

Charitable giving goes mainstream

Sub-funds have helped to democratise philanthropy.

JAMES KIRBY THE AUSTRALIAN 1:46PM April 25, 2018

As the reputation of financial services is battered daily in the banking royal commission, a recent trend in charitable giving should offer at least a ray of encouragement.

It's the ongoing success of the private ancillary funds (PAFs) program, which allows tax deductible multi-year donations to worthy causes.

PAFs were created more than a decade ago, aimed at encouraging very wealthy investors to create funds for \$500,000 or more.

The funds, once established, can sustain long-term philanthropy projects on a tax-protected basis.

There are already more than 1500 PAFs with about \$6 billion in assets ready to distribute an estimated \$800 million in the coming year.

More recently the adoption of a clever innovation dubbed "sub-funds" brought the program into the mainstream and, to a significant extent, democratises philanthropy at this level.

Sub-funds can be opened for much less — generally \$50,000 — with the donor deciding where the money gets distributed and an overarching "umbrella" fund deciding how the money gets invested. At their best, the sub-funds allow many more investors to have their own charitable

foundations.

This year it is expected that the number of new sub-funds will exceed the number of new PAFs for the first time. In fact, if the success of America's similar — but not identical — donor-advised philanthropy scheme is to be mirrored, we could see sub-funds outnumber PAFs by three to one in the future.

There is now a range of these umbrella funds carrying sub-funds dotted across the financial services landscape. Some are run by commercial entities such as perpetual or equity trustees, while others are non-profit, such as Australian Philanthropic Services (APS).

Typically the umbrella funds will have an investment committee with a mandate to achieve a rate above inflation — perhaps 4 per cent to 6 per cent. Some of the funds are able to achieve higher than conventional targets as they get their investment management services on a pro-bono basis.

For the investors who choose to place money in funds there is a mandated distribution each year — 4 per cent of sub-funds' total assets must be distributed to charities each year, a requirement not unlike the mandated drawdown rules which retired investors would be familiar with.

There is also a requirement for the sub-funds to stay at the \$50,000 level — additional donations can be made at any time under the current laws. Fund holders can make donations to one or more causes during the year in minimum lots of \$1000.

As the fund donations are tax deductible, distributions can only be made to charities which

have so-called deductible gift recipient (DGR) status, although though this is hardly a restriction as there are more than 20,000 DGR charities in Australia.

Self-managed super fund investors are regularly attracted to sub-funds. However retirement fund money (including SMSF funds) cannot be used to fund PAFs or sub-funds because such a move would not satisfy the sole purpose test, which deems all investments made by a

super fund must be solely to underpin the retirement savings of the investor.

Fees across the area range from 1 per cent of total funds invested up to more than 2 per cent depending on the provider and objectives of the umbrella fund.

David Ward, technical services director at APS, which now sets up about one in three of new funds in the area each year, says: "We know this is the time of the year people start thinking about making a donation, investors who have managed to build wealth in recent times might now go one step further and consider the possibilities in the PAF sector.

"An investor can make an ongoing deeply significant difference to an organisation through some strategic thinking and long term planning that a PAF allows."

Ward says establishing a sub-fund is as simple as filling out a form and making the funds available — something easily done before June 30.



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NICK TABAKOFF

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