



Australian
Philanthropic
Services

Private ancillary funds (PAFs) Strategic & inspiring philanthropy



About our PAF service

A private ancillary fund (PAF) enables an individual, family or organisation to put aside money in a trust to support charities over the long term. It offers an effective and rewarding way to manage your philanthropy. You donate money into the PAF, receive an immediate tax deduction and use the money to give to the charities of your choice each year. You or your investment adviser invest the capital, and we handle everything else.

Australian Philanthropic Services (APS) offers a one-stop-shop for the establishment and administration of PAFs, including all accounting, secretariat, compliance and reporting requirements:

- PAF establishment paperwork and approvals
- All ongoing administration and compliance
- Preparation of accounts, facilitation of annual audit and running of trustee meetings
- Reporting to the charity regulator and Australian Taxation Office (ATO)
- Specialist advice about your charitable giving
- Your own relationship manager and access to our online portal



Is a PAF right for you?

A PAF may be appropriate for individuals, families and companies that:

- Want control of all investment and grantmaking decisions
- Would like to provide a sustainable gift to a chosen cause(s)
- Have a recommended minimum of \$1 million for an initial donation
- Would like a tax deduction for donations



“Many people say it’s very generous to give. What I’ve learned is, that actually you get a lot back from giving.”

David Gonski AC

APS board member
and founder of the
Gonski Foundation

We will work with you to understand your needs and help you to give in a way that achieves your goals.

Key benefits of a PAF



Rewarding

By establishing something in your lifetime, you can see the benefits of giving first-hand and, if you choose, be directly involved with the causes you support.



Family engagement

Giving through a PAF is a satisfying way to engage and bring together family members. It can increase children's and grandchildren's social awareness and help to inspire future generations.



Tax effectiveness

A PAF enables you to take advantage of tax benefits while having a positive impact on the lives of others. Donations are tax deductible, the funds in the PAF are tax exempt and franking credits are refunded, so your philanthropic dollar goes much further.



Control

You act as a director of the trustee company that controls the PAF, directing all investment and grantmaking decisions.



Flexibility

PAFs break the link between the timing of the tax deduction and the timing of your grantmaking decisions. You can take the tax deduction now and decide where to distribute the money over the coming years.



Sustainable funding

Establishing a trust in perpetuity allows you to provide charitable causes with long term sustainable funding even when financial situations change.



Community impact

Having a PAF allows you to be more considered in your grantmaking. You can plan for multi-year grants and redirect support as community needs change.



Legacy

By setting up a PAF, you can create an enduring legacy to support charitable causes that are important to you, or establish a PAF in memory of a loved one.

Why choose APS for your PAF?

■ Experienced

APS works with 250 PAF clients in all states and territories. We are the largest provider of PAF services in Australia, with over \$1 billion committed to charity in PAFs supported by us. Our PAF clients gifted more than \$100 million to over 1,000 charities in the 2019-20 financial year.

■ Independent

APS does not manage the money in the PAFs we administer. We are not aligned to any financial institution or advisory group, or any particular charities. We have earned the respect of advisers and accountants who trust us to work with their most valuable clients.

■ Not-for-profit

APS was established with a genuine commitment to reducing the obstacles, including prohibitive fee structures, that can sometimes impede philanthropists.

■ Straight-forward

Getting started is easy and can take just 4-6 weeks. Complete one form and we will take care of the rest.

■ Full-service

We deliver the full spectrum of philanthropic services from advice and execution of ancillary funds to values-based giving plans and research and support around grantmaking.

■ Leadership

APS has a highly talented, well-respected and influential board, including non-executive directors Chris Cuffe AO (chairman), Michael Traill AM, Belinda Hutchinson AC, Tim Fairfax AC, Jan Swinhoe, David Gonski AC, and Dan Phillips, and executive director David Ward.

PAF FAQs

Key features of a PAF

- A PAF is a charitable trust controlled by a company as trustee. The board is usually comprised of family members but must contain at least one independent director (the 'Responsible Person').
- Donors receive a tax deduction for donations, which can be spread over five years
- The investment strategy is set by the directors
- Earnings are income tax exempt with franking credits reclaimable and testamentary gifts have Capital Gains Tax (CGT) exemption
- Distributions are made to charities with Deductible Gift Recipient (DGR) Item 1 status, and a minimum of 5% of the value of the fund must be distributed each year
- PAFs are governed by Australian Taxation Office (ATO) Guidelines and have Australian Charities and Not-for-profits Commission (ACNC) compliance obligations



Grantmaking

Annual distributions

During each financial year, a PAF must distribute at least 5% of the market value of the fund's net assets (as at the end of the previous financial year).

If the 5% is less than \$11,000, the PAF must distribute at least \$11,000 during that financial year. No distribution is required in the year in which the PAF is established.

It is important to record any conditions attached to grants and monitor grants to ensure they are properly allocated and expended.

Who can I make grants to?

PAFs can only make distributions to Deductible Gift Recipient (DGR) Item 1 charities and, if incorporated in the Deed, to Government entities that have a purpose that is "charitable" i.e., public hospitals and public museums.

DGR endorsement

A deductible gift recipient (DGR) is a fund or organisation that can receive tax deductible gifts. The deduction is claimed by the person or organisation that makes the gift. DGR endorsements are managed by the Australian Taxation Office (ATO). There are two distinct categories of DGR endorsement. It is critical to understand this as PAFs are limited to funding only one of these types.

- DGR Item 1 – known informally as a 'doing' DGR. Most organisations which are endorsed as DGRs will fall into this category, including public benevolent institutions, universities, health promotion charities, environmental organisations and cultural organisations.
- DGR Item 2 – known informally as a 'giving' DGR. This category includes public and private ancillary funds. These organisations exist only for the purposes of providing donations to 'doing' DGRs.

DGR Item 2 organisations must only provide funds to DGR Item 1 organisations. A DGR Item 2 may not fund another DGR Item 2, i.e., under no circumstances can a PAF distribute funds to another ancillary fund. To check the DGR status of an organisation you can contact us or check the Australian Business Register at www.abn.business.gov.au.

Grantmaking continued...

International giving

PAFs can make grants internationally if they are made to a charitable organisation that is a registered DGR Item 1, income tax exempt and based in Australia. This includes some 200 approved overseas development organisations.

Which charities should I support?

Deciding which organisations you'll support can be hugely rewarding, but can also be a challenge. The not-for-profit sector in Australia is complex. There are over 20,000 charities with DGR Item 1 status that are able to accept donations from PAFs. If you are unsure where to start, APS can help you to identify and articulate philanthropic goals, gain insight into particular areas of community need and measure the impact of your giving, as well as providing practical tools to help make your grantmaking seamless and rewarding.



“I grew up in a family that did a lot of volunteering within the community, and having a PAF is a great way to help to transfer those family values to the next generation.”

Jan Swinhoe

APS board member and
founder of the Doherty
Swinhoe Family Foundation

Donations

How much do I need to start?

The recommended minimum donation for a PAF is \$1 million.

Tax deductibility

Individuals can claim a tax deduction on donations made to their PAF:

- Donations are irrevocable. Deductions for a donation can be spread over a period of up to five years
- Cash donations are generally deductible up to the limit of an individual's taxable income

Contributions

You can contribute to your PAF as often or as infrequently as you like. There is no requirement to contribute on a regular basis.

Donating non-cash assets

In addition to cash, some other types of assets, such as shares, can be donated into your PAF and claimed as a tax deduction subject to the ATO's valuation process. It is always important for donors to seek advice from their accountant or tax adviser.

PAFs and estate planning

When a Capital Gains Tax (CGT) asset owned by a deceased person passes to a beneficiary in their estate, the estate may incur a capital gain on which tax is payable. This is referred to as CGT Event K3. CGT Event K3 is disregarded if the beneficiary is an existing entity with DGR status, such as a PAF.



The trustee

Who can be a trustee of a PAF?

A PAF is a charitable trust controlled by a company as trustee. Most of the directors of the trustee company can be family members or business associates provided that at least one of the directors is an independent person who is a 'responsible person' who is not:

- The founder or their relative
- A donor who has contributed more than \$10,000 to the fund or an associate of such a donor
- An employee or agent of the Founder or major donor unless the ATO has provided written consent

The responsible person must have a degree of responsibility to the Australian community as a whole. Examples of such people as provided by the ATO are:

- Clergy
- School principals
- Lawyers
- Doctors
- Accountants
- Justices of the Peace
- Other people who perform a public function and belong to a professional body, such as the Australian Institute of Company Directors (AICD)

Duties and responsibilities of the trustee

The trustee is responsible for carrying out the terms of the trust and preserving safely the trust property.

The duties of trustees include:

- Administration – The processes of managing the fund to meet its compliance obligations
- Investment – The investment of fund assets to protect and grow the real value of the fund
- Distributions/Grantmaking – The distribution or granting by the fund to eligible entities



Investments

What investments can be held in my PAF?

PAFs can invest in a wide range of investments including cash, shares, fixed interest securities and property. A PAF must have and adhere to a written investment policy and a review of investment assets is required at least annually.



Investment limitations:

- PAFs cannot run a business
- PAFs cannot borrow other than in exceptional circumstances
- Investments must be made on an arm's length basis
- Collectibles cannot be purchased and any donated must be sold within 12 months



Prudent Person considerations

In considering trust investments, trustees must 'exercise the care, diligence and skill that a prudent person engaged in that profession, business or employment would exercise in managing financial affairs of others.' Where the trustee's profession includes being a trustee or managing investments, the duty of care is higher.



In managing trust investments, trustees are required to consider:

- The benefits of diversification
- Investing not speculating
- The purpose and objectives of the fund
- Balancing risk
- Maintaining real value of capital and income
- Tax consequences of investment decisions
- Liquidity of the investments
- Costs of investment alternatives and transactions

Administration

Administration and compliance

Like any trust or other legal structure, good basic housekeeping is required. The trustee must:

- Keep the assets of the fund separate from all other assets and not provide any benefit to donors or trustees
- Prepare financial statements showing the financial position of the fund at the end of each financial year, and have those financial statements and compliance with the PAF Guidelines audited
- Obtain a valuation of any land in the fund every three financial years and revalue other assets annually
- Lodge the Annual Information Statement with the ACNC which includes the ATO Ancillary Fund Return
- Ensure adherence with the PAF Guidelines 2019 and ACNC Governance Standards
- Prepare, maintain and adhere to an investment strategy for the fund
- Ensure the fund's investments are made and maintained on an arm's length basis
- Ensure the fund does not carry on a business, and does not borrow money

If a compliance breach occurs, administrative penalties can be imposed which must be paid by the trustee or the directors of the trustee.

The APS PAF administration service includes all accounting, secretariat and compliance requirements.



Getting started

How do I establish a PAF?

Australian Philanthropic Services (APS) does all the work to set up your PAF and handles the paperwork from day one. To start the process, all you need to do is complete a simple establishment form and we will do the rest.

We will:

- Arrange the incorporation of the trustee company
- Prepare the PAF deed and supporting documentation
- Manage all approvals with the ACNC and ATO
- Brief all directors on their duties and responsibilities

How long does it take?

It can take between 4-6 weeks for APS to establish a PAF.



How can APS help with ongoing administration?

The administration service provided by APS is a one-stop-shop for PAFs, including all accounting, secretariat and compliance requirements. This means you can decide how much or how little involvement in the PAF you would like – from attending just one annual meeting to being actively involved in the charities you support.

The APS PAF administration service includes:

- Taking care of all ongoing administration, preparation of accounts, organising meetings, overseeing compliance, arranging the annual audit, and all dealings with the ACNC and ATO, including preparation of returns
- Checking the eligibility of organisations you wish to support
- Providing you access to our online system with all the information on your PAF available 24/7
- Briefing the Directors of the PAF trustee and guiding them through compliance issues
- Providing a range of grantmaking support services to help you make the most of your giving. Allocating you a dedicated Governance and Giving Adviser, with extensive experience in managing PAFs

APS Foundation

If you don't want an independent structure, or would like to start structuring your giving at a lower entry point, you could also consider our public ancillary fund, the APS Foundation.

The APS Foundation is a communal philanthropic structure in which you can establish a named giving fund (also known as a sub-fund). You receive an immediate tax deduction for the cash that you donate to your giving fund, with the flexibility to distribute the funds to charity over time.

While you think about which charities to support from your fund, the Foundation's giving funds are pooled and invested by us. Returns are tax-free and accrue to your fund monthly, offering a style of giving that allows you to both give and grow money for charity.

- Philanthropic capital managed by Chris Cuffe AO and specialist fund managers
- \$50,000 minimum donation to get started
- Receive a full tax deduction now, recommend gifts to eligible organisations later
- Competitive management fees as we're not-for-profit
- Unparalleled monthly reporting and visibility via our online portal



Give

Make a donation to the APS Foundation, receive an immediate tax deduction, which can be spread over five years.



Grow

Giving funds are pooled and professionally invested. Investment returns are tax free and applied to your giving fund monthly.



Gift

Recommend gifts from your giving fund to one or more of thousands of eligible charities.

Our friendly team is ready to help.
Contact us on 02 9779 6300 or
hello@australianphilanthropicservices.com.au



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This publication is intended as a guide only. For details of the APS service and private and public fund regulations please contact APS on 02 9779 6300 or hello@australianphilanthropicservices.com.au

Australian Philanthropic Services Limited (ACN 155 905 829) (APS) is a not-for-profit public company limited by guarantee. It was registered under the Corporations Act 2001 on 24 February 2012. It has DGR Item 1 status and is registered with the Australian Charities and Not-for-profits Commission.

Australian Philanthropic Services Foundation (ABN 38 981 887 768) (APS Foundation) is a public ancillary fund with DGR Item 2 status and is a registered charity with the Australian Charities and Not-for-profits Commission.

Australian Philanthropic Services Foundation Pty Limited (ACN 158 036 349) is the trustee of the APS Foundation and is a wholly owned subsidiary of Australian Philanthropic Services Limited (ACN 155 905 829) (APS).

hello@australianphilanthropicservices.com.au
02 9779 6300

Level 5, 8 Spring Street Sydney NSW 2000
[linkedin.com/company/australian-philanthropic-services](https://www.linkedin.com/company/australian-philanthropic-services)
australianphilanthropicservices.com.au

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