

Class Training Webinar - Processing Property Transactions

No.	Question	Answer
1	How do I reflect CGT relief in Class for take-on funds with property and what is the difference between the CGT relief cost base adjustment and the notional gain?	<p>The CGT relief cost base adjustment is the difference between the original cost and the market value that the property is reset to. It should always be positive. The notional gains are related to non-exempt portion of the capital gain using the unsegregated method in FY 2017, they are deferred and will be realised when the underlying assets are sold in the subsequent financial year.</p> <p>These two amounts can be entered as additional adjustments for any take-on funds with property and/or other investment and take advantage of the Transitional CGT relief in 2017.</p>
2	What would be the reason for GST not flowing through on all transactions?	<p>Class will automatically record GST for property related transactions if the following conditions are met:</p> <ul style="list-style-type: none"> • Fund is registered for GST (Under Fund Policy) • The property is a commercial property. <p>Please note that the updating of the GST status will not affect the existing transactions.</p>
3	Why must the property deposit and settlement over two financial years be recorded via a custom account? What about a sale of property where the capital gain should be declared in the year of the contract date even if settled after? Please give an example showing a Property sale over two financial years.	Please refer to the Case Study 1 for detailed instructions on sale of property across two financial years.
4	How come when I put an asset purchase to 'property capital improvement' in the rental statement it doesn't flow through to the depreciation schedule and is classified as an expense?	<p>To capitalise any expenses, it is recommended that you use Property Capital Improvement event to process it.</p> <p>Unfortunately, Property Capital Improvement amount in rental statement currently only creates a property expense, and does not capitalise the amount. This is a known limitation</p>

5	How do you process a sale when manual depreciation has been selected on capital works?	You will still process the disposal events per normal. The reduced cost base as a result of the capital works deduction will be automatically reflected.
6	What is Depreciator?	Depreciator is a quantity surveyor that integrates with Class. You can request the service for a property via the depreciation worksheet screen. https://www.class.com.au/partner/depreciator/
7	How do we process a property when the property is newly constructed, and the super fund is paying the builder in instalments?	It is recommended that you set up a custom holding account to record this amount over a period, until the title of property can be fully registered and transferred into the fund. You will then clear the custom holding account and match this with the property purchase deposit & settlement event.
8	Is there a cost to use the automated valuation? Can I get an automated property valuation for a commercial property?	Automated valuation is only available for residential properties, they are complimentary. Valuation for commercial property can be obtained at a cost through the RP Data Property Hub.
9	What happens if the property can't be verified?	Please contact Class support for further assistance.
10	How often can we click the link to get a valuation for residential or commercial property?	You can obtain one free valuation per residential property in Class per annum, for up to three different properties per fund, ideally this should be done around end of June or early July. The frequency should be based on the ATO's valuation guidelines .
11	Is there any price guide for valuations of commercial property before we purchase them?	Once you login to the RP Data Property Hub, it should provide more information. Generally, it's cheaper than going through to RP Data website directly.

12	<p>In regards to the property sale settlement that you ran through, we normally process the legal fees relating to sale as property capital improvement and then process the sale as per normal. We do not do the extra step of going into the property console and entering the breakup of costs. The reports still appear to show the correct capital gains and we have not had any issues. What is the benefit of this extra step?</p>	<p>This method is fine if there is no depreciation worksheet, otherwise you have to add the asset into the worksheet before you can process the disposal.</p> <p>Selling the property via the depreciation worksheet is only necessary when there was a pre-existing worksheet/schedule for the property being sold.</p>
13	<p>With your example regarding a property purchased over two financial years, if you enter the contract date as 1 July 2018 and not the earlier date (i.e. June 2018), does the program still adjust for the capital gains tax discount in relation to the 12 month holding rule? For example, if it is sold late June 2019, then those few weeks before June 2018 and 1 July 2019 will make a difference?</p>	<p>Once you set up depreciation worksheet, it will let you back-date the purchase to the contract date. Once the property is sold, it will calculate the correct CGT discount period based on the date per the depreciation worksheet.</p>
14	<p>How do you process an in-specie transfer of a property into an SMSF?</p>	<p>For an in-specie transfer of property, the purchase of the property is still the same, you can record a property deposit as nil, and everything else as a property settlement. The other side will be either a contribution or rollover in instead of cash.</p>
15	<p>Why did you create a custom holding account when you purchased the property, instead of using deposit in that particular financial year?</p>	<p>A custom holding account is only required if it takes two or more financial years to settle the property. If the property purchase or disposal settles within the same financial year, then this is not required.</p>

16	How do I set up a property that is subject to a limited recourse borrowing arrangement?	This user guide page provides more information on setting up the property with the relevant classification as well as linking the LRBA to the property: Set up a borrowing or loan liability account
17	We currently do not use the depreciation schedules at all. How do we bring it in if we cannot adjust the opening balances?	This is a user guide page dedicated to explaining the steps on how to transition fixed assets into the new depreciation worksheet .
18	Do we create the same custom holding account when the sale of property and settlement cross over two financial years?	Yes, this is recommended as well, please refer to Case Study 1 below for more information.
19	Is total net rent automatically matched with the annual rental statement event?	The final rental event, rental income = rental expenses, the net amount is nil, therefore, no matchable event is required. These two amounts will offset each other.
20	Can you explain how to deal with net rent received after 30 June that has been included in the gross income as per the real estate management report?	Most accountants will process rent income on receipt basis, accrual is quite rare for rental income.
21	Changing the date of the costs of sale to one day prior to contract date seems weird, what if contract and settlement are across two financial years? So it doesn't work if you change the date one day prior to settlement date?	Selling property across financial year is always complex. It really depends which financial year you want to crystallise the capital gain/losses. Most people will argue that it should be based on contract date. Please refer to Case Study 1 for detailed example on sale of the property across two financial years.
22	One-line entry in adjusting gross rent on 30 June, what if pension commences halfway through the year?	It will not affect ECPI calculation, please refer to Case Study 2 for a detailed work example.

23	Why did you not use the deposit function in FY18 year before you closed financial year?	You can but this will cause an unsettled trade amount. Therefore, we don't recommend this approach if the property will be settled across multiple financial years. In addition, if there are some items from the settlement events that are required to be capitalised, it will cause residual book cost base.
24	If we have a property purchased on 20 September 1985, if the system needs to record the purchase date one day before. Is it going to be calculated as CGT exempt?	SMSFs cannot have any pre-CGT assets (note the CGT regime commenced on 19 September 1985 for non-superannuation taxpayers) and all assets of regulated and complying superannuation funds were brought into the CGT regime on 30 June 1988. Superannuation funds with assets owned prior to 1 July 1988, were given a choice to adopt the cost base or market value of such assets on 1 July 1988(IT 2548).
25	In Class, it currently only maps Borrowing to V instead of V1 Borrowings for LRBA even when tax return classification is correctly selected, this has caused validation errors, why?	This was an issue, but we have fixed it in the April 2019 release. Please double check whether the LRBA has the tax return classification selected as 'Borrowings - LRBA', if the problem persists, please raise a support ticket.
26	There is no option to automatically select the questions at 15e under Section H . We are required to select Yes or No each year. It would be helpful if this was an option under the LRBA.	This information is required to be answered manually. Defaulting this option may sometimes create an unintended result.
27	Where can I get extra info on the cost for valuation of non-residential property via Class?	You will need to find out the cost from the RP Data Property Hub, as it will be varied based on type of properties or valuation services.
28	What are the advantages/differences of putting the LRBA to a cash account, as opposed to a custom holding account?	If the loan was obtained through a financial institution, then we recommend that you set up as a bank/cash account. This is because many of these financial institutions supply direct data feeds to Class. If the loan was obtained through a related party, then we recommend that you just use a custom holding account.

29	Is there a fix if you have entered the date on the contract date? We have a fund at the moment with a residual cost base as this was not done in the prior year when the property was sold.	If there is a residual cost base after the property was sold, it needs to be accessed case by case to see what has caused the issue. Please contact the Class support team to investigate.
30	By including the depreciation on fixtures and fittings in the property account, does this mean the closing written down value of the fixtures and fittings would not show in the trial balance?	Fixtures and fittings are used only for capital allowance depreciation purposes. They form part of the property; the property should be recorded on the Statement of Financial Position using market value.
31	When we enter depreciation directly without using the schedule in class, is that still accounted for in the cost base?	Yes, it will. Please always refer to the realised gains or unrealised report to check calculation.
32	Is it wrong to have the unsettled trade in the fund accounts? Can we not just have it as a deposit from the beginning?	The recommended practice is to book the deposit through custom holding account if the property transaction settles in different financial years. The reason is that it can avoid displaying as an unsettled trade. We have also seen many examples where the sale transactions did not go through, to reverse a deposit via a custom holding account is much easier than sale of property.
33	Why can't we have just put the deposit in and have it as an unsettled trade?	You can process it that way, however, some of Class users don't want to see the account show as unsettled trade therefore the custom holding account approach will help to achieve that result.
34	How do we process if an asset was purchased part of the rental statement?	You should process a property capital improvement for the property expenses that need to be capitalised.

Case Study 1: Sale of property across two financial years

When processing the sale of property across financial years, some of the capital expenses (e.g. legal fees, settlement agent fees) will not be finalised until settlement (e.g. the property was sold in 2018 financial year but not settled until 2019 financial year). If they are capitalised in the Property sale settlement event in the later financial year, these capitalised items which form part of the sale are not being applied to the total cost base.

The sale of property across multiple financial years has always been particularly complex, where the CGT date is based on the contract date, and some of the capital proceeds will not be finalised until settlement, which can be typical of six weeks to six months after the exchange of contracts.

We strongly recommend using a **Custom Holding Account** to temporarily park the settlement receipt, process the full consideration received including settlement adjustments. This will ensure the correct capital gain or loss is calculated in the year of the contract date (i.e. 2018 financial year), not the year of the settlement date (i.e. 2019 financial year).

If the property currently uses a depreciation schedule, when it is sold, some of the capital expenses need to be entered in the depreciation worksheet as capital improvement items. This may create an incorrect CGT calculation discount period based on the acquisition date of the improvement instead of the original property purchase date. The software currently assumes a capital improvement always create a separate CGT asset, as it cannot tell if the asset is a major capital improvement or just balancing adjustment.

- One effective way of addressing the problem is to set the CGT date back to that of the original property purchase date so that the appropriate discount method is used.
- Another method is to add these capitalised costs with depreciation type as capital allowance but with nil depreciation rate, this way the total sale proceed will be reduced by the amount of capitalised costs and remaining will be used to work out CGT position.

Detailed Worked Example

Facts: An SMSF sold the property for \$370,000, \$10,000 was received as the deposit with the contract dated 11/04/2018, the settlement proceeds of \$360,000 was not received until 01/08/2018. Prior to the disposal, the property received a fresh painting, replacement of the door and guttering, which costed \$3,114 on 13/12/2017. \$1,579 was spent on the legal fees and \$12,320 was spent in relation to agent selling fees.

1. Process the property sale deposit event on the contract date in the 2018 financial year. Match it with cash deposit if there was a deposit paid into the fund bank account.
2. Process the property sale settlement event on the contract date (rather than the settlement date) in the 2018 financial. The capitalised expenses should also be recorded (tick 'Capitalise' for these Disbursements) as shown in the screenshot below:

Case Study 1: Sale of property across two financial years

Property Sale Settlement
Guide Me
Status

Event Details
Audit Details
Related Events
Journal Entry
Event Postings

Property Account

Settlement Date
Contract Date

Remaining Amount

Total GST
Based on Sale Price of

GST Remaining

Claimable GST

Net Remaining

Settlement Amount

Description

Disbursements

Type	Amount	GST	Capitalise	Description	
Council Rates	\$411.67	\$0.00	<input type="checkbox"/>	Council Rates	(remove)
Rent from Property	\$48.39	\$0.00	<input type="checkbox"/>	Rent from Property	(remove)
Legal Fees	(\$1,579.00)	\$0.00	<input checked="" type="checkbox"/>	Legal Fees	(remove)
Settlement Agent Fees	(\$12,320.00)	\$0.00	<input checked="" type="checkbox"/>	Settlement Agent Fees	(remove)
Total	(\$13,438.94)	\$0.00			

- As the settlement amount is not received until 2019 financial year, create a custom holding account via **Investments > Custom Holding Account**. Then go to **Transactions > Browse Bank Statements**, select the custom holding account and add a cash in transaction to record the settlement amount receivable.
- The screenshot below is only an example that we used in our test fund, you can change the GL classification to property, other assets if cash is not appropriate.

Case Study 1: Sale of property across two financial years

Code	SETTLEMENT
Description	Property settlement
Unrealised Tax Provision Rate	0.00
In-House Asset	No
Linked To Holding Account	
Holding Reference	
Asset Pool	Default Pool <button>Maintain Asset Pools</button>
GL Classification	Cash and Cash Equivalents
GL Behaviour	Dual (default)
Tax Return Classification	Cash and Term Deposits
Capital Gain Classification	Non CGT Asset
Market Type	Money Market
Include In Performance Reports	Yes

5. Match the transactions per step 2 and 3 in the Match Transactions screen.
6. Process property capital improvement (e.g. New paint) as per usual, if it is in the 2018 financial year, then add as a fixed asset into the depreciation worksheet. Record the capitalised expense raised from the property settlement event as capital allowance (with depreciation rate being zero). Please note that the date cannot be the same as the property contract date (an existing limitation), we change these capital amounts for a date a day before the disposal contract date. Please see items 5 and 6 in the screenshot below:

Case Study 1: Sale of property across two financial years

Depreciation Worksheet - Financial Year 2017-18

New Fixed Asset Export Import Prev. FY Next FY

Code	Description	Purchase Date	Purchase Cost	Opening Written Down Value	Original Construction Cost	Disposed Date	Termination Value	Assessable Income (Deductions)	Method	Rate	Type	Decline in Value	Closing Written Down Value
Total Book Cost			\$209,846.06										
1	Solar Power System	18 Nov 2015	\$10,409.10	\$8,788.13		11 Apr 2018	\$8,101.93	\$0.00	DV	10.00	CA	\$686.20	\$8,101.93
2	Land and Building	31 Oct 2007	\$242,970.69	\$242,970.69		11 Apr 2018	\$343,793.56	\$101,222.89	N/A	N/A	N/A	N/A	\$242,970.69
3	Painting & Replacement of guttering and doors	31 Oct 2007	\$2,830.91	\$2,830.91		11 Apr 2018	\$4,012.23	\$1,181.32	N/A	N/A	N/A	N/A	\$2,830.91
4	Legal Fees re Sale of Real Property - Initial Cost	31 Oct 2007	\$136.36	\$136.36		11 Apr 2018	\$193.26	\$56.90	N/A	N/A	N/A	N/A	\$136.36
5	Legal fees	10 Apr 2018	\$1,579.00	\$1,579.00		11 Apr 2018	\$1,579.00	\$0.00	PC	0.00	CA	\$0.00	\$1,579.00
6	agent fee	10 Apr 2018	\$12,320.00	\$12,320.00		11 Apr 2018	\$12,320.00	\$0.00	PC	0.00	CA	\$0.00	\$12,320.00
Residual Book Cost			\$0.00										
Totals			\$370,000.00									\$686.20	
Total Assessable Income							\$102,461.11						
Total Deductions							\$0.00						
Total Capital Allowance												\$686.20	
Total Capital Works Deduction												\$0.00	

Summary of this year's transactions

Acquisitions / Adjustments

Date	Description	Amount
	Opening Book Cost	\$251,356.82
01 Jul 2017	Recognition of Accumulated Depreciation	\$1,620.97
13 Dec 2017	Painting & Replacement of guttering and doors	\$2,830.91
11 Apr 2018	Legal Fees re Sale of Real Property - Initial Cost	\$136.36
11 Apr 2018	Property Sale Settlement	\$12,320.00
11 Apr 2018	Property Sale Settlement	\$1,579.00
	Closing Book Cost	\$209,846.06

Disposals

Date	Description	Amount	Residual Amount
11 Apr 2018	Property Sale Deposit	\$370,000.00	\$0.00

- Select the **'Sell all'** button in the depreciation worksheet. Proceeds will then be allocated to each item as shown in the above screenshot.
- Run a period update for the 2018 financial year and review the Statement of Financial Position.

Assets

As at 30 Jun 2018

	Balance	Quantity
Investments		
Cash and Cash Equivalents		
Property settlement	\$ 346,561.06	
Total Cash and Cash Equivalents	\$ 346,561.06	
Shares in Listed Companies		

- In the 2019 financial year when the settlement cash amount is received in July, process a cash out under the custom holding account and match it with the actual cash received.

Further Notes:

- If some capital improvements are inseparable to the main property and should receive a discount in capital gain (even though it was purchased within 12 months before sale), then adjust the purchase date of these capital improvements (e.g. item 3 and 4 in the below screenshot) as the original purchase date (31 October 2007), this will indicate they are part of the original property, rather than a separate CGT asset.

Case Study 1: Sale of property across two financial years

Depreciation Details														
Code	Description	Purchase Details				Disposal Details			Depreciation Details					
		Purchase Date	Purchase Cost	Opening Written Down Value	Original Construction Cost	Disposed Date	Termination Value	Assessable Income (Deductions)	Method	Rate	Type	Decline in Value	Closing Written Down Value	
		Total Book Cost		\$269,846.06										
1	Solar Power System	18 Nov 2015	\$10,409.10	\$8,788.13	11 Apr 2018	\$8,101.93	\$0.00	DV	10.00	CA	\$686.20	\$8,101.93	edit / delete	
2	Land and Building	31 Oct 2007	\$242,570.69	\$242,570.69	11 Apr 2018	\$343,793.58	\$101,222.89	N/A	N/A	N/A	N/A	\$242,570.69	edit / delete	
3	Painting & Replacement of guttering and doors	31 Oct 2007	\$2,830.91	\$2,830.91	11 Apr 2018	\$4,012.23	\$1,181.32	N/A	N/A	N/A	N/A	\$2,830.91	edit / delete	
4	Legal Fees re Sale of Real Property - Initial Cost	31 Oct 2007	\$136.36	\$136.36	11 Apr 2018	\$193.26	\$56.90	N/A	N/A	N/A	N/A	\$136.36	edit / delete	
5	Legal fees	10 Apr 2018	\$1,579.00	\$1,579.00	11 Apr 2018	\$1,579.00	\$0.00	PC	0.00	CA	\$0.00	\$1,579.00	edit / delete	
6	agent fee	10 Apr 2018	\$12,320.00	\$12,320.00	11 Apr 2018	\$12,320.00	\$0.00	PC	0.00	CA	\$0.00	\$12,320.00	edit / delete	
		Residual Book Cost		\$0.00				Totals		\$370,000.00		\$686.20		delete all
						Total Assessable Income		\$102,461.11		Total Capital Allowance		\$686.20		
						Total Deductions		\$0.00		Total Capital Works Deduction		\$0.00		

Summary of this year's transactions
Acquisitions / Adjustments

Date	Description	Amount
	Opening Book Cost	\$251,358.62
01 Jul 2017	Recognition of Accumulated Depreciation	\$1,620.97
13 Dec 2017	Painting & Replacement of guttering and doors	\$2,830.91 (create.html)
11 Apr 2018	Legal Fees re Sale of Real Property - Initial Cost	\$136.36 (create.html)
11 Apr 2018	Property Sale Settlement	\$12,320.00 (create.html)
11 Apr 2018	Property Sale Settlement	\$1,579.00 (create.html)
	Closing Book Cost	\$269,846.06

Disposals

Date	Description	Amount	Residual Amount
11 Apr 2018	Property Sale Deposit	\$370,000.00	\$0.00

- Review the Realised Capital Gains report, to see if all the capital gains are discounted gains.

Realised Capital Gains For the period from 1 July 2017 to 30 June 2018										
Accounting Treatment					Taxation Treatment					
Quantity	Proceeds	Excess Tax Value*	Original Cost	Accounting Profit/(Loss)	Cost Base Calculation		Capital Gains Calculation			
					Adjusted	Reduced	Indexation	Discounted	Other	Capital Loss
Property Direct Market										
11/04/2018 Sale	1.00	370,000.00	267,538.89	102,461.11	245,537.96			102,461.11		
	1.00	370,000.00	267,538.89	102,461.11	245,537.96			102,461.11	0.00	
Property Direct Market Total		370,000.00	267,538.89	102,461.11	245,537.96			102,461.11	0.00	
Grand Total		370,000.00	267,538.89	102,461.11	245,537.96			102,461.11	0.00	

Case Study 2: Rental statement and ECPI

Question

In the Property Webinar, Class recommended that processing an amount of net rent received as rental income using transaction rules, ignoring the actual breakdown of rental income and rental expenses. Then on 30 June, just process one annual rental statement, with total rental expenses matched with rental income.

Will this method compared to processing actual rental income and rental expenses received on a monthly basis, produce different results if the fund is switching its ECPI methods, i.e. from unsegregated to segregated?

Answer:

It will affect the ECPI calculation, but not the taxable income, so the bottom-line is the same.

A couple of simple examples below:

Example 1

An SMSF has a single member in 100% accumulation, who turned 65 on 1 January 2018, and commenced an account-based pension for the entire balance of \$1million on the same date. The fund only has cash and rental property, which generates rental income of \$2,200 per month and rental expenses are \$200 per month.

You may consider the following approach to calculate the ECPI and Taxable Income

Methods	ECPI	Taxable Income
1. Monthly Rental Statement Monthly rent of \$2,200 plus \$200 rental expenses.	$\$2,200 \times 6 = \$13,200$	$\$2,200 \times 12 - \$13,200 - \$200 \times 6 = \mathbf{\$12,000}$ \$1,200 will be investment deductions
2. Annual Rental Statement Net Rent of \$2,000 for 12 months and \$2,400 rental expenses and rental income processed on 30 June 2018.	$\$2,000 \times 6 + \$200 \times 12 = \$14,400$	$\$2,200 \times 12 - \$14,400 = \mathbf{\$12,000}$ No investment deductions under Method (2)

Example 2

An SMSF has two members with \$1million each, member 1 is in full accumulation, who turned 65 on 1 January 2018, and commenced an account-based pension for the entire balance of \$1million on the same date. Member 2's \$1million balance is entirely in retirement phase income stream. The fund only has cash and rental property, which generates rental income of \$3,300 per month and rental expenses are \$300 per month.

The fund is unsegregated for the first 6 months, the actuarial exemption percentage is 50%. The remaining 6 months, the fund is deemed segregated, with all rental income becoming fully exempt.

You may consider the following approach to calculate the ECPI and Taxable Income:

Methods	ECPI	Taxable Income
1. Monthly Rental Statement Monthly rent of \$3,300 plus \$300 rental expenses.	$\$3,300 \times 6 + \$3,300 \times 6 \times 50\% = \$29,700$	$\$3,300 \times 12 - \$29,700 - \$300 \times 6 \times 50\% = \mathbf{\$9,000}$ \$900 will be investment deductions
2. Annual Rental Statement Net Rent of \$3,000 for 12 months and \$3,600 rental expenses and rental income processed on 30 June 2018.	$\$3,000 \times 6 \times 50\% + \$3,000 \times 6 + \$300 \times 12 = \$30,600$	$\$3,300 \times 12 - \$30,600 = \mathbf{\$9,000}$ No investment deductions under Method (2)