Antonia Ruffell, chief executive, Australian Philanthropic Services

Antonia Ruffell is chief executive of Australian Philanthropic Services, an independent, not-for-profit organisation that establishes and administers private and public ancillary funds and provides grant-making advice. She works with individuals and families, and the advisers who support them, to help them set up and run foundations, and be more effective in their giving.

THE GREAT GIFT

Succession planning and community impact

"Money is the greatest gift you can give your kids, but it's also the most dangerous." Philanthropy can blend succession planning, tax deductions and community impact

A common concern amongst many wealthy families is that money is going to ruin their children. They are worried that their kids have developed a sense of entitlement and that all the benefits they've given them - the private education, the overseas holidays, the nice cars, the helping hand with their mortgage – have made them immune to the reality of world around them. A parent commented to me the other day that "money is the greatest gift you can give your kids, but it's also the most dangerous" – and he's not the only one who's worried.

If you share the same fear, or see it amongst your clients, don't despair. Philanthropy could be answer.

Say the word 'philanthropist' and people immediately think of Bill and Melinda Gates. The reality in Australia today however is that philanthropy is by no means the realm of high profile business people and the ultra-rich alone. Wealth takes many forms, and every day we see people from all works of life getting involved with giving, and many of them are doing it in a structured and considered way. Philanthropy is becoming an increasing popular way for wealthy families to build the next generation's social awareness and inspire them to make a difference in the lives of others.

The rise of philanthropy in Australia

Up until 15 years ago, Australia didn't have tax efficient philanthropic structures comparable with those in the USA and UK. The introduction of private ancillary funds (originally called Prescribed Private Funds, or PPFs) in 2001 provided people with the ability to tax effectively donate to a trust of their own, and then disburse funds to a range of eligible charities. The introduction of the structure was championed by David Gonski under the Howard government.

The charge to encourage wealthy Australians to get involved in philanthropy was then picked up by Chris Cuffe, known to many as a veteran of the wealth management industry, Chairman of $55 billion super fund UniSuper and more recently as non-executive director of Argo Investments. Chris founded Australian Philanthropic Services (APS) five years ago, a not-for-profit he set up to inspire and support people to get involved in giving. APS, whose board includes David Gonski, Michael Traill, Belinda Hutchinson and Tim Fairfax, sets up and administers private and public ancillary funds and provides guidance and support about how to give money away effectively.

It's having an impact. In a relatively short time, APS has grown to become the largest provider of private ancillary fund (PAF) services in Australia and now sets up more than 30% of all such structures each year. There are now over 1,500 PAFs with combined assets well in excess of $400 billion and collectively distributing around $250 million to charities every year.

The quote

As well as helping to build a sense of social responsibility, involvement in the family PAF is a great training ground.

What is a private ancillary fund?

A private ancillary fund is a type of charitable trust that allows an individual or family to put aside a chunk of money for charitable purposes in perpetuity. The individual donates capital into it (usually an initial donation of at least $500,000-$1 million) and gets a tax deduction for the donation. The capital is then invested long-term, and a minimum of 5% of the value of the PAF assets must be distributed as grants to charities each year.

What is a sub-fund in a public ancillary fund?

A public ancillary fund (PuAF) has the same tax advantages as a PAF but is a communal structure. Unlike a PAF, there is no requirement to establish a new trust or trustee company, so a sub-fund can be established immediately (someone could even do so just a few days before 30 June), and there's no set-up cost to do this. Amounts donated are usually smaller with a minimum of around $50,000. Portability is allowed meaning, for example, that someone could set up a sub-fund in the Australian Philanthropic Services Foundation, grow the balance over a few years, and then transfer the funds to their own PAF down the track.

Why set up a philanthropic structure?

Tax deductions are a great incentive for people to set up a philanthropic structure, but that's by no means the full story. People choose to establish a foundation for a range of reasons, including a wish to involve the family in giving, concerns around succession planning, and a desire to be actively involved in the charities they support over the long-term.

Engaging and inspiring family members

Family is perhaps one of the most powerful incentives for establishing a philanthropic structure as giving through a PAF or a sub-fund is a good way to engage other family members. It can increase children's social awareness and help to inspire future generations. People use PAFs and sub-funds to bring the family together in innovative and different ways.

To give an example, one PAF founder set up his foundation as a way to actively inspire all family members to get involved in the community. Extending his generosity to nephew and nieces, as well as his siblings and his own children, he uses the PAF to recognise any contribution a family member makes to charity. If someone sits on the board of a not-for-profit or has a role as a volunteer, the PAF makes a $5,000 donation to that charity. Similarly, if someone is involved in fundraising activities, the PAF matches any money they fundraise themselves. This has proven to be a great incentive for family members, and their involvement has deepened and grown. His children are now making tax deductible donations to the PAF themselves, and the family makes strategic grants in areas they are collectively passionate about, as well as supporting the varied interests of individual family members.

Another popular use is to allocate an amount to each family member. The children research charities, find a cause or project that resonates with them personally, and present back at a meeting where other family members sign off on a grant.

As well as helping to build a sense of social responsibility, involvement in the family PAF is a great training ground, and the next generation can learn all about board and fiscal responsibility. By being part of a board, the next generation learn to engage and work in partnership with professionals, such as accountants, lawyers and investment advisers.

Choosing the right charities to support

Of course, families are complex, and working out how to give money away can be even harder than the decision to set up a structure in the first place. At Australian Philanthropic Services, we work with over 200 families, and there is no doubting that every family has a unique way of making decisions. We help clients to articulate what they are passionate about, the ways in which they would like to make a difference, and how they should focus their giving.

We also find that clients who receive a taxable gain (such as a share sale or large redundancy payout) often want to share their good fortune with others, but do not want to make a quick decision and donate the entire amount in one go. A PAF or sub-fund allows an immediate tax deduction while the choice of charity can be made at a later stage when there is more time for research.

When people first start and are still growing the assets of their foundation, the grants being distributed are likely to be relatively modest in size. This does not mean that they are ineffective. Part of the beauty of having your own structure is that you are not bound by the bureau-

The benefits of PAFs & sub-funds

PAFs and sub-funds provide a tax-effective strategic solution to charitable giving, and offer many benefits and rewards. These include:

- **Making a difference** – By establishing something in their lifetime, people can see the benefits of giving first-hand and, if they choose, be directly involved with the charities they support. This can bring great satisfaction.
- **A family legacy** – Giving through a PAF is a popular way to engage other family members. It can increase children's social awareness and help to inspire future generations.
- **Taxation benefits** — Donations are tax deductible. The funds in the PAF are tax exempt and franking credits are refunded.
- **Control and flexibility** – PAFs and sub-funds break the link between the timing of the tax deduction and the timing of giving. It makes it possible to take the tax deduction now but decide where to distribute the funds over the coming years.

Key features	Private ancillary fund	Sub-fund in APS Foundation
How much do I need to get started?	A minimum of $500,000 is recommended	$50,000 minimum donation
Can I get a tax deduction?	Yes – can be spread over 5 years	Yes – can be spread over 5 years
Who can receive grants?	Charities with Deductible Gift Recipient (DGR) Item 1 status	Charities with Deductible Gift Recipient (DGR) Item 1 status

cracy of some of the larger, more established foundations. Donors can be nimble and responsive, using their intuition and stepping in quickly where other funders may not be able to respond promptly. Small grants given in a considered way can be very impactful.

Many people like to fund those areas that are overlooked by government, or to support slightly riskier, pilot projects that seek to find new ways to respond to some of society's most entrenched and difficult issues. Many people will also make a contribution that is much more powerful than dollars alone, using their expertise, skills and networks to support the charities in which they are involved.

The role of financial advisers

Philanthropy, and with it the demand for advice, will increase significantly in coming years with an expected intergenerational transfer of trillions of dollars from baby boomers to their children and grandchildren. It is unsurprising that research published last year shows that there is growing demand from high net worth clients for advice and guidance on efficient and effective philanthropy. Yet few advisers raise the topic. The report, A study of professional advisers in Australia, produced by the Australian Centre for Philanthropy and Nonprofit Studies (ACPNS) at the Queensland University of Technology Business School, revealed that most advisers have discussed philanthropy with just one in 10 or fewer of their high-net-worth clients.

Advisers need to be cautious about assuming clients aren't interested. From direct giving to ancillary funds, there are tax effective options to suit everyone. Being a part of a client's philanthropic journey gives advisers a deeper insight into their client's values and what really drives them. The adviser is more likely to engage with other family members, including the spouse, kids and even grandkids. It's a great way to understand and connect with a client around their values and, by doing so, increase trust and be less likely to lose the client over time.

Everyone benefits

The advantages of philanthropy are manifold with benefits for individual and families, their advisers and the community.

Sub-fund and PAF founders can minimise tax while making a difference to the community over the long-term. They often find new ways to engage their family in giving and educate the next generation, and get deep satisfaction from doing so. At the same time, the adviser has an opportunity to deepen and broaden their client relationships

Importantly the community benefits too. Research from the Queensland University of Technology Business School says that people who give money through a structure tend to give away four times as much as those who do so in an ad hoc and reactive way. Charities get to build close, lasting relationships with their major donors, and these donors provide invaluable support during their lifetime – and beyond. FS

The quote

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