



**Antonia Ruffell, Australian Philanthropic Services**

Antonia Ruffell is CEO of Australian Philanthropic Services, a not-for-profit organisation that establishes and administers private and public ancillary funds and provides grantmaking advice. Antonia 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.

# REWARDS AND BENEFITS OF PRIVATE ANCILLARY FUNDS

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**A** growing number of individuals and families are taking a more strategic approach to their philanthropy. Instead of making multiple, ad hoc donations, usually because they are asked, they want to take a more planned approach, one that gives them more control, gets the family involved, and instils confidence that their donations are making a real impact.

An increasingly popular way to achieve this is to establish a family foundation, most commonly a private ancillary fund (PAF). A PAF can help to bring different generations together and embed family values, while having a positive impact on the community.

## What is a PAF?

A PAF is a philanthropic trust structure, a private charitable foundation whose purpose is defined by the founding individual, family or company. Put simply, when someone first establishes a PAF, they donate capital into it (usually a minimum of around \$500,000) and get a tax deduction for the donation. The capital is then invested long-term, and a minimum of 5 per cent of the value of the PAF assets is distributed as grants to charities each year.

## Deciding how to give your money away.

Andrew Carnegie, widely regarded as the father of modern US philanthropy, reportedly said it was “easier to make money than it was to give it away well.” Philanthropy can be hugely personal, and making decisions about grantmaking and what charities to support can be daunting. Some families prefer to make one large grant to one not-for-profit organisation, others distribute donations to a range of their favourite causes.

Setting up a PAF is an ideal opportunity for an individual or family to think more strategically about the way in which they support charities. When starting out, PAF holders often find it’s a good idea to articulate the foundation’s giving purpose and mission. Many families

undertake a process together whereby they explore what causes they’re most passionate about and develop a strategic plan, to help map out their philanthropic journey. The exploration of a family’s values and interests can be the most rewarding aspect of having a PAF. That’s where truly transformative giving begins.

## Family rewards

Developing philanthropic goals together can have a positive impact on a family. These more personal rewards for families can be far reaching and even life changing. Having a family PAF is a popular way to engage other family members and can bring a different type of conversation to the dinner table. Many families speak of the opportunity a PAF creates to build a sense of shared values across the generations around wealth and responsibility.

The engagement around grantmaking decisions in particular can often change family dynamics. Getting involved and encouraging children to develop their own priorities for supporting charities can promote family cohesion, inspire future generations, and help to build a family legacy that everyone can share.

The chances are that individual family members already give to the community. There are issues and causes that are personally important to them and their family, and they already donate to their favourite charities. Having a PAF enables a family to make those decisions together. Everyone can be actively involved, and as engaged as they want to be.

Some families choose to have little involvement beyond supporting charities financially. Others enjoy the satisfaction that comes with

engaging closely with causes they care about. Even the teenage children can research and make some of the decisions around where the foundation makes donations.

## Community benefits

It can be a joyful experience for a family to see the positive impact that their support has on the community. Having their own PAF allows them to see the difference their donations are making in their lifetime. The benefits for the community are also significant.

PAFs, by their very nature, provide financial support for the not-for-profit sector in perpetuity. Distributions from PAFs continue year after year - and the numbers of PAFs established are growing each month. There are now over 1,000 PAFs in Australia, with total assets of more than \$2 billion, of which approximately \$170 million is distributed to charities each year (ATO, 2011).

Many PAF holders, when they begin their grantmaking decisions, start to think about how to bring sustainability to their favourite charities. Multi-year grants are possible, because the investments from a PAF are long-term, so forward planning for both the PAF holder and the charity is made easier.

Daniel Petre - former Microsoft executive and philanthropy advocate - of The Petre Foundation has done some research on what would be possible if more Australians began to be involved with philanthropy. He found that if individuals or families with total net assets exceeding \$30 million placed just 20% of their wealth in a PAF, and used the income from this to support the charities of their choice, that it would increase funding for charities between 40-60% overnight. (Source: 2008 report commissioned by the Petre Foundation—Good Times and Philanthropy: Giving by Australia's Affluent)

## PAFs in Australia

- Prior to 2001 - Up until this time the Australian taxation system didn't facilitate giving. Australia didn't have tax efficient philanthropic structures comparable with those in the USA and UK. There was no tax effective way for individuals to set up their own family foundation during their lifetime, and no means to keep it confidential.
- 2001: PPFs introduced - The introduction of a new kind of vehicle by the Howard government in 2001, originally called a Prescribed Private Fund (PPF) changed this. For the first time it provided wealthy individuals, families and businesses with the ability to tax effectively donate to a trust of their own, and then disburse funds from the trust to a range of eligible not-for-profit organisations.
- 2009: PAFs introduced - There was initially slow take up of PPFs within the Australian community. Fortunately, further improvements were legislated in October 2009, and the name changed from PPF to private ancillary fund (PAF).

## Financial benefits

The provision of community benefit is the primary driver for PAFs. However, there are also fundamental financial benefits. When a PAF is established, the donations are tax deductible. The funds in the PAF are tax exempt and franking credits are refunded, so the philanthropic dollar goes much further.

This means that a trigger for establishing a PAF is often a change in a person's financial circumstances. A financial windfall such as an inheritance or bonus, or the sale of a business or significant asset, can be the opportunity that people are looking for to be able to establish their own foundation. Offsetting a capital gain is a common trigger for people to make the decision to structure their giving.

## Creating a legacy

The process of estate planning or writing a will is frequently a time to think about the legacy one would like to leave, and it can often raise concerns about the impact a large inheritance may have on the next generation in a family. Warren Buffett is famously quoted as saying "I want to give my kids enough so that they feel they could do anything but no so much that they could do nothing."

Having a PAF that engages the whole family can help to strengthen family values around philanthropy and community contribution and is an ideal way to instill a culture of giving across the generations. When establishing a PAF, founders also have the option to name it in memory of a loved one, ensuring their legacy continues.

## Getting started

If families are interested in exploring if a PAF is right for them, they should begin by doing their research. With the right advice, setting up a PAF is easy but, if a year-end tax deduction on the donation is a priority, it should be remembered that the establishment process takes a few weeks for all Australian Taxation Office (ATO) and Australian Charities and Not-for-profits Commission (ACNC) clearances to be finalised.

With the right advice, PAFs are simple to establish and administer, provide a tax-effective strategic solution to grantmaking decisions, and offer many rewards for individuals and families, that can last a lifetime - and beyond. **FS**

### Key Features of a private ancillary fund (PAF):

How much do I need to get started?	\$500,000 is recommended
Can I get a tax deduction?	Yes - can be spread over 5 years
Who can receive grants?	Charities with Deductible Gift Recipient (DGR) status
How much has to be distributed each year?	5% of net assets
Are the investments tax-exempt?	Yes

## Case Study - Jan Swinhoe

Timing was an important factor for Jan Swinhoe in establishing her family's private ancillary fund (PAF), The Doherty Swinhoe Family Foundation. The partial sale of a family business and her own career change from executive to non-executive roles triggered the move. "The financial benefits of establishing a PAF (the tax offset) and the life changes were significant to when we established the PAF, but I wanted to develop a more strategic approach to our giving, and be more proactive about which organisations we support. The PAF gave us a framework for that."

Jan and her husband Peter established the PAF three years ago, and distribute their grants to around six charities each year. Structuring the family's charitable giving was a priority - previously their giving had been active, but mostly around personal requests.

Their more strategic philosophy now is about giving in areas where the family has a connection. This could be a community where they held the family business, or organisations that family members are involved with in some way. Each one is carefully considered.

Getting involved is both important to Jan and also one of the rewards of having a PAF. "It's been amazing how much I've learnt about the not-for-profit sector - and you learn things about yourself.

It's also something we can do together as a family. I grew up in a family that did a lot of volunteering within the community, and having a PAF is great to help to transfer those family values to the next generation."

Jan and Peter can see their three teenage children being involved with the running of the PAF in due course. "It's important that we talk with them about it. We set up the PAF with the view that this will go on well after we're gone - it's here in perpetuity. "We would like our children to take carriage of the PAF sometime down the track."

One of the greatest rewards for Jan has been the chance to grow personally. "There have been so many more meaningful things about having a PAF than I thought there would be. I think doing something for someone else enhances my life more than theirs."

Jan Swinhoe's executive career spanned over thirty years in the business and finance sectors that included wealth management, corporate superannuation, derivatives trading, debt capital markets and institutional banking. Since commencing her non-executive career in 2011, Jan has been a director of Suncorp Portfolio Services Limited, Fusion Retail Group and is part of the Leadership and Career Development Committee at the Actuaries Institute.

## Case Study - The Mostyn Family

The Mostyn family believe philanthropy should be a family affair. In 2011, brothers Richard and Andrew Mostyn helped their father, Bob Mostyn, establish a private ancillary fund (PAF). Richard first came up with the idea and passed it by Andrew. After a meeting with Chris Cuffe, Chairman of Australian Philanthropic Services and himself a PAF founder, the family decided it was definitely the way to go. The brothers were enthusiastic from the beginning. "It makes so much sense, and you just get so much more out of it than you think you would."

Philanthropy runs in the Mostyn family, with grandfather Robert L. Mostyn helping to establish The Medical Foundation at Sydney University during his lifetime. Richard and Andrew's father Bob was on the board of that foundation, and is also passionate about his philanthropic work, yet Andrew knew little of this until he and Richard were adults. "In past generations philanthropy was a much more private activity."

It's a different story with their own children. Both families are keen to share their values with their children, and provide them with an opportunity to experience and understand philanthropy. "We don't want to just write cheques. We all like to think we'll have some involvement with the charities we give to."

These days when the brothers get together, it's not only to discuss the family business. Four times a year Richard and Andrew, with their wives and four children, come together for the PAF's board meet-

ing, where decisions are made about their foundation. They also rely heavily on their 'Responsible Person', Steph O'Connor, for her guidance and wisdom, so much so that Steph is also encouraged to suggest charities to give to that are close to her heart as well.

Not only has philanthropy given the family a new perspective, it has changed the type of conversation that happens around the Mostyn dinner table. Richard's wife and two teenage daughters, and Andrew's wife and two sons, all like to be hands on when it comes to their PAF.

The four young cousins are encouraged to research charities, and choose where they would like to make a grant. Richard recalls, "the girls decided to get involved with an organisation near their school that helps homeless people in inner Sydney. Andrew's boys went to speak with the Garvan Institute, to find a medical research project they particularly wanted to support. It's been great for developing their sense of giving, and the responsibility that goes with that."

Richard also likes to think about the long-term impact of their charitable investment and the support it provides to their chosen causes "The benefits are mind blowing. If you fast forward ten years, you could really enjoy some serious giving."

Craig Mostyn Group (CMG) was established in 1923 and since has grown into a diversified food and agribusiness operating out of Australia achieving revenues in excess of \$A 310 million in FY2012. Craig Mostyn Group is based in Perth, Western Australia.