraisal – obtain confirmation from agent no change to estimated market value from the original valuation; **or**
- II. New Valuation or Appraisal; **or**
- III. Supplemental Comparable sales data to evidence no material change in property at or around year end; **or**
- IV. General Sales Market data for geographical location – to evidence no material change in property.

See [\(Example\) Minute Template 2: RURAL & COMMERCIAL PROPERTY](#) for Supplementary information.