Establishing a charitable trust structure

Kirrily Burgess: Philanthropy Services Manager, Perpetual
Daniel Tome: Senior Financial Consultant, Perpetual
Important note

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Agenda

• About Perpetual
• Advantages of structured giving
• How are funds are distributed?
• What is a charitable trust?
• Commonly used charitable trust structures
• Why do donors choose one trust type over another?
• What do you need to know to access funding?
• More information
About Perpetual

- Helping high net worth individuals and families for 120 years
- One of Australia’s largest managers of charitable wealth
- Trustee for over 450 charitable trusts with over $1.1 billion in funds
- Distribute $40 million per annum nationally across all charitable sectors from charitable trusts we manage
Advantages of Structured Giving
Advantages of structured giving

<table>
<thead>
<tr>
<th>To the Donor</th>
<th>To the Charity</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Makes sense to high-net-worth donors</td>
<td>• Donors establishing trusts continue to support their preferred charities and will expose future generations to those charities</td>
</tr>
<tr>
<td>• Have more control and be more involved in the giving process</td>
<td>• Trusts can facilitate the building of long term and involved relationships</td>
</tr>
<tr>
<td>• Leave a lasting legacy (anonymously or publicly)</td>
<td>• Facilitate better understanding between donors charities</td>
</tr>
<tr>
<td>• Provide sustainable giving irrespective of financial circumstances</td>
<td>• Conducive to multi-year funding</td>
</tr>
<tr>
<td>• Manage concerns about intergenerational wealth transfer</td>
<td>• Sustainable – trusts continue to provide a benefit irrespective of the donor’s personal circumstances</td>
</tr>
<tr>
<td>• Intergenerational involvement - create a tradition of giving within a family</td>
<td></td>
</tr>
<tr>
<td>• Add meaning when all other needs fulfilled</td>
<td></td>
</tr>
<tr>
<td>• Prestige or value in attaching a name to a trust</td>
<td></td>
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</table>
How are funds distributed?
Donors give in different ways

- Some distributions are fixed (no flexibility)
- Living donors often use a combination of methods

Perpetual’s charitable trusts by distribution type

- Donor sourced projects, Awards and Scholarships: 26%
- Regular Remittance: 50%
- Funding Round: 24%
Example of an Award

RAMACIOTTI

- Biomedical research foundation
- $6.7m invested in 1970, now worth $52m
- Distributed over $48m since inception
- Collectively one of the largest private contributors to biomedical research in Australia
Foundations and Philanthropists

Trustee companies source funding options for donors

130 trusts, $9m distributed in 2010

APPLICATIONS (>900)
- Eligibility Review
- Trust Long List
- Assessment
  - Strategy
  - Leadership
  - Capability
  - Outcomes
  - Reporting
  - Med Research
  - Advisor Ranking
- Matching Process
  - Sector
  - Demographic
  - Geographic Focus
  - Charity type & status
  - Preferred Beneficiary
  - Co-Trustee requests
  - Outcomes
- Trust Short List

MATCHING PROCESS
- Charitable Trust Recommendations
- PAF Recommendations
- Gift Fund Recommendations
- Philanthropic Services Review Committee – Distribution Approval
- Committee of Mgmt – Dist Approval

APPROXIMATELY 200 SEPARATE GRANTS MADE
Foundations and Philanthropists

Assessment frameworks differ

Perpetual’s assessment framework

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Evidence of strategic goals and objectives, as well as monitored, evaluated, and outcome-oriented measures. This encompasses the organisation’s mission and the ability of the organisation to fulfil the mission through the activity for which funding is requested.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcomes</td>
<td>Evidence of realistic, measurable and achievable goals and outcomes, including societal impact.</td>
</tr>
<tr>
<td>Capability</td>
<td>The organisation’s demonstrated ability to achieve its objectives, evidence that the organisation is striving towards a sustainable business model, and effective and efficient business practises.</td>
</tr>
<tr>
<td>Leadership</td>
<td>Demonstration and willingness of the organisations collaboration with other charitable and non-charitable organisations pursuing similar goals and the ability to leverage opportunities, including sharing learnings; Awareness of the external environment including public policy, government, other organisations working within the sector, and the community.</td>
</tr>
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</table>

MEDICAL RESEARCH APPLICATIONS ARE REVIEWED BY AN INDEPENDENT MEDICAL RESEARCH REVIEW COMMITTEE WHO CONSIDER SCIENTIFIC MERIT
What is a charitable trust?
Foundations and Philanthropists

Key features

**GIFTS FROM DONOR**

- Trust Deed
- Trustees
- Donor/Expert advisory committee (optional)
- Assets
- Income Generated

- Annual distributions to charity

**Common Characteristics**

- Income tax exempt
- Operate in perpetuity

**Variable Characteristics**

- Annual distribution requirements
  - Trust income and capital
  - % of assets
- Eligible beneficiaries
- Donor’s role
Commonly used charitable structures
The three key charitable trust structures

Breakdown of charitable trusts types by funds under management

- Private Ancillary Funds
  - 1890’s: $706.6m
  - 2001: $334.4m
- Public Ancillary Fund (Perpetual Foundation)
- Private charitable trusts
  - 1998: $82.2m
Private Ancillary Funds

- Approximately 800 PAFs have received donations of $1.3 billion and distributed over $300 million.
- New legislated guidelines introduced October 2009, making PAFs the most highly regulated structures available.
- Ancillary funds exist solely to provide benefit to DGR1s (can’t undertake own activities).
- Can exist in perpetuity or for a finite period.
- Can distribute more than the minimum ($11,000 or 5% of their value of net assets as at the previous financial year, whichever is the greater).
- Prohibited from fundraising.
- Donations are deductible and can be spread over five years.
### Private Ancillary Fund Example
**The Green Family Foundation**

#### Perpetual and Mrs Green

<table>
<thead>
<tr>
<th>Mrs Green’s children</th>
<th>Assets</th>
<th>Income Generated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$5% = $55,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5 x $6,000 donations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Education Program $25,000 pa for 5 years</td>
</tr>
</tbody>
</table>

#### About the Donor
- Mrs Jan Green, aged 55, married with 3 children
- Personal assets valued at $20 million
- Intends to grow the Foundation to $10 million over 15 years with a final gift through her estate

#### About the Trust
- Established in 2004
- Currently valued at $1.1 million
- Mrs Green’s children will also donate to the fund

Names and details have been changed
Public Ancillary Funds

- Some Public Funds offer donor accounts
- Minimum annual distribution is usually trust income
- Can fundraise, no restrictions on who can donate
- Trustees can’t give assurance to apply funds in accordance with requests from a donor
- Ancillary funds exist solely to provide benefit to DGR1s (can’t undertake own activities)
- Can exist in perpetuity or for a finite period
- Donations are deductible and can be spread over five years
- New rules will apply from 1 July 2011 (similar to PAFs)
Public Ancillary Fund
John and June Brown Endowment

About the Donor
- Mr John and Mrs June Brown are in their early 70s, married with no children
- Personal assets valued at $7 million

About the Endowment
- Established in 2003
- Mrs Brown is the ‘nominated adviser’ & provides recommendations to Perpetual
- Currently valued at $2 million
- With a final gift via their estate the endowment will reach $6 million

Names and details have been changed
Private Charitable Trust

- Can undertake charitable activities
- Donations are not deductible but any member of the public can contribute

<table>
<thead>
<tr>
<th>Trustee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expert advisory committee (optional)</td>
</tr>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Income Generated</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Older Trusts</th>
</tr>
</thead>
<tbody>
<tr>
<td>The original donor is often deceased</td>
</tr>
<tr>
<td>Can only distribute trust income (never capital)</td>
</tr>
<tr>
<td>Usually exist in perpetuity (no wind up provision)</td>
</tr>
</tbody>
</table>

| Annual distributions for charitable purposes |

<table>
<thead>
<tr>
<th>More Recent Trusts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can distribute capital (under limited circumstances)</td>
</tr>
<tr>
<td>Often contain wind up provisions</td>
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</tbody>
</table>
**Private Charitable Trust Example**
‘The Victorian Optometrists Training & Education Trust’

<table>
<thead>
<tr>
<th>Perpetual</th>
<th>About the Donor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expert Advisory Committee (Optometrists)</strong></td>
<td>• Optometrist Registration Board of Victoria was dissolved on the 30 June 2010</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>• The Board used remaining assets to set up a trust to:</td>
</tr>
<tr>
<td><strong>Income Generated</strong></td>
<td>– Advance and foster the practice of optometry (to improve patient outcomes)</td>
</tr>
<tr>
<td><strong>Trust Income = $25,000</strong></td>
<td>– Improve students’ ability to undertake training</td>
</tr>
</tbody>
</table>

About the Trust

- Established in 2010
- Currently valued at $500,000
- May receive additional contributions from members of the optometry profession

- students – scholarships/awards
- charities & non-profits
Why do donors choose one trust type over another?
<table>
<thead>
<tr>
<th></th>
<th>PRIVATE ANCILLARY FUND</th>
<th>PRIVATE CHARITABLE TRUST</th>
<th>PERPETUAL FOUNDATION ENDOWMENT FUND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can I get a tax deduction?</td>
<td>Yes, can be spread over five years</td>
<td>No</td>
<td>Yes, can be spread over five years</td>
</tr>
<tr>
<td>Will tax event K3 apply?</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Can the general public contribute to my trust?</td>
<td>Restricted</td>
<td>Allowed</td>
<td>Allowed</td>
</tr>
<tr>
<td>How much do I need to get started?</td>
<td>$500 - $1million</td>
<td>$500,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Are there establishment costs?</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Are there ongoing compliance costs?</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Can I have a say in all decisions?</td>
<td>Yes - corporate trustee</td>
<td>Yes - individual or corporate trustee</td>
<td>No – Perpetual is sole Trustee/ one investment option</td>
</tr>
<tr>
<td>Who can benefit from my trust?</td>
<td>DGR1 charities</td>
<td>Flexible</td>
<td>DGR1 charities</td>
</tr>
<tr>
<td>How much has to be distributed each year?</td>
<td>$11,000 or 5% of assets</td>
<td>Trust income</td>
<td>Trust income</td>
</tr>
</tbody>
</table>
What can you do to access funding?
Australia’s not-for-profit sector

- 600,000 not-for-profit organisations
  - 52,149 not-for-profits are tax concession charities (TCCs)
  - 19,212 charities (TCCs) are Deductible Gift Recipients (DGRs)
  - 8,000 Deductible Gift Recipients (DGRs) are not charities (TCCs)
The importance of ATO endorsements

<table>
<thead>
<tr>
<th></th>
<th>PRIVATE ANCILLARY FUND (TCC &amp; DGR2)</th>
<th>PERPETUAL ENDOWMENT FUND (TCC &amp; DGR2)</th>
<th>CHARITABLE TRUST (TCC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>XYZ Charity State</td>
<td>(✓)</td>
<td>(✓)</td>
<td>(✓)</td>
</tr>
<tr>
<td>Government Entity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(DGR1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XYZ Foundation No. 2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Trust (TCC &amp; DGR1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XYZ Foundation Ltd</td>
<td>✗</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>(TCC &amp; DGR2)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- An ancillary fund (DGR2) must only provide funds to DGR1s
- A DGR2 must not fund another DGR2
- Only ancillary funds established in QLD, NSW, VIC, or SA can opt to give to DGR1s that are government connected
- Only some charitable trusts can give to DGR1s that are government connected
Your donors’ trusted advisers (financial planners, accountants, lawyers and stock brokers) may already be having a conversation with your donor about charitable trusts.
Financial advisers and philanthropy

- Queensland University of Technology (QUT) Australian Centre for Philanthropy and Nonprofit Studies, “Is Philanthropy Relevant? A Study of Professional Advisers in Australia” revealed:
  - An increasing number of advisers are willing to discuss and develop a philanthropic strategy with their high net worth clients
  - Of those that are not willing – this is partly due to a lack of information and training which philanthropic service providers will quickly seek to rectify
Know your donor

• Which donors have a charitable trust?

• What kind of trust have they established?

• What are the annual distribution requirements?
  – Can and will the donor distribute more than the minimum?

• What role does the donor play in the trust?
  – Who else is making funding decisions?
  – Is there a professional trustee company involved and are their processes relevant?
Other key funding tips

• **What should you do if your donor wants to set up a trust?**
  – Be a part of the conversation
  – Have a trusted advisor who you can refer them to
  – Know and understand which structures can provide a benefit to your organisation

• **What if your donors aren’t using charitable trusts?**
  – Apply for funding through trustee companies and other multi trust manager groups to get exposure to trusts where you don’t know the donors

• **What if you are a named beneficiary in charitable trust?**
  – Obtain a copy of the trust deed and understand your entitlement to income and capital
Foundations and Philanthropists

More information
How to find out more

- Speak with one of our advisers
- Philanthropy Australia website - www.philanthropy.org.au