Australian Government
Australian Taxation Office

Valuation guidelines for self-managed superannuation funds

This guide is designed to help you as a self -managed superannuation fund (SMSF) trustee when valuing assets for super purposes. It is not a comprehensive handbook about valuations.

This guide does not take away your responsibility to manage investments prudently. You must ensure the fund's investment strategy is reviewed regularly and takes into account the retirement goals of its members.

Seek advice and assistance from a professional if you are unsure of your obligations and responsibilities.

Read this guide in conjunction with:

- **Market valuation for tax purposes**
- Taxation ruling **TR 2010/1** *Income tax: superannuation contributions* - this includes the Commissioner's view about when a super provider acquires beneficial or legal ownership of an asset.

This guide replaces *Superannuation Circular 2003/1*.

For definitions of key terms, see **Terms we use**.

Our approach

If you follow this guide we will generally accept the valuation provided.

We may review a valuation as part of our compliance processes. As part of this review you may be asked to provide evidence of the valuation method that has been used to allow us to decide whether to accept the valuation or not. This evidence would include documentation of the valuation method used.

We will generally accept your determination of an asset's value, as long as:

- it does not conflict with this guide or **Market valuation for tax purposes**
- there is no evidence that a different value was used for the corresponding capital gains tax event
- it was based on objective and supportable data.

If we conclude that the most appropriate valuation method has not been used for any of the assets, it will not be accepted and the most appropriate valuation method will be applied to determine an amended value.

Why assets need to be valued

Asset valuation is a key component in preparing meaningful SMSF financial reports. It has an impact on the returns for members and, ultimately, SMSF sector performance as a whole.

A valuation of assets is required to confirm your SMSF has complied with relevant super law for:

- acquiring assets between SMSFs and **related parties**
- investments made and maintained on an arm's-length basis
- disposing of certain **collectables and personal use assets** to a **related party** of the fund
- determining the **market value** of an SMSF's **in-house assets** as a percentage of all assets in the fund
- determining the value of assets that support a member's super pension.

Summary

Table 1: Summary of valuation requirements

Event	Requirement
Preparing the SMSF financial accounts and statements	Assets should be reported at **market value**. The valuation should be based on objective and supportable data.
Collectables and personal use assets - acquired after 1 July 2011 Transfer or sale to a related party	Must be made at a market price determined by a qualified independent valuer.
Collectables and personal use assets - acquired before 1 July 2011 Transfer or sale to a related party	For the period 1 July 2011 to 30 June 2016 transfers to related parties do not require valuation by a qualified independent valuer. However, these transfers should be made at an arm's length price that is based on objective and supportable data. From 1 July 2016 transfers to related party must be made at a market price determined by a qualified independent valuer.
Transfers between SMSFs and related parties	Acquisitions of permitted assets must be made at **market value**. Disposals of assets must be made on an **arm's length** basis.
Transfers between SMSFs and unrelated parties	A valuation is not required however the transfer must occur at **arm's length**.
Determining the value of assets that support a super pension	The account balance needs to be determined on the commencement day of the pension or, for ongoing pensions, on 1 July of the financial year in which the pension is paid. An annual valuation is generally not required unless there has been event that significantly affects the value of the asset. The valuation should be based on objective and supportable data.
Testing whether the **market value** of the SMSF's in-house assets exceed 5% of the value of total assets held by the fund	The value of a fund's total assets needs to be determined on 30 June of the financial year the in-house assets are held. An annual valuation is generally not required unless there has been event that significantly affects the value of the asset. The valuation should be based on objective and supportable data.

Valuer

It is usually the valuation process undertaken rather than who conducted it that governs the acceptability of a valuation.

In all cases the person who conducts the valuation must base their valuation on objective and supportable data.

Depending on the situation, a valuation may be undertaken by a:

- registered valuer
- professional valuation service provider
- member of a recognised professional valuation body
- person without formal valuation qualifications but who has specific experience or knowledge in a particular area.

In certain instances the law requires valuations be undertaken by a qualified, independent valuer.

Qualified independent valuer

A valuer will be qualified either through holding formal valuation qualifications or by being considered to have specific knowledge, experience and judgment by their particular professional community. This may be demonstrated by being a current member of a relevant professional body or trade association.

The valuer must also be independent. This means that the valuer should not be a member of the fund or a **related party** of the fund (for example, they should not be a **relative**). They should be impartial and unbiased and not be influenced or appear to be influenced by others.

When you need a qualified independent valuer

The super laws require a valuation by a qualified independent valuer in the following circumstances:

- From 1 July 2011 for any **collectables and personal use assets** that were acquired on or after 1 July 2011 and disposed of to a **related party**.
- From 1 July 2016 for any **collectables or personal use assets** that were acquired by the SMSF before 1 July 2011 and disposed of to a **related party** after 30 June 2016.

An appointed SMSF auditor can seek an independent valuation of the fund's investments, as part of their audit and assurance engagement.

You should also consider the use of a qualified independent valuer if either the:

- value of the asset represents a significant proportion of the fund's value
- nature of the asset indicates that the valuation is likely to be complex or difficult.

General valuation principles

You must be able to demonstrate that the valuation has been arrived at using a 'fair and reasonable' process. Generally, a valuation is considered fair and reasonable where it meets all the following:

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

In addition, some classes of assets must be valued and reported in a specific way. For a brief summary, see **Checklist for obtaining valuations**. For more detail, see Specific requirements for asset classes.

Checklist for obtaining valuations

Some assets must be valued in a particular way - these are summarised in table 2. For more detail, see Specific requirements for asset classes.

Table 2: Events and valuations requirements

Event	**Valuation requirement**
Preparation of SMSF financial accounts and statements.	Based on objective and supportable data
Collectables and personal use assets - acquired after 1 July 2011 and transferred or sold to a related party after that date	Qualified independent valuer
Collectables and personal use assets - acquired before 1 July 2011 and transferred or sold to a related party before 1 July 2016	Transfer made at **arm's length price** that is based on objective and supportable data

Collectables and personal use assets - acquired before 1 July 2011 and transferred or sold to a related party from 1 July 2016	Qualified independent valuer
Acquisition of an asset from a **related party** of the fund	Acquired at market value that is based on objective and supportable data
Disposal of an asset to a **related party** of the fund	Sale price should reflect a true market rate of return
Testing whether the **market value** of the SMSF's **in-house assets** exceeds 5% of the value of its total assets.	Based on objective and supportable data
Determining the value of assets that support a super pension or income stream.	Based on objective and supportable data

We recommend the use of a qualified independent valuer where the value of the asset represents a significant proportion of the fund's value or the nature of the asset indicates that the valuation is likely to be complex.

Specific requirements for asset classes

Some assets must be valued in a particular way.

SMSF financial reports

For 2012-13 income year and any later years of income, SMSFs are required to use **market value** reporting for their financial accounts and statements.

When to undertake an external valuation for financial report purposes

We expect you to consider the value of the assets in your fund each year. This does not mean that you need to do an external valuation for all assets each year. For example, assets such as real property may not need an annual valuation unless a significant event occurred that may change its value since it was last valued. See **A significant event affects the value of an asset**.

On the other hand, assets such as cash, widely held managed funds and listed securities can be valued easily each year and should be valued at the end of each financial year.

Generally, the valuation can be undertaken by anyone as long as it is based on objective and supportable data.

Consider the use of a qualified independent valuer if either:

- an asset represents a significant proportion of the fund's value
- the nature of the asset indicates that the valuation is likely to be complex.

Listed securities

For the end of financial year reporting of listed securities, for example, listed shares and managed units, use the closing price on each listed security's approved stock exchange or licensed market at 30 June as at the **market value** of the security.

However, if a stock is affected by liquidity or exhibits significant price volatility, you need to consider this when valuing.

For more information on the valuation of securities, refer to **Market valuation for tax purposes**.

Real property

For preparing SMSF financial reports, an external valuation of real property is not required each year. A recent valuation however would be prudent if an event occurred that may have affected the value of the property since it was last valued. This may be due to change in conditions or a natural disaster.

When valuing real property, relevant factors and considerations may include:

- the value of similar properties
- the amount that was paid for the property in an **arm's length market**
- independent appraisals
- whether the property has undergone improvements since it was last valued
- for commercial properties, net income yields.

Business real property acquired from a related party of the SMSF must be made at market value. Real property disposed of to a related party of the SMSF must be conducted at arm's length.

When valuing real property assets for SMSF financial reports, the valuation may be undertaken by anyone as long it is based on objective and supportable data. A valuation undertaken by a property valuation service provider, including online services or real estate agent would be acceptable.

For information on valuation methods for property, refer to **Market valuation for tax purposes**.

Related party transactions

The following assets that involve related-party transactions must be valued in a specific way.

Acquisitions of assets from related parties

SMSF trustees and investment managers are prohibited from intentionally acquiring assets from **related parties**.

However, there are exceptions, such as listed securities, business real property and certain in-house assets. Permitted assets must be acquired at **market value**.

You should determine the market value of the acquired asset based on objective and supportable data.

Consider using a qualified independent valuer if either the:

- value of the asset represents a significant proportion of the fund's value
- nature of the asset indicates that the valuation is likely to be complex or difficult.

An appointed SMSF auditor can seek an independent valuation of the fund's investments, as part of their audit and assurance engagement.

Investments made and maintained on an arm's length basis

Investments by SMSFs must be made and maintained on an **arm's length** basis.

The purchase and sale price of assets should always reflect a true market rate of return.

Where the transaction involves a related party of the fund, you should look at how to determine the **market value** of the asset. The value must be based on objective and supportable data.

Consider using a qualified independent valuer if either the:

- value of the asset represents a significant proportion of the fund's value
- nature of the asset indicates that the valuation is likely to be complex.

An appointed SMSF auditor can seek an independent valuation of the fund's investments, as part of their audit and assurance engagement.

Transfer of assets through an underlying market

This change has been proposed by the government. It is not yet law.

It is expected that, from 1 July 2013, new laws will require the transfer of assets between SMSFs and related parties occur through an **underlying market**.

The Australian Securities Exchange (ASX) is an example of an underlying market for listed securities, including shares, managed units and precious metal Exchange Traded Funds.

In cases where an underlying market does not exist, acquisitions and disposals of assets between SMSFs and **related parties** will need to be at a price determined by a valuation from a suitably qualified independent valuer. For example, an underlying market does not exist for real property. In this instance acquisitions and disposals should be at a price determined by a valuation from a suitably qualified independent valuer.

This page will be updated should this change become law.

Collectables and personal use assets

If an SMSF is disposing of a collectable or personal use asset to a **related party** of the fund, and the asset was acquired on or after 1 July 2011, the transaction must be conducted at market price as determined by a qualified independent valuer.

The assets should be valued as at the date of the transaction.

If the collectable or personal use asset was acquired before 1 July 2011 it can be disposed of to a related party of the fund without the need for a valuation by a qualified independent valuer provided the disposal occurs before 1 July 2016. However, the transfer should be made at an arm's length price that is based on objective and supportable data. This transitional period exists to provide you with time to comply with the regulations.

If the collectable or personal use asset was acquired before 1 July 2011 and disposed of after 1 July 2016, the disposal must be at market price as determined by a qualified independent valuer.

Table 3: Valuation requirement depends on date asset was acquired and disposed of

	Disposal occurs before 1 July 2016	Disposal occurs on or after 1 July 2016
Acquired before 1 July 2011	No need for valuation by a qualified independent valuer	Qualified independent valuer determines market price
Acquired on or after 1 July 2011	Qualified independent valuer determines market price	Qualified independent valuer determines market price

In-house assets

Where the SMSF holds an **in-house asset** the value of all its assets need to be determined at the end of a year of income. The valuation enables you to test whether the **market value** of in-house assets exceeds 5% of its total assets at the end of a year of income.

The valuation can be undertaken by anyone as long as it is based on objective and supportable data. Where the nature of the asset indicates that the valuation is likely to be complex, the use of an external valuer should also be considered.

We expect you to know the value of the assets in your fund. This does not mean that an external valuation needs to be performed for all assets each year. However, an external valuation of an asset such as real property may be prudent if a significant event has occurred since it was last valued.

Other assets including cash, managed funds and listed securities are easily valued and should therefore be valued at the end of each financial year.

The valuation of units in widely held trusts and managed funds should be based on the published exit price from the fund or trust manager.

For valuation of unlisted securities and unit trusts, see **Unlisted securities and unit trusts**.

Determining the value of the assets that support a pension

The **market value** of the assets that support a pension or super income stream needs to be determined on either:

- the commencement day of a pension
- for on-going pensions, 1 July of the financial year in which the pension is paid.

Similar to valuing assets for the purpose of financial reports, the valuation can be undertaken by anyone as long as it is based on objective and supportable data. Where the nature of the asset indicates that the valuation is likely to be complex, you may also consider the use of a qualified independent valuer.

It is expected that you would know the value of the assets in your fund. This does not mean that an external valuation needs to be performed for all assets each year. However, an external valuation of an asset such as real property may be prudent if a significant event has occurred since it was last valued.

Other assets including cash, managed funds and listed securities are easily valued and should therefore be valued at the end of each financial year.

It is accepted that a reasonable estimate of the value of the account balance can be used when a pension is started part way through the year.

Unlisted securities and unit trusts

When valuing an unlisted security, for example, a share in a private company, or a unit in an unlisted trust, we expect you to take into account a number of factors that may affect its value including both the:

- value of the assets in the entity
- consideration paid on acquisition of the unlisted securities or units.

It may be wise to use an external valuer if the nature of the asset indicates that the valuation is likely to be complex.

Also consider the factors described in **valuing unlisted shares** in the publication **Market valuation for tax purposes**.

Investments without a ready market

When making investment decisions on behalf of the fund, you have certain duties and responsibilities which are designed to protect and increase a member's benefits for retirement. It is expected that you would be aware of the value of an asset at the time of acquisition, its potential for capital growth and its capacity to produce income.

It is unlikely that an asset with no known value or potential for capital or income growth would be considered a prudent investment to support members' retirement goals.

It is acknowledged that there may be instances where investments fail and there is neither a current value nor a ready market. This may mean the asset is held and recorded in the financial reports and statements at a nil or nominal amount.

A significant event affects the value of an asset

When valuing of assets for the preparation of SMSF financial accounts and statements, the in-house asset test or determining value of assets that support a pension, a recent valuation should be undertaken where there has been a significant event that affects the value of an asset. These events may include:

- a natural disaster
- macro-economic events
- market volatility

- changes to the character of the asset.

Terms we use

Term	Meaning
Arm's length	The price should be the same as it would have been had the parties to the transaction not been related to each other.
Collectables and personal use assets	A collectable or personal use asset is an investment in: • artwork • jewellery • antiques • artefacts • coins, medallions or bank notes • postage stamps or first day covers • rare folios, manuscripts or books • memorabilia • wine or spirits • motor vehicles • recreational boats • memberships of sporting or social clubs.
In-house asset	An in-house asset of an SMSF, after 11 August 1999, is either: • a loan to, or an investment in, a related party of a fund • an investment in a related trust of a fund • an asset of a fund, other than business real property, that is subject to a lease or lease arrangement between the trustees of an SMSF and a related party of the fund
Market value	The amount that could be expected to be received from the disposal of an asset in an orderly market. It is the amount that a willing buyer of the asset could reasonably be expected to pay to acquire the asset from a willing seller if all the following assumptions were made: • that the buyer and the seller dealt with each other at arm's length in relation to the sale • that the sale occurred after proper marketing of the asset • that the buyer and the seller acted knowledgeably and prudentially in relation to the sale.
Part 8 associate of a member	A Part 8 associate of a member (whether or not the individual is in the capacity of trustee) includes, but not limited to: • a **relative** of the individual • other members of the SMSF • if the member is a partner in a partnership, other partners in the partnership and the partnership itself • if the partnership mentioned above contains other individuals, the spouse or child of those individuals • a company that is sufficiently influenced by, or in which a majority voting interest is held by, an individual and/or their Part 8 associates.

Related party	A related party of an SMSF is a: • member of a fund • standard employer-sponsor of a fund, or • **Part 8 associate** of a member or standard employer sponsor of a fund.
Relative	A relative of an individual means a: • parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descendant or adopted child of the individual or of their spouse • a spouse of the individual or of any other individual referred to above.
Transfer	Includes: • acquisition of an asset by way of a contribution to or purchase by the SMSF • disposal of an asset by way a payment of a super benefit or a sale by the SMSF.
Underlying market	An underlying market is a formal market or exchange, for example, the ASX where a listed security loses its individual identity. Real property is not traded through an underlying market.

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Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.