

Warnocks Newsletter, November 2020

Contents: Philanthropy, and Warnocks' News

Many of our clients make substantial gifts from time to time, supporting the organisations that they feel are worthy. Most of the gifts are tax deductible, that is, they are gifted to 'Deductible Gift Recipients'.

Have you ever thought about engaging in Philanthropy, beyond making specific gifts, but you do not know much about the process?

You may feel that engaging with philanthropy is only for those people who have millions of dollars to give away, or for people who are familiar with the sector.

This is not the case; whilst it may seem that the benefits of having one's own gifting vehicle are pointed towards 'big' philanthropy, a great deal can be achieved setting up a modestly resourced vehicle. An establishment amount of around \$100,000 would be a great beginning, the bigger the initial amount, The better to amortise the establishment costs. \$1million is recommended, but there is no obligation to start out with that much.

Sometimes it happens that a person's or a families' circumstances in a particular year are such that it might suit them to make a sizeable gift, without having a great deal of time to properly research the intended gift recipient or the purposes for which the gift might be used.



In this case there are two possibilities that could be useful:

1. To set up your own Gifting Vehicle, a Private Ancillary Fund (PAF) or,
2. To set up a sub-fund, under another organisation's Public Ancillary Fund (PUAF).

We comment below in respect of each possibility

1. Using a Sub Fund, for shorter-term giving

This could be a community foundation, or a charitable trust fund run by a not-for-profit, a Trustee Company, or wealth adviser. The major banks have a variety of Sub Funds on offer. A Sub Fund may suit you if any of the following conditions apply:

You are giving a one-off amount / you are giving for a short period / you are giving a relatively small amount each year (e.g. less than \$10,000) / Tax deductibility isn't required / or It's easier for you to give a tax-deductible donation directly to a charitable organisation

A PUAF has to be controlled by a committee, the majority of which are "Responsible Persons" (people with a degree of responsibility in the community) under the Public Ancillary Fund Guidelines 2011.

Grants from the PUAF can only be made to charitable organisations that are endorsed as DGR Item 1 by the Australian Taxation Office. As a donor to a Sub-fund, you could have an individually named account to which your tax-deductible donations are credited; you can make recommendations on the organisations to receive grants from that account. There is usually an annual minimum distribution requirement of 4% of the net value of the fund on 30 June the previous financial year.

2. Private Ancillary Fund (PAF) for longer term Philanthropy

Alternatively, those clients who intend to engage in Philanthropy over the long term can consider establishing their own gifting vehicle, in the form of a Private Ancillary Fund; (PAF). Establishing a PAF enables a donor to set aside an amount of money to support charities over the long term.

Setting up a PAF provides you with the following benefits:

It enables you to make a tax-deductible donation now, and to decide which charities to support later, typically after the end of the financial year. You can invest your charitable funds over the long-term, providing an enduring revenue stream to those charities you would like to continue supporting.

Setting up your own PAF, you can create a legacy of philanthropy, involving your family members and future generations.

PAFs and Estate Planning: Sometimes people leave a bequest to a favourite charity or hospital. This act of kindness can have unintended negative consequences: when a Capital Gains Tax (CGT) asset passes to a tax-

advantaged beneficiary, the estate may incur a capital gain on which tax is payable. This is referred to as CGT Event K3.

Importantly, if the CGT asset is given to an existing entity with DGR status such as a PAF, the CGT event can be disregarded.

Australian Philanthropic Services (APS) is a not-for-profit organisation that has assisted Warnocks with the setting up and running of PAFs. They aim to make having a PAF a rewarding experience. Most importantly, the investment of PAF funds is left to you, with the help of your trusted adviser.

The APS administration service is a one-stop-shop for PAFs, including the accounting and reporting requirements. The link below takes you to Australian Philanthropic Services' brochure outlining the key features and advantages of a PAF and explains how APS could help you.

[Click here to download the APS brochure](#)

Here are a few information points relating to the establishment and operation of a PAF. We are indebted to Australian Philanthropic Services for providing us with this information:

1. It takes 6 to 8 weeks to establish a PAF
2. Contributions can be made as often or as infrequently as you like
3. A tax deduction is available for all amounts contributed, and the deduction can be spread over 5 years
4. One director must be a 'responsible person', (guidance is provided)
5. You can choose the directors of the trustee
6. You can distribute to any Charity with Deductible Gift Recipient status, type 1.
7. You will need to distribute 5% of net assets, each year, subject to a minimum amount of \$11,000; no distribution is necessary in the year of establishment.
8. You and your advisers will manage the investments
9. Investment income is tax exempt, and Franking Credits are refundable
10. An annual audit is required

Warnocks is also able to assist you with the accounting, secretarial and administration requirements for PAFs. One of our directors is available to be the 'responsible person' that is required.

We would appreciate the opportunity to talk to you some more about your future Philanthropy. Please do call George or Karen to do so.



Warnocks News

Working Remotely

As you will almost certainly be aware, Warnocks' staff has been working from home since the lockdown of early August. Now we are quite used to it. Zoom meetings are not too bad, but we do miss interacting with each other, and with you, our valued clients.

When we can resume working from our office at Surrey Hills, we aim to do so with a difference. Working from home has been liberating to some degree, and we have each learned to work with a degree of flexibility. So much so, that we are intending to trial a system where we will work from the Office on Tuesdays, Wednesdays, and Thursdays. Depending on clients' requirements, Team members will largely be able to choose whether they work from the office, or from home or some other remote location.

Team News

There have been a few milestones since the start of lockdown:

Anaëlle Wong, Senior Business Services Adviser, who is presently on maternity leave, has been admitted as a Chartered Accountant. It is the end of a long road, for Anaëlle, and we are all thrilled for her. What a great year this has been for Anaëlle, after the arrival of baby Mia in February.

Anthony Pascoe, Business Services Adviser, will be right behind Anaëlle in the professional stakes, as he has also passed his final CAANZ exam, and will soon be applying for membership.

Jolie Dang, Business Services Adviser, has passed her third CAANZ exam, (Financial Accounting) and was awarded a Merit rating, leaving Jolie only two more hurdles to clear.

Wesley Ong, our Accounting Graduate, has zoomed (!) through his second Taxation Institute exam, leaving the way clear for Wesley to start the CAANZ exam pathway.

Finally, both Karen Khor and George Dingli have passed the mandatory exam for Financial Advisers, set by FASEA, the newly formed Financial Adviser Standards and Ethics Authority. Passing this exam was a prerequisite to maintaining our Limited Financial Services Licence, which allows us to advise clients on Superannuation matters.