

## Establishing a charitable trust structure

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## **Important note**

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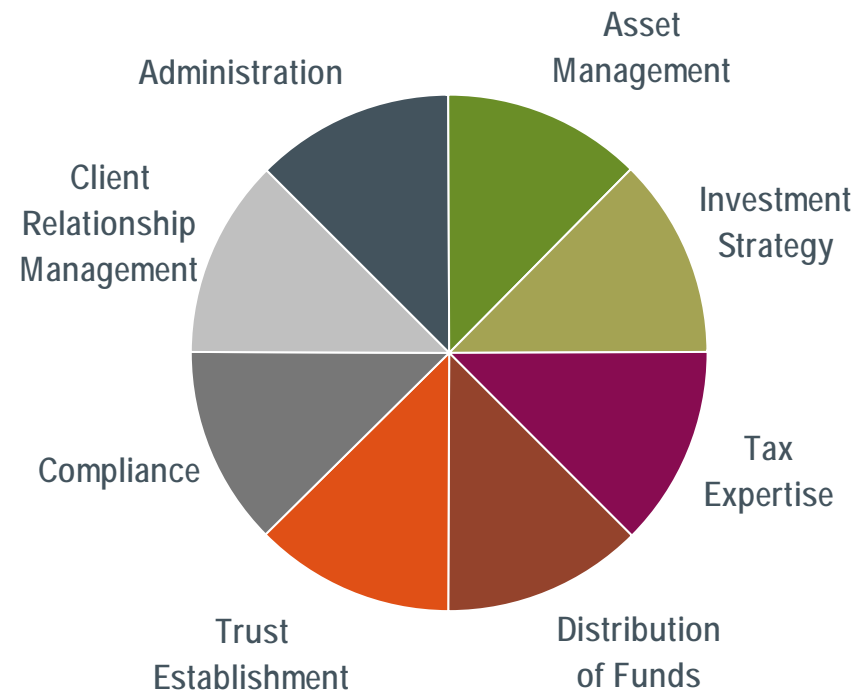
## Agenda

- 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**

#### Trustee Services



## **Advantages of Structured Giving**

## Advantages of structured giving

### To the Donor

- Makes sense to high-net-worth donors
- Have more control and be more involved in the giving process
- Leave a lasting legacy (anonymously or publicly)
- Provide sustainable giving irrespective of financial circumstances
- Manage concerns about intergenerational wealth transfer
- Intergenerational involvement - create a tradition of giving within a family
- Add meaning when all other needs fulfilled
- Prestige or value in attaching a name to a trust

### To the Charity

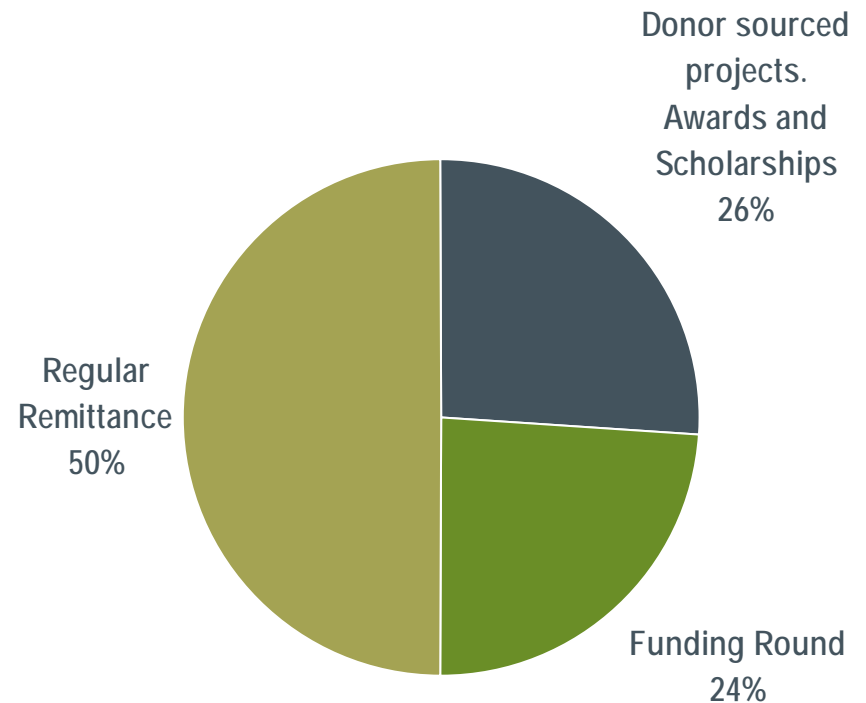
- Donors establishing trusts continue to support their preferred charities and will expose future generations to those charities
- Trusts can facilitate the building of long term and involved relationships
- Facilitate better understanding between donors charities
- Conducive to multi-year funding
- Sustainable – trusts continue to provide a benefit irrespective of the donor's personal circumstances

## **How are funds distributed?**

### Donors give in different ways

#### Perpetual's charitable trusts by distribution type

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





### Example of an Award

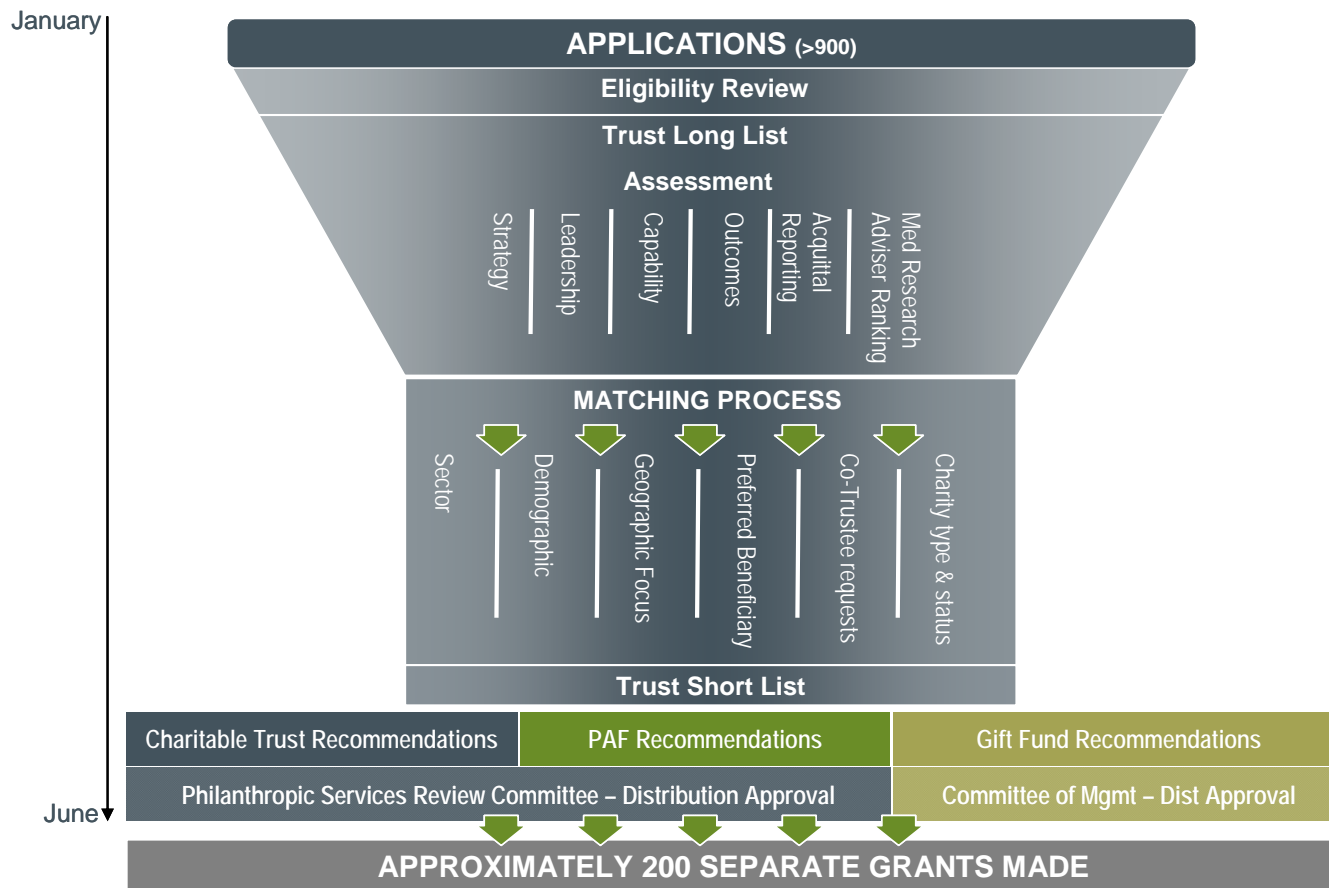
# RAMACIOTTI



- 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

# Trustee companies source funding options for donors

130 trusts, \$9m distributed in 2010



2010  
DATA

### Assessment frameworks differ

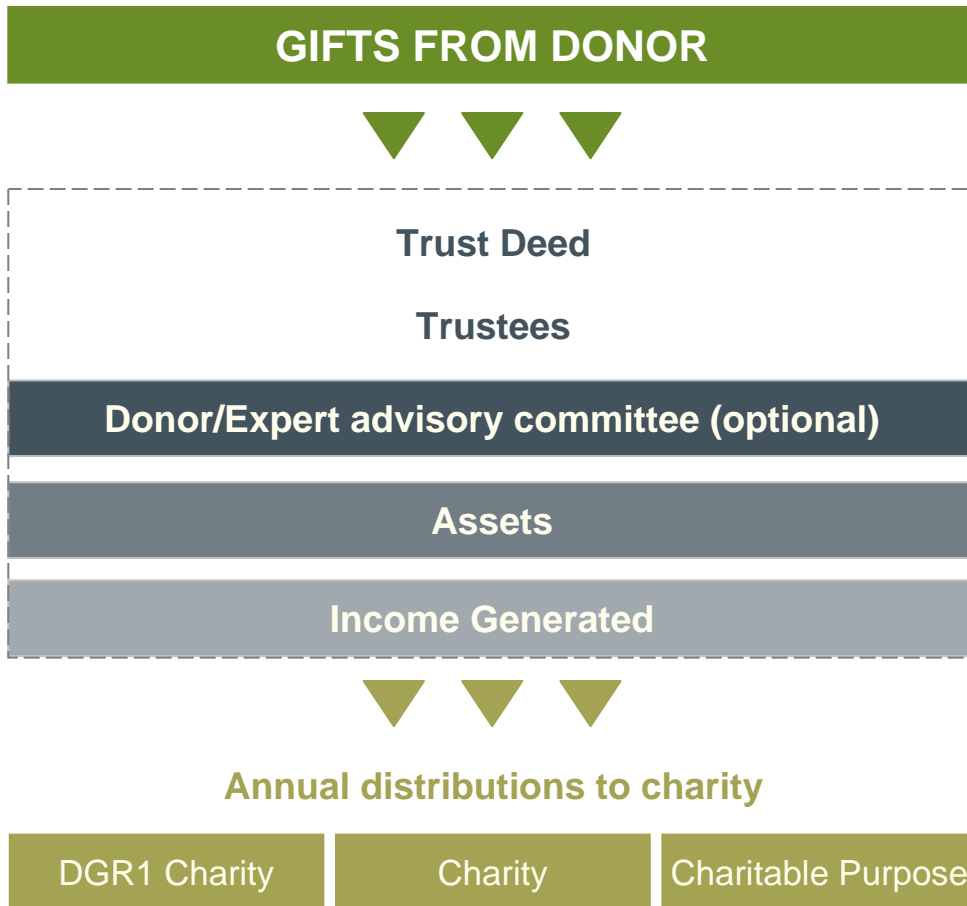
#### Perpetual's assessment framework

<b>Strategy</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Outcomes</b>	<ul style="list-style-type: none"> <li>• Evidence of realistic, measurable and achievable goals and outcomes, including societal impact.</li> </ul>
<b>Capability</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Leadership</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

**MEDICAL RESEARCH APPLICATIONS ARE REVIEWED BY AN INDEPENDENT MEDICAL RESEARCH REVIEW COMMITTEE WHO CONSIDER SCIENTIFIC MERIT**

## **What is a charitable trust?**

### Key features



#### Common Characteristics

- Income tax exempt
- Operate in perpetuity

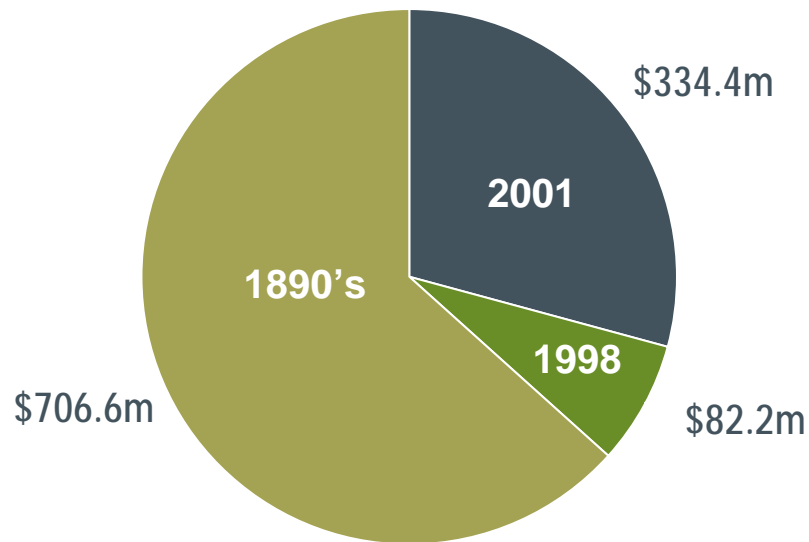
#### Variable Characteristics

- 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

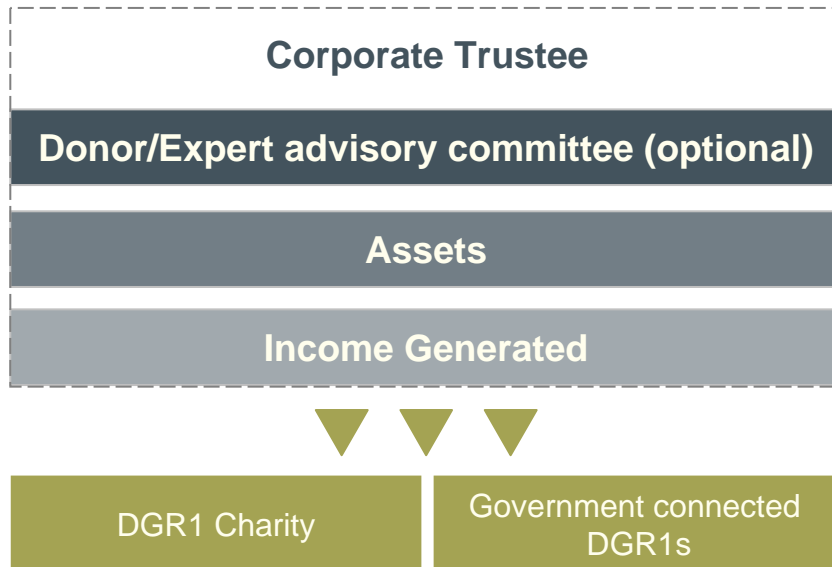


Private Ancillary Funds

Public Ancillary Fund  
(Perpetual Foundation)

Private charitable trusts

## Private Ancillary Funds

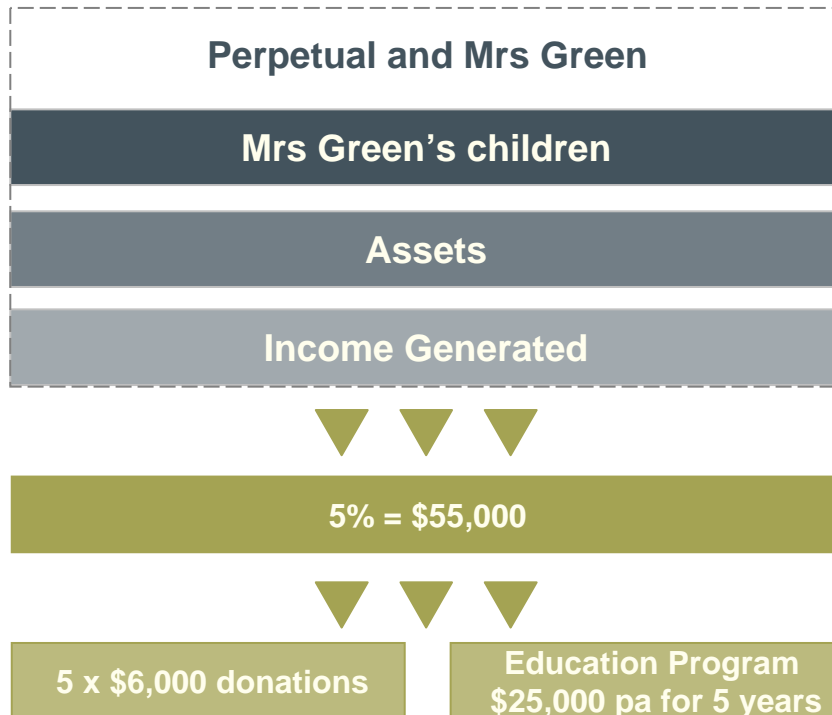


- Around 800 PAFs have received donations of \$1.3 billion and distributed over \$300 million
- New legislated guidelines introduced October 2009, making PAFs the most highly regulated structures available
- Ancillary funds exist solely to provide benefit to DGR1s (can't undertake own activities)
- Can 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



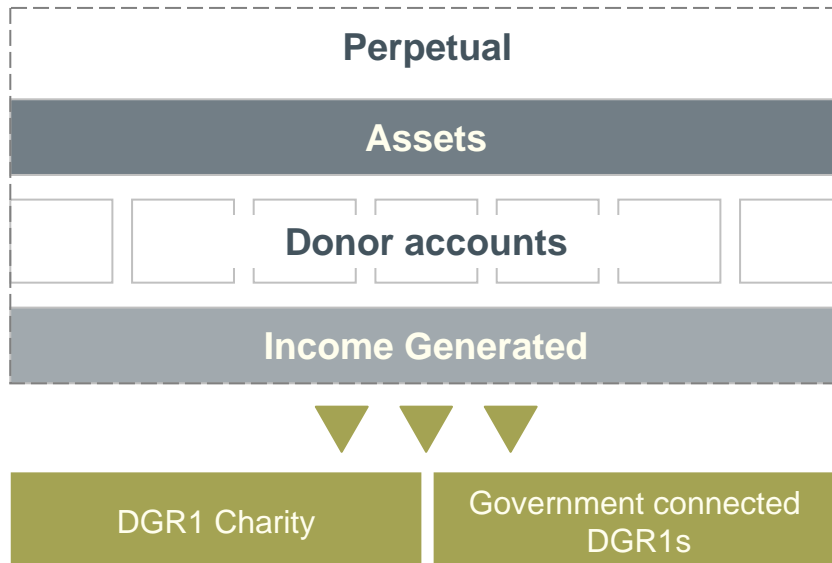
#### About the Donor

- 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

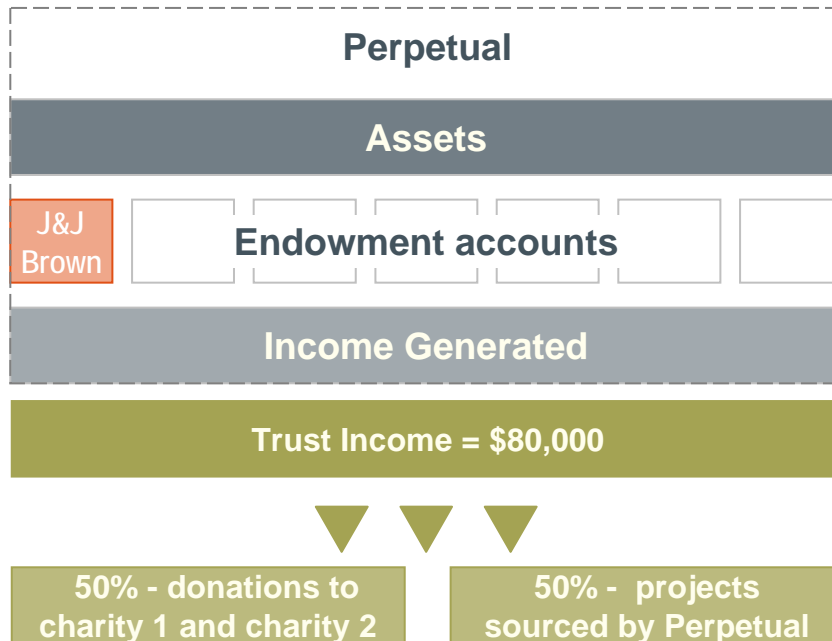
### Public Ancillary Funds



- 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

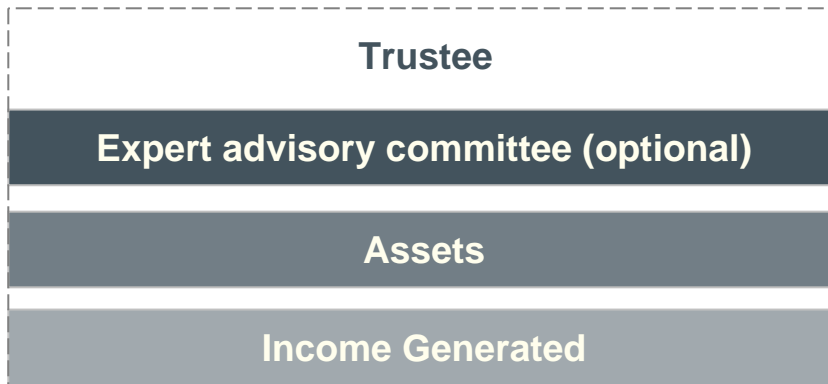
- Mr John and Mrs June Brown are in their early 70s, married with no children
- Personal assets valued at \$7 million

#### 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

## Private Charitable Trust

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



Annual distributions for charitable purposes

### Older Trusts

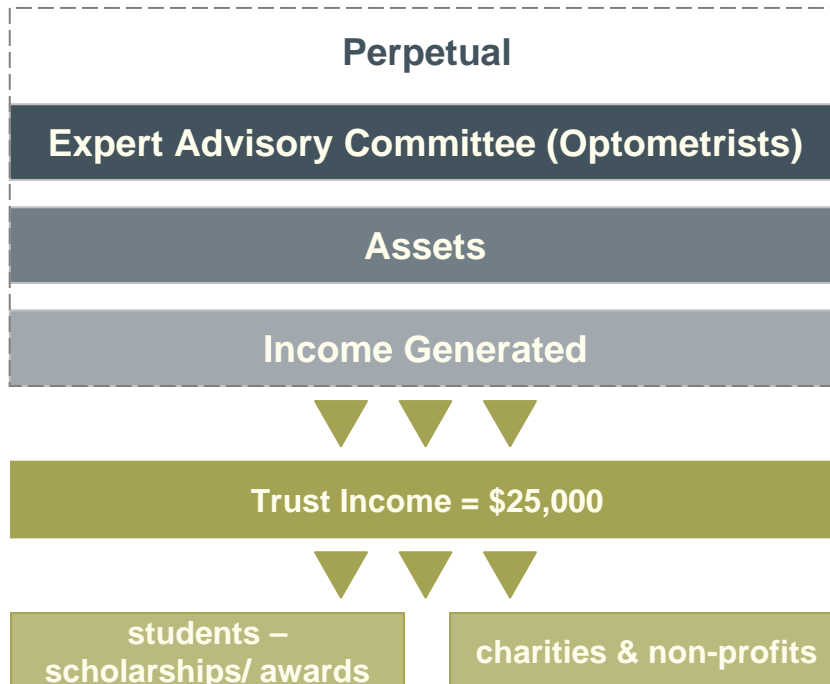
- The original donor is often deceased
- Can only distribute trust income (never capital)
- Usually exist in perpetuity (no wind up provision)

### More Recent Trusts

- Can distribute capital (under limited circumstances)
- Often contain wind up provisions

## Private Charitable Trust Example

### 'The Victorian Optometrists Training & Education Trust'



#### About the Donor

- Optometrist Registration Board of Victoria was dissolved on the 30 June 2010
- The Board used remaining assets to set up a trust to:
  - Advance and foster the practice of optometry (to improve patient outcomes)
  - Improve students' ability to undertake training

#### About the Trust

- Established in 2010
- Currently valued at \$500,0000
- May receive additional contributions from members of the optometry profession

# **Why do donors choose one trust type over another?**

## Service comparison – donor considerations

	PRIVATE ANCILLARY FUND	PRIVATE CHARITABLE TRUST	PERPETUAL FOUNDATION ENDOWMENT FUND
Can I get a tax deduction?	Yes, can be spread over five years	No	Yes, can be spread over five years
Will tax event K3 apply?	No	Yes	No
Can the general public contribute to my trust?	Restricted	Allowed	Allowed
How much do I need to get started?	\$500 - \$1million	\$500,000	\$20,000
Are there establishment costs?	Yes	Yes	No
Are there ongoing compliance costs?	Yes	No	No
Can I have a say in all decisions?	Yes - corporate trustee	Yes - individual or corporate trustee	No – Perpetual is sole Trustee/ one investment option
Who can benefit from my trust?	DGR1 charities	Flexible	DGR1 charities
How much has to be distributed each year?	\$11,000 or 5% of assets	Trust income	Trust income

## **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

	PRIVATE ANCILLARY FUND (TCC & DGR2)	PERPETUAL ENDOWMENT FUND (TCC & DGR2)	CHARITABLE TRUST (TCC)
XYZ Charity State Government Entity (DGR1)	(✓)	(✓)	(✓)
XYZ Foundation No. 2 Trust (TCC & DGR1)	✓	✓	✓
XYZ Foundation Ltd (TCC & DGR2)	✗	✗	✓

- 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

## **More information**

### How to find out more



**IMPACT**  
philanthropy news



**Perpetual Foundation**  
Endowment Fund  
brochure



**Private Ancillary Fund**  
brochure

- **Speak with one of our advisers**
- **Perpetual website - [www.perpetual.com.au/philanthropy](http://www.perpetual.com.au/philanthropy)**
- **Philanthropy Australia website - [www.philanthropy.org.au](http://www.philanthropy.org.au)**



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