Australian Taxation Office Superannuation Circular 2003/1 - Self Managed Superannuation Funds

Self Managed Superannuation Funds

Valuation of assets

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Acronyms:
Superannuation Industry (Supervision) Act 1993 - SISA
Australian Taxation Office - ATO
Australian Prudential Regulation Authority - APRA

Introduction

1. The Australian Taxation Office (ATO) intends that self managed superannuation funds should use market values for all valuation purposes. This includes valuations for determining the purchase price of a pension and the use of market value accounting for all financial statements.

2. The purpose of this Circular is to provide the basis for conducting these valuations.

Financial reporting

3. Australian Accounting Standard AAS 25 which applies to reporting entities requires superannuation funds to value their assets at their net market value as at the reporting date. However, most self managed superannuation funds can appropriately be classified as non-reporting entities and therefore not required to comply with this standard.

4. Regardless of this, the Tax Office's preference is that self managed superannuation funds should use market value reporting for their financial statements, even where the auditor has determined that the fund is a non-reporting entity. This approach is optional.

5. This view is shared by APRA and is set out in their Addendum to Circular No. IV.A.4.

Benefits of market value financial reporting

6. By using market value reporting, self managed superannuation funds will ensure that members' benefits, as reported in the annual statements, will reflect all market value movements of the reporting period.

7. This consistent accounting approach by all superannuation funds will assist trustees with the investment decisions of the fund by allowing for the comparison of financial statements from subsequent periods and with other superannuation funds. It will also assist trustees to determine whether the mix of investments in the fund is in accordance with the investment strategy.

8. Market value reporting will also allow trustees to easily determine the resources that the fund has available for payment of benefits. For example, if a member was to leave the fund the trustees could easily determine the member's account balance as at the reporting date.

Purchase price of a pension

9. Taxation Determination TD 2000/29 provides the method of calculating the capital value of purchased pensions not payable for life, which includes allocated pensions, for the purposes of the benefit limits.

10. The formula for this calculation incorporates the purchase price of the pension. Where an accumulation fund has underlying assets that commence to provide for the pension, the assets must be valued at their net market value on the commencement day of the pension. It is this value that must be reported to the ATO as the purchase price of the pension.

Market value definition

11. Sub-section 10(1) of the SISA defines market value as "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:

(a)
that the buyer and the seller dealt with each other at arm's length in relation to the sale;

(b)
that the sale occurred after proper marketing of the asset;

(c)
that the buyer and the seller acted knowledgeably and prudentially in relation to the sale".

12. Similarly, net market value is defined in AAS 25 as "the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal".

Who can determine the market value of an asset?

13. It is not intended that obtaining a market valuation should be onerous or expensive for the trustees.

14. Depending on the situation, a market valuation may be undertaken by either a qualified valuer or a person without formal qualifications which includes the trustees of the fund. In any case, the person who conducts the valuation must base their valuation on reasonably objective and supportable data.

15. Use of a qualified valuer should be considered where the value of the asset represents a significant proportion of the fund's value or where the nature of the asset indicates that the valuation is likely to be complex or difficult.

Method of determining market value

16. Regardless of who conducts the valuation the trustees must be able to demonstrate that the valuation has been arrived at using a 'reasonable' process. Generally, a valuation can be considered as where it:

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

17. For example, when valuing property assets relevant factors and considerations may include factors such as, but not limited to:

- the value of similar properties;
- the amount that was paid for the property;
- valuations for council rate purposes;
- independent appraisals.

18. The trustees must keep appropriate records of how the valuations were determined, so they can be readily verified if required. Valuations prepared by suitably qualified and independent valuers are less likely to be challenged.

When to conduct valuations

19. For the purpose of financial reporting, valuations should be conducted at the funds reporting date on an annual basis, which in most cases will be 30 June.

20. For the purposes of calculating the purchase price of a pension and the level of "in house" assets the ATO will accept the most recent valuation obtained within the last 12 months of the commencement day of the pension, including valuations obtained for other statutory purposes.

Date of Effect: