

The business case for philanthropy

The giving gimmick that won't go away

Advisers are often confronted by fads and gimmicks that their clients want to discuss, or what advisers *have been told* their clients want to discuss. Philanthropy, or rather the “giving” issue, has recently come to the forefront – not just because of tsunamis or earthquakes – but because of substantial increases in wealth and a growth in community desire to make a difference in a world increasingly needing its support.

Having observed the philanthropy scene for a number of years, consultant to the finance sector, Enrich Australia believes that advisers have to understand this desire and be prepared to assist clients with genuine needs for one-off or sustained giving. The giving mentality is not a gimmick. It is already widespread and will only grow, and advisers can't ignore this area of advice.

Philanthropy is a growing sector with \$5.7 billion donated by Australians in 2004, and is increasing by 12 percent each year. At the same time, half a million Australian businesses donated more than \$3 billion in 2004 as gifts of money, goods and services, and sponsorship. This giving can be in the form of cash, shares, property, or time and expertise. Tax deductibility against income plays a role in the amount people give, although is not the sole purpose for people to do so. Such deductibility can be spread for up to five years from the time of giving

So how does all this fit in with financial planning?

Financial advisers add value for their clients by offering them security and maximum investment returns within acceptable levels of risk. They also seek to minimise the amount of tax their clients pay. Philanthropy can play a part in this process by helping, in many circumstances, to sweeten the bitter pill of paying tax by redirecting it to circumstances where the client has some choice over what impact the money has in the community.

Enrich Australia's Tim Hardy, himself a supporter of the not-for-profit sector for many years says, “There are people who would prefer to decide where their money from taxes is directed than leaving it to the Government.

“By offering tax deductibility through giving to charitable causes, or through setting up one's own charitable foundation, a tax liability can be re-directed into

giving initiatives, rather than going to into Treasury coffers. The money does not, of course, belong to the clients (otherwise there'd be no tax relief), but it definitely gives them a sense of having made a difference in the ways they believe are important.”

While the tax deductibility received from giving can offset the liability for tax, this very much depends on the personal tax situation of the client and would need to be investigated with their tax adviser.

There is also a very apparent reason for an adviser to introduce philanthropy to clients as a solution for certain situations. Apart from the adviser offering an innovative way of dealing with tax, philanthropy provides an ideal tool for developing a closer and more trusting relationship with clients. “It’s a perfect mechanism for discussing what is important to them,” says Tim Hardy, “– a means of expressing their core values.”



It has been proven by advisers who have provided strategic giving solutions to their clients by creating a charitable foundation that this can lead to greater and a closer working relationship. Furthermore, giving often involves the partners and families of clients, so it’s a good way of connecting with other family members, especially the next generation.

Hardy adds, “The clear avenue that this type of advice opens up for referrals can not be underestimated. People will talk about their philanthropy as it’s so much about their personal lives – and they will talk about the adviser who helped them put it into place.”

Increasing numbers of high-net-worth individuals are currently establishing their own charitable foundations. In the last five years around \$600m has been put into such funds, known as Private Prescribed Funds (PPFs), the average size being \$1 million. Money or assets are transferred into these funds and invested in a balanced investment portfolio. The donation of capital qualifies for tax deductibility as the assets have effectively been given away, and the fund invests within a tax-free environment. Any returns are distributed to the charities chosen by the founder of the foundation. These funds need advice on how to managed, typically in an IMA structure. The assets within the funds must be invested according to prudent person rules under trustee law and the benefiting charities can only be those that are accredited by the Australian Tax Office to offer receipts for tax deductibility purposes. This ensures that no money leaks out of the charitable environment.

For clients with less ambitious amounts of money to give, there are charitable gift trusts, managed by trustee companies. These trusts can offer a charity foundation, or trust, to clients, which are named accounts within the trustee companies’ own trust structure. An account can be established with as little as \$20,000, which is invested in one of a range of investment options. The returns from these funds are distributed to qualifying charities, taking into account the clients’ recommendations on causes and charities of interest. They are much cheaper to operate, often at no cost, and are typically managed at a cost of between 150 to 200 basis points, which includes fund management, compliance and administration, including the distribution of money to the agreed charities. The main other difference between these funds and PPFs is

that there is less control on the investments of the funds in charitable gift trusts and the trustee companies are the sole trustees of the fund.

Community foundations, mostly state-based, can also provide the means of setting up such trust structures. As their names suggest, giving is usually confined to charitable causes within the state they operate but in essence, their structure is the same as a charitable gift trust.

Charities are becoming increasingly sophisticated in the way they raise funds and manage their own business. Many now rely on the services of financial advisers, as any business would, for risk, superannuation and investment advice. Many charities are also seeking ways to enhance the income derived from the effective management of their surplus funds. Many fund managers have developed product specifically designed to cater for charity investment needs, such as zero-taxed fund that can capitalise on the favourable treatment of franking credits and share buy-backs

According to charity researcher, Givewell, the 500 charities covered in their database hold over \$17 billion in assets. Excluding the property they own, more than \$6.5 billion is invested across cash, bonds, and equities. Considering the number of charities that exist, the potential for advice is significant.

The charity sector is enormous and growing. According to The National Roundtable of Nonprofit Organisations, there are about 380,000 incorporated not-for-profit entities, 20,000 of which have Deductible Gift Recipient status, which means they can write a tax receipt to donors for deductibility purposes. In 2000 they employed 604,000 people, or 6.8 percent of the Australian workforce and earned a joint income of more than \$33 billion.

Many advisers sit on the boards of charities, providing a means of giving to the sector in the way of time and expertise. They gain a lot of satisfaction from offering the very skills that make them successful planners to contribute to the success and strategic plans of charities. It also offers the opportunity to get to know other board members and supporters of the charity, many of whom are successful and skilled people in their own sphere of influence. Active donors and volunteers are often looking for advice in establishing strategic giving programs, such as the establishment of a charitable trust.

So rather than philanthropy being a gimmick, there is a clear case it has a very real role to play in meeting client needs. It is now up to advisers to realise its full potential.



For more information on how client philanthropy can transform your role as adviser please see www.gatewayforgiving.com.au

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