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MTWTFS-

Philanthropy begins in the office

There are structures and systems that can let you get more bang for your charity buck, writes **Simon Hoyle.**

When the economy turns bad, it's natural that businesses and individuals become far more careful about how they spend money.

For businesses, it can mean cutting costs, laying off staff and getting rid of inefficient operations. Individuals and households often go through a similar sort of process – although it's not always practical to lay off a family member – and belt-tightening includes cutting back on non-essential spending.

Sadly, donations to charities or social causes can also be a casualty of an economic downturn. Taking care of issues closer to home – protecting what we have and looking after our loved ones as a priority – is just as natural a response to hard economic times.

If the financial contributions you have made to causes in the past have largely been unstructured, ad hoc or one-off donations, they are more likely to either drop in value or stop when there are other pressing demands on your financial resources. But if regular charitable giving is something that is important to you and if you need to find a way to keep it up, then there are structures and systems you can put in place to get you through.

Bruce Christie, head of strategic advice on charitable giving for Centric Wealth Advisers, says philanthropy is "an integral part of what most people are".

He says self-actualisation – a psychology term – is the highest form of fulfilment we can achieve and we generally achieve it by helping other people. The desire for self-actualisation is what drives us to be actively involved in philanthropic activities.

Psychologists argue that this drive exists in all of us but it cannot be harnessed until our other needs have been met. Psychologists talk about "Maslow's hierarchy of needs". Abraham Maslow was an American psychologist who observed that human needs are arranged hierarchically – like a ladder – and it's not until the needs on the lower rungs of the ladder (air, water, food, sleep, shelter and so on) are taken care of that we can concern ourselves with those higher up.

Maslow's theory is also believed to explain why self-improvement (or ambition) is such a powerful human characteristic.

So if the drive to give and to help is present in most of us, what is commonly lacking is the knowledge of how to best structure our activities so that we get maximum benefit from them, both psychologically and in terms of the impact we have on the organisations to which we give and the people we aim to help.

If we can structure things so that our capacity to give can weather an economic downturn, we'll not only continue to derive those benefits for ourselves, but we'll also help make life much easier for the organisations we give to and, in turn, to the people those organisations help.

Christie says financial planners have a responsibility to help clients achieve self-actualisation. They may not use those precise words but that is the essential aim. Planners need to identify whether philanthropy is important to their clients.

"It presumes that you know your client, first and foremost, and that you have had that discussion, so you know they are willing to give, or have given," Christie says.

"On the presumption that I have a client that I know is charitable and has made ad hoc contributions or has a formal structure in place ... or they are in a situation where we

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know there's a tax event coming up and they are thinking now is the time to do something, in those circumstances, we introduce it by saying, 'We know from our past discussions that you are interested in doing this.'"

But getting set up to make regular donations is not necessarily straightforward.

"What I say to people is, look, there's no simple off-the-cuff answer," Christie says. "It's not like saying you want to buy shares.

"If someone says they want to do something, it's not like you can say you need one of these 'products' to solve the problem. You need to know about the client's circumstances. I'd say you need to set aside an hour, or an hour-and-a-half, to explore what they are looking for.

"Who wants to be involved? Is it just yourself, or yourself and family members? Do they want to create an endowment? Or do they want to make more [targeted] contributions towards a specific project? Do they have a broad interest? Do they want it to survive them? How involved do they want to be?

"I often use the analogy of a superannuation fund: people can have a self-managed super fund [SMSF] and really drive it or they can outsource a lot of it and go with a public-offer fund, and achieve the same results."

Christie says if you want to structure regular giving you can "go into a sub-fund of a community foundation, or an ancillary fund of something like the Perpetual Charitable Foundation", where much of the administration and hard work is done for you.

Or you can set up a prescribed private fund (PPF) for yourself, "but that's a much more involved process because it's quite similar to setting up an SMSF". (See box: what is a PPF?)

PPFs are regulated by the Australian Taxation Office and there are rules governing how they work: how you can put money into them, how much you can put in, and how much they must pay out each year.

PPFs are the subject of a review, announced by the Government last month, designed to gauge how effective they have been in assisting individuals' philanthropic ambitions and how well they have been run since coming into being in 1999.

There is a very clear practical reason giving regularly is preferable to giving on a random, ad hoc basis. It allows the recipients of donations to plan better and to undertake projects they might not otherwise be able to.

Nikki Johnston, national director of the Children's Hospital Foundations Australia (CHFA), says regular, recurring giving forms "a significant part of our children's hospital foundations' ability to plan where funds will go.

"Giving through these programs has benefits for the donor as donations are more manageable and spread over time, but it also has major benefits for the charity as a regular, automatic income stream also reduces administration costs.

"Reduced administration costs mean that donations can go directly into funding important research, equipment and patient and parent support services in our children's hospitals that otherwise would not exist.

"Regular giving programs can help buffer the blows for our charities during tough times. If research or support programs have been relying on a single source for funding and that source disappears, unfortunately the program will, too. "

Jan Owen, executive director of Social Ventures Australia (SVA), says not-for-profit organisations face exactly the same administrative and managerial challenges as any organisation, and perhaps more so, given the complexity of issues they face.

Owen says individuals are becoming, and are likely to become even more, concerned about how effectively their charitable donations are being put to use. A lot of SVA's work is to improve transparency and accountability in not-for-profit organisations and in benchmarking and measuring the not-for-profit organisations' performance.

She says this kind of work requires consistent and reasonably predictable funding. SVA routinely puts together three-year plans for not-for-profit organisations, and regular funding is vital, so the organisation can meet its objectives and so SVA can properly monitor it.

"We spend a lot of time measuring the results of what they are doing and what they are achieving," Owen says. "If you can articulate really clearly that this is important, and can articulate that to people, you feel you're getting a much bigger bang for your buck.

"Also, people feel positive that their dollar goes further than it does."

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Set up your own trust fund

What is a PPF?
Prescribed Private Funds (PPFs) came about as a response to a report on philanthropy in Australia by the Business and Community Partnerships Working Group on Taxation Reform in March 1999.

PPFs are a form of ancillary trust fund designed to encourage philanthropy by providing private parties, such as businesses, families and individuals, with greater flexibility to start their own trust funds for philanthropic purposes.

Donations to PPFs are tax-deductible

- PPFs are limited to making distributions to other deductible-gift recipients (DGRs) that either have been endorsed by the Australian Taxation Office or are listed by name in the income tax law as a DGR. A PPF may be entitled to an income-tax exemption if it is also endorsed as a charity, or endorsed as an income-tax-exempt fund.

- A PPF is one of two types of ancillary trust fund that can qualify for DGR status and income-tax-exempt status. The other type is a public ancillary fund (PAF), which is distinct from a PPF in that it must establish a public fund.

- A PAF is a common structure for community and fund-raising foundations. Both types of ancillary fund act only as intermediaries between donors and organisations that can receive tax-deductible donations.

- With the exception that they need not seek and receive contributions from the public, and control requirements, PPFs have the same characteristics as PAFs and accordingly must comply with all the other requirements of a public fund.

- The current PPF guidelines outline the process to be followed, and requirements to be met, in order to establish a PPF, including the requirement to establish a trust in accordance with a model trust deed. The current guidelines are not legislated and therefore have no legal status in their own right.

Source: *Improving The Integrity Of Prescribed Private Funds (PPFs)*, Treasury, November 2008.