

SMART MONEY

YOUR QUESTIONS JOHN WASILIEV

Art best kept under wraps

Is it correct that a DIY superannuation fund can have a maximum of 5 per cent of its assets in alternative investments such as art? If a DIY fund buys art, how do you prove it is not hanging on your living room wall for your enjoyment? Is the best way to put it in storage, and in that case is a receipt from a storage company proof enough for an auditor?

There's nothing in the super rules and regulations restricting the ownership of art, says Phil Jaquillard of SuperGuardian Chartered Accountants.

So any level of investment is possible as long as it falls within the fund's investment strategy and the trustees are advised in the purchase of art for investment purposes. Of course, it must fit within the scope of investments allowed by the trust deed.

The 5 per cent relates to rules that restrict a member – or someone related to a member, called a “related party” – from using the fund's assets for personal enjoyment, such as hanging art on your wall at no cost. A related party includes family members, employers and business partners.

Under the “in-house asset” rules, a fund can lease art to a related party at a market rate as long as the value of the art and any other similar assets represent no more than 5 per cent of the total value of the fund.

This 5 per cent limit must be strictly monitored. Hanging the art on your wall at no cost is a breach of the sole-purpose test, which stipulates the core reason for having a super fund is to provide benefits to members on retirement, and not before.

That part of the art investments that exceeds 5 per cent of the value of the fund cannot be leased to related parties and must be leased to unrelated parties or stored. Jaquillard strongly recommends storage, but not in the member's home. Receipts from the storage facility should be satisfactory to prove to the auditor the art is not on your wall. If the Australian Taxation Office decides to audit your fund, it may make further inquiries, including requesting confirmation from the storage facility or making an on-site visit.

It would be prudent to insure the artwork as the insurance policy also provides confirmation of the location of the artwork.



Super investment . . . but hanging art on your wall at no cost is a breach of the sole-purpose test.
Photo Jessica Shapiro