

How can you start a charitable foundation during your lifetime?

If philanthropy is a priority for you during your lifetime, rather than making a series of charitable donations, it might be appropriate to consider establishing a long-term giving structure that can perpetuate your long-term philanthropic intentions. (Please refer to our Philanthropic Services brochure for more information on the benefits of long-term giving.)

While you are alive, there are two long-term giving options available to you:

- 1 You can set up an account within a charitable endowment fund (CEF), or
- 2 You can establish your own private ancillary fund (PAF).

In determining the most suitable option for you, you should consider matters such as how much you would like to give and how involved you want to be in the process of giving as well as the reasons that drive your philanthropy. For example, if you would like to be engaged and involved on a long-term basis, if you would like to leave a significant sum of money, or if you would like to leave a legacy and involve future generations of your family, then a PAF may be appropriate for you.

What is a charitable endowment fund?

A charitable endowment fund (CEF) is a public charitable fund in which you can establish an account. You can nominate the charity(ies) that you would like to benefit from your donation and, while the trustee will consider your nomination, the trustee makes the final decision about the distribution of funds. You also do not have any input in the investment strategy of the fund.

A CEF would be appropriate if you want to establish a long-term charitable giving program but do not have a desire to be involved in the investment management or decision making process.

What is a private ancillary fund (PAF)?

A PAF is a private fund into which tax-deductible donations can be made. A PAF allows you to build an investment portfolio of carefully selected assets for the purpose of supporting philanthropic causes that have significant meaning to you. A PAF is appropriate if you want to apply a significant amount of your wealth for charitable purposes and be involved in the ongoing decision-making and application of that money.

A PAF is a long-term giving structure that has benefits over short-term giving. The primary difference is the perpetual structure. Instead of a one-off donation, the perpetual structure allows you to create a long-term giving strategy for your nominated charities, that will provide funding in your, or your family's, name forever.

Using a perpetual structure also means that you can give your trustees discretion as to how the PAF is managed to ensure that, if necessary, they can redirect funds to where they are most needed in order to fulfil the purpose of the PAF.

How does a PAF operate?

In the PAF deed, you can specify the causes that you wish to benefit from the funds in the PAF, as well as giving your trustee the discretion to decide how the funds are to be applied. This gives your trustee the flexibility to respond to things such as medical advancements that can give rise to many areas of research requiring funding today that would not have been thought possible 50 years ago.

The trustee of a PAF must be a corporation. The directors of the trust must include at least one party who meets the definition of a 'responsible person' and is actively involved in the decision making of the PAF. The 'responsible person' cannot be the founder, a major donor or an associate thereof. The trustee of a PAF is subject to both the common law principles of trust law and the Trustee Act of the state or territory in which the PAF operates.

There are also major tax advantages of establishing a long-term giving program because the income and capital gains earned within this type of structure are exempt from tax. This also means that these funds can attract a refund of franking credits attached to dividends received which can further enhance the amount available for distribution to beneficiaries. These tax concessions mean that these long-term giving structures often generate income and capital faster than the same portfolio held in any other way. In addition, the PAF is a deductible gift recipient (DGR) meaning contributions made to the PAF are tax-deductible.

Consider a one-off donation of \$1 million compared to the establishment of a PAF with the same amount. If you establish a PAF, which distributes 5 per cent per annum and generates capital growth of 5 per cent per annum (assuming constant annual returns), after 20 years, the PAF will be worth more than \$2.5 million and will have distributed close to \$1.6 million. This is a simple illustration but there are many real examples of PAFs that were established many years ago that today have a significant capital sum and have distributed millions of dollars to benefit the community.

How we can help

To establish your PAF, simply contact us. We will work with you and your adviser to establish the PAF and put in place the necessary documents and governance structures so that it will operate smoothly and efficiently in the future.

At AET, we can provide the trustee solution for your PAF. We can act as a trustee and oversee the investment of funds held in trust. We have a company with directors highly experienced in trust management and fiduciary services who will ensure that your PAF will always meet the active 'responsible person' requirements. As the fiduciary, we take on the risk and ensure the compliance and daily management of the PAF are taken care of, so that your investment adviser can focus on the investment management and you can focus on engaging with philanthropic organisations and finding worthy programs to fund.

The Australian Taxation Office (ATO) has issued strict guidelines that must be adhered to when establishing and managing a PAF and may penalise the directors of the corporate trustee for failing to comply with prescribed guidelines. By utilising our services, you can be sure that your PAF will be established correctly and managed prudently and efficiently into the future.

For more information on establishing a PAF, call us on **1800 882 218**.