CARISMA SOLUTIONS

CASE STUDY

Manual calculation of Unrealised gain/loss

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What is Unrealized Capital Gain/Loss?

- Unrealized capital gains and losses refer to the increases or decreases in the value of an asset that has not yet been sold or disposed of.
- These gains or losses are "unrealized" because the asset is still held by the investor, and the potential gain or loss would only be realized when the asset is sold.

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Example:

Unrealized Capital Gain:

- **Definition**: When the market value of an asset held by the SMSF exceeds its purchase price (or cost base), an unrealized capital gain is recorded.
- **Example**: The SMSF purchased a property for $500,000, and now its market value has increased to $600,000. The unrealized capital gain is $100,000.

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Tax Treatment of Unrealized Capital Gains

- **Accumulation Phase**: In this phase, an SMSF does not pay tax on unrealized capital gains. Instead, tax is applied when the asset is sold (realized gain). The tax rate for capital gains in the accumulation phase is typically 15%.
- **Pension Phase**: If the SMSF is paying a pension, unrealized capital gains are still not taxed unless the asset is sold. If the asset is sold while in the pension phase, capital gains are tax-free, provided the fund is paying a pension to members.

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Cost base calculation of unrealised capital gains:

- The **cost base** of an asset is a critical component for calculating **unrealized capital gains** or **losses**. It represents the initial amount paid for the asset, plus certain additional costs associated with the acquisition and holding of the asset. This cost base is used to determine whether the SMSF has made a **capital gain** or **capital loss** when the asset is sold, even though unrealized capital gains or losses are not taxed until a sale occurs.

Components of the Cost Base:

The **cost base** typically includes:

Purchase Price: The original price paid for the asset at the time of acquisition.

Acquisition Costs:

- *Costs directly related to acquiring the asset, such as **brokerage fees**, **stamp duty**, **legal fees**, and **valuation fees**.*

Cost of Improvements:

- *For assets like **real estate**, costs for improvements or renovations made to enhance the asset's value can be added to the cost base. For example, the cost of significant renovations to a property held within the SMSF.*

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Components of the Cost Base:

Holding Costs:

- *These include ongoing costs that directly relate to holding the asset, like property taxes or insurance premiums. These generally do **not** increase the cost base, but some exceptions exist (e.g., for certain assets like real property, depending on tax treatment).*

Selling Costs:

- *When an asset is eventually sold, costs incurred to sell the asset can also be included in the cost base, such as **brokerage fees** and **legal costs** of selling the asset.*

Capital Allowances:

- *For assets eligible for depreciation (e.g., real property), the depreciation claimed may reduce the cost base of the asset*

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Formula for Cost Base:

The formula for the **cost base** is:

- Cost Base = Purchase Price + Acquisition Costs + Improvements + Other Allowable Costs

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Examples:

- **Unrealized Capital Gain:**

- **Initial Purchase Price**: The SMSF buys 1,000 shares in a company for $10 per share, so the total cost is $10,000.

- **Brokerage Fee**: There is a $100 fee for purchasing the shares.

- **Total Cost Base**: Initial Purchase Price + Brokerage Fee = 10,000 + 100 = 10,100

If the shares appreciate to $15,000, the unrealized capital gain would be $4,900 ($15,000 sale price minus $10,100 cost base).

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Examples:

- **Unrealized Capital Loss:**
  - If the 10,000 shares in the company (with a cost base of $20,500) are now worth $18,000 (due to a decline in stock price), the unrealized capital loss would be:

Unrealized Capital Loss = Cost Base – Market Value = 20,500 – 18,000 = 2,500

Scenario – Manual Calculation for cost base

The fund was managed by CARISMA until 30.06.2022, and FY 2023 was not handled by CARISMA. We were instructed to handle compliance for FY 2024. However, we do not have the opening balance for FY 2023, and we only have BGL details up to FY 2022.

The client has shared their completed financials for FY 2023 (handled outside of CARISMA). In the provided documents, there are no unrealized gains reports available.

Suggestions

- We can request client to provide the unrealized gains report for FY2023.
- If not available, we can do manual calculations based on the available information. The available BGL Reports are as follows:

1. General Ledger FY 2023
2. Unrealized Gains Report FY 2022
3. Realized Gains FY 2023

- In this scenario, the client did not have the report.

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Process

- We have a table/format to input the details from the reports and do the calculations.

OMF0009AU										
Unrealised FY 2022			Realised Report FY 2023							
Date	Units	Cost	Units	Cost	Units	Cost	Units	Cost	Units	Cost
29/09/2020	334.75	355.07	-131.86	-139.86	-202.89	-215.21			0	0
29/10/2020	324.46	344.99	-324.46	-344.99					0	0
23/07/2021	769.83	815.33	-455.17	-485.07					314.66	330.26
23/07/2021	658.06	696.95							658.06	696.95
24/04/2023									1,254.48	1,315.67
24/04/2023									1,291.87	1,315.67
26/04/2023									341.48	358.15
									3860.55	**4016.7**

From the unrealized gains report for FY2022 we need to update the purchase records for each investment.

Superannuation Fund

Unrealised Capital Gains - Detailed Report

As at 30 June 2022

Investment	Contract Date	Units	Cost	Tax Deferred /Depreciation	CGT Cost Base	Market Value	Projected Profit /(Loss)	Taxable Profit Indexation	Taxable Profit Discounted	Taxable Profit Notional
Managed Investments (Australian)										
DDH0001AU - Arculus Preferred Income Fund										
	15/06/2022	1,583.39	1,315.17	3.05	1,312.12	1,307.4051	(4.71)	0.00	0.00	0.00
	16/06/2022	456.58	379.78	0.88	378.90	376.9981	(1.90)	0.00	0.00	0.00
	27/06/2022	629.57	520.84	1.21	519.63	519.8359	0.21	0.00	0.00	0.00
		2,669.54	**2,215.79**	**5.15**	**2,210.65**	**2,204.2391**	**(6.40)**	**0.00**	**0.00**	**0.00**
OMF0009AU - Realm High Income Fund Wholesale										
	29/09/2020	334.75	355.07	0.00	355.07	338.2984	(16.77)	0.00	0.00	0.00
	29/10/2020	324.46	344.99	0.00	344.99	327.8993	(17.09)	0.00	0.00	0.00
	23/07/2021	769.83	815.33	0.00	815.33	777.9902	(37.34)	0.00	0.00	0.00
	23/07/2021	658.06	696.95	0.00	696.95	665.0354	(31.91)	0.00	0.00	0.00
		2,087.10	**2,212.34**	**0.00**	**2,212.34**	**2,109.2233**	**(103.11)**	**0.00**	**0.00**	**0.00**
VVLU.AX - Vanguard Global Value Equity Active Etf (managed Fund)										
	17/11/2021	13.00	798.25	(1.03)	799.28	719.0300	(80.25)	0.00	0.00	0.00
	17/11/2021	59.00	3,622.83	(4.67)	3,627.50	3,263.2900	(364.21)	0.00	0.00	0.00
		72.00	**4,421.08**	**(5.70)**	**4,426.78**	**3,982.3200**	**(444.46)**	**0.00**	**0.00**	**0.00**

After this we need to enter the details of sales using the realized capital gains report for FY2023 as per the correct purchase dates.

Superannuation Fund

Realised Capital Gains Report

For The Period 01 July 2022 - 30 June 2023

Investment		Accounting Treatment				Tax Treatment						
Purchase Contract Date	Disposal Contract Date	Units	Cost	Proceeds	Accounting Profit/(Loss)	Adjusted Cost Base	Reduced Cost Base	Indexed Cost Base	Indexed Gains	Discounted Gains (Gross)	Other Gains	Capital Loss
Managed Investments (Australian)												
OMF0009AU - Realm High Income Fund Wholesale												
29/10/2020	05/12/2022	324.46	344.99	334.29	(10.71)	344.98	344.98	0.00	0.00	0.00	0.00	(10.69)
29/09/2020	05/12/2022	131.86	139.86	135.85	(4.01)	139.86	139.86	0.00	0.00	0.00	0.00	(4.00)
23/07/2021	05/12/2022	455.17	482.07	468.96	(13.11)	482.05	482.05	0.00	0.00	0.00	0.00	(13.09)
29/09/2020	05/12/2022	202.89	215.21	209.04	(6.17)	215.20	215.20	0.00	0.00	0.00	0.00	(6.16)
		1,114.38	**1,182.13**	**1,148.14**	**(34.00)**	**1,182.09**	**1,182.09**	**0.00**	**0.00**	**0.00**	**0.00**	**(33.94)**
TGP0016AU - ClrBrdge RARE Infra Inme Fd A												
		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	34.42	0.01	0.00
		0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**34.42**	**0.01**	**0.00**
		1,114.38	**1,182.13**	**1,148.14**	**(34.00)**	**1,182.09**	**1,182.09**	**0.00**	**0.00**	**34.42**	**0.01**	**(33.94)**

We have to update the net of unrealized and realized columns in the last column.

Once, this is done, we must check the General ledger and update the details of any purchases in FY2023

Managed Investments (Australian) (74700)

Arculus Preferred Income Fund (DDH0001AU)

01/07/2022	Opening Balance	2,669.54			2,204.24 DR
12/09/2022	DDH Preferred Income (DDH0001AU) buy	432.31	360.38		2,564.62 DR
30/06/2023	Revaluation - 30/06/2023 @ $0.827800 (System (Ex-Dist)) - 3,101.850000 Units on hand		3.09		2,567.71 DR
		3,101.85	**363.47**		**2,567.71 DR**

Realm High Income Fund Wholesale (OMF0009AU)

01/07/2022	Opening Balance	2,087.10			2,109.22 DR
05/12/2022	Realm High Income- Wholesale (OMF0009AU) Sell (Auto reprocessed due to distribution entered / deleted on 30/06/2023)	(456.32)		484.86	1,624.36 DR
05/12/2022	Realm High Income - Wholesale (OMF0009AU) Sell (Auto reprocessed due to distribution entered / deleted on 30/06/2023)	(658.06)		697.28	927.08 DR
05/12/2022	Unrealised Gain writeback as at 05/12/2022		22.55		949.63 DR
05/12/2022	Unrealised Gain writeback as at 05/12/2022		32.51		982.14 DR
24/04/2023	Realm High Income- Wholesale (OMF0009AU) Buy	1,254.48	1,315.67		2,297.81 DR
24/04/2023	Realm High Income - Wholesale (OMF0009AU) Buy	1,291.87	1,354.91		3,652.72 DR
26/04/2023	Realm High Income - Wholesale (OMF0009AU) Buy	341.48	358.15		4,010.87 DR
30/06/2023	Revaluation - 30/06/2023 @ $1.047100 (System (Ex-Dist)) - 3,860.550000 Units on hand		31.51		4,042.38 DR
		3,860.55	**3,115.30**	**1,182.14**	**4,042.38 DR**

After updating this, we can see the total units and cost will match with that of investment summary.

Superannuation Fund

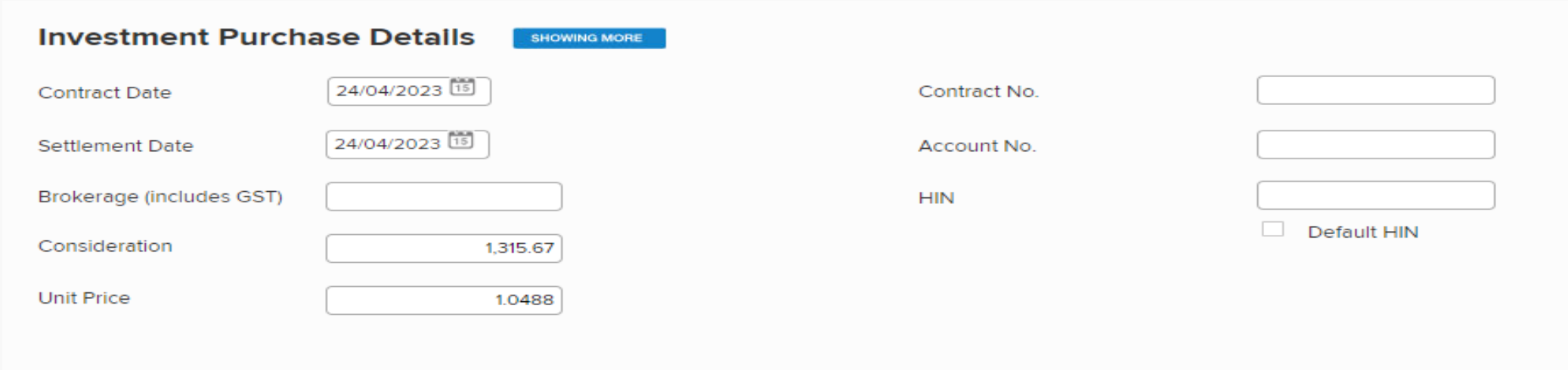
Investment Summary Report

As at 30 June 2023

Investment		Units	Market Price	Market Value	Average Cost	Accounting Cost	Unrealised Gain/(Loss)	Gain/ (Loss)%	Portfolio Weight%
Bank Accounts									
	Collian House Cash #2420 - Maria		324.450000	324.45	324.45	324.45			0.24 %
	Collins House Cash #2421 - George		461.350000	461.35	461.35	461.35			0.33 %
	Macquarie Cash Management A/c - No. 118209402		144.570000	144.57	144.57	144.57			0.10 %
				930.37		**930.37**			**0.67 %**
Managed Investments (Australian)									
DDH0001AU	Arculus Preferred Income Fund	3,101.85	0.827800	2,567.71	0.83	2,576.17	(8.46)	(0.33) %	1.86 %
TGP0016AU	ClrBrdge RARE Infra Inme Fd A	1,071.64	1.371600	1,469.86	1.53	1,640.31	(170.45)	(10.39) %	1.07 %
OMF0009AU	Realm High Income - Wholesale	3,860.55	1.047100	4,042.38	1.05	4,058.93	(16.55)	(0.41) %	2.93 %
				8,079.95		**8,275.41**	**(195.46)**	**(2.36) %**	**5.86 %**
Other Revaluations									
	Other Revaluations						15,844.46		
	Other Revaluations						(0.01)		
							15,844.45		**0.00 %**

30/06/2023	4	74700/OMF0009AU (Realm High Income Fund Wholesale)	314.660000	333.26	
		74700/OMF0009AU (Realm High Income Fund Wholesale)	658.060000	696.95	
		74700/OMF0009AU (Realm High Income Fund Wholesale)	1,254.480000	1,315.67	
		74700/OMF0009AU (Realm High Income Fund Wholesale)	1,291.870000	1,354.91	
		74700/OMF0009AU (Realm High Income Fund Wholesale)	341.480000	358.14	
		91000 (Bank Data Clearing Account)			4,058.93
		74700/OMF0009AU (Realm High Income Fund Wholesale)			16.55
		24700 (Changes in Market Values of Investments)		16.55	

While bringing in the cost for each date, we need to ensure that the purchase dates are correctly updated.



Output

So once the transactions are posted, the cost base will be correctly reflecting in the Unrealised capital gains reports and will be matching to that of investment summary.

Superannuation Fund

Unrealised Capital Gains - Detailed Report

As at 30 June 2023

Investment	Contract Date	Units	Cost	Tax Deferred /Depreciation	CGT Cost Base	Market Value	Projected Profit /(Loss)	Taxable Profit Indexation	Taxable Profit Discounted	Taxable Profit Notional
Managed Investments (Australian)										
DDH0001AU - Arculus Preferred Income Fund										
	15/06/2022	1,583.39	1,315.17	1.99	1,313.18	1,310.7302	(2.45)	0.00	0.00	0.00
	16/06/2022	456.58	379.78	0.57	379.21	377.9569	(1.25)	0.00	0.00	0.00
	27/06/2022	629.57	520.84	0.79	520.05	521.1580	1.11	0.00	0.74	0.00
	12/09/2022	432.31	360.38	(0.29)	360.67	357.8662	(2.80)	0.00	0.00	0.00
		3,101.85	**2,576.17**	**3.06**	**2,573.11**	**2,567.7113**	**(5.39)**	**0.00**	**0.74**	**0.00**
OMF0009AU - Realm High Income Fund Wholesale										
	23/07/2021	314.66	333.26	0.02	333.24	329.4805	(3.76)	0.00	0.00	0.00
	23/07/2021	658.06	696.95	0.03	696.92	689.0546	(7.87)	0.00	0.00	0.00
	24/04/2023	1,254.48	1,315.67	0.07	1,315.60	1,313.5660	(2.03)	0.00	0.00	0.00
	24/04/2023	1,291.87	1,354.91	0.07	1,354.84	1,352.7171	(2.12)	0.00	0.00	0.00
	26/04/2023	341.48	358.15	0.02	358.13	357.5637	(0.57)	0.00	0.00	0.00
		3,860.55	**4,058.94**	**0.20**	**4,058.73**	**4,042.3819**	**(16.35)**	**0.00**	**0.00**	**0.00**


Thank You....