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Encouraging Philanthropy in Australia – Options for Investors

**Business/Higher Education Round Table and
Campus Review Summit**

**Wednesday 17 May 2006
Sheraton on the Park Hotel Sydney**

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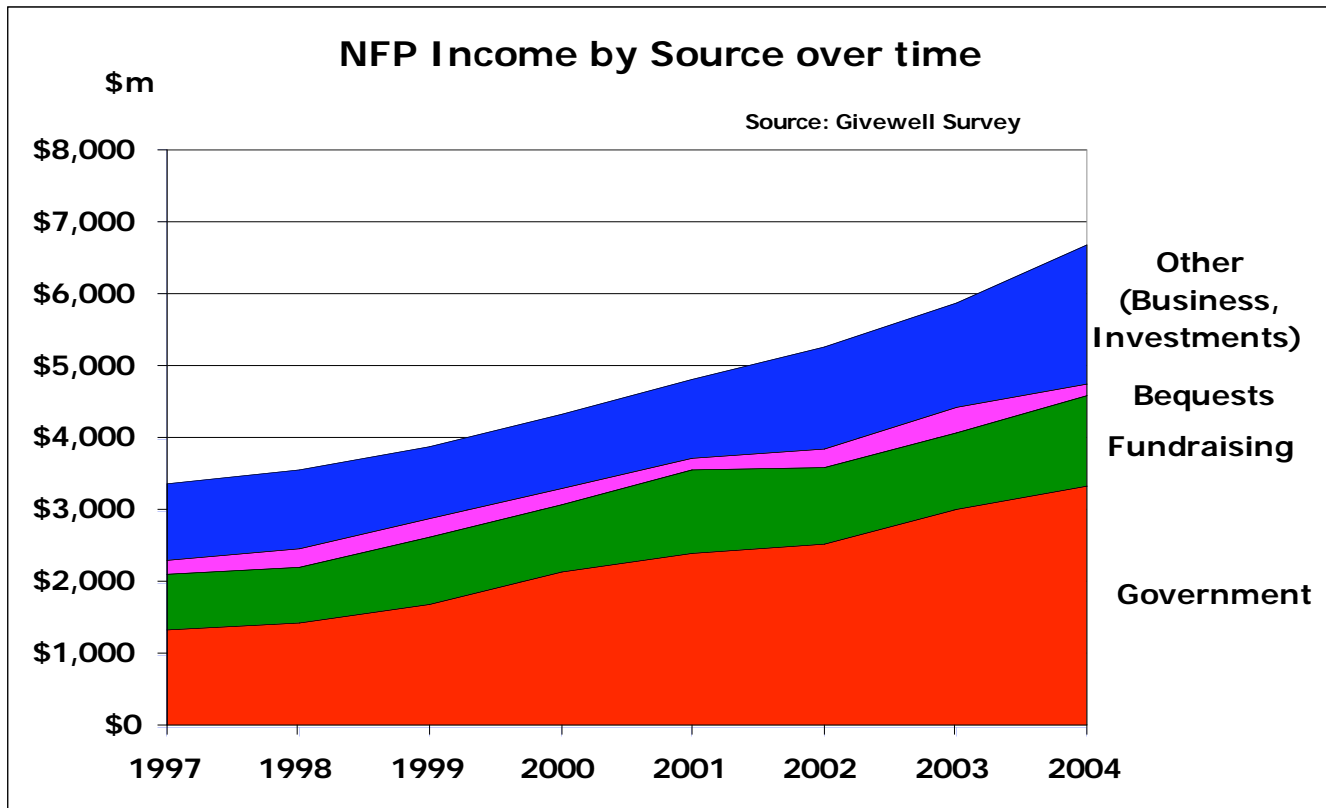
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Current trends in Philanthropy

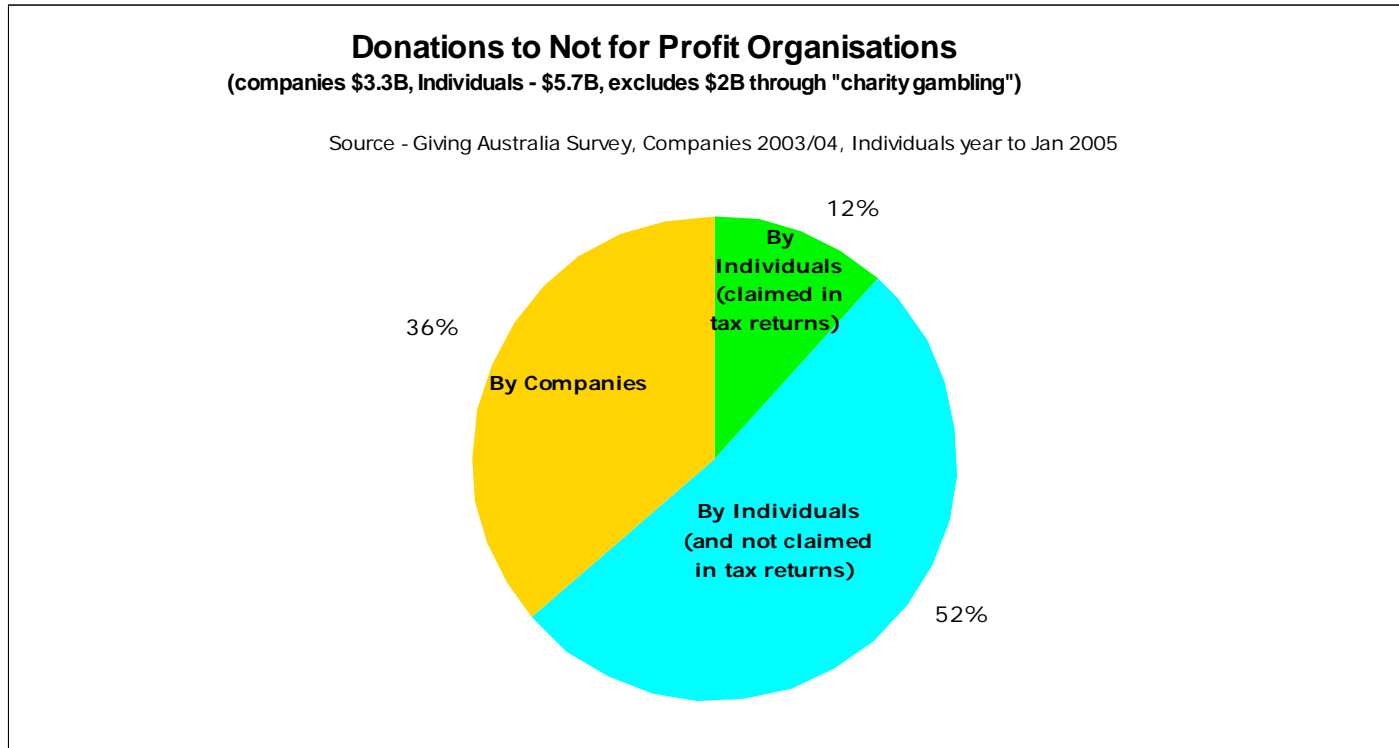


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Not for Profit Income by Source 1997-2004



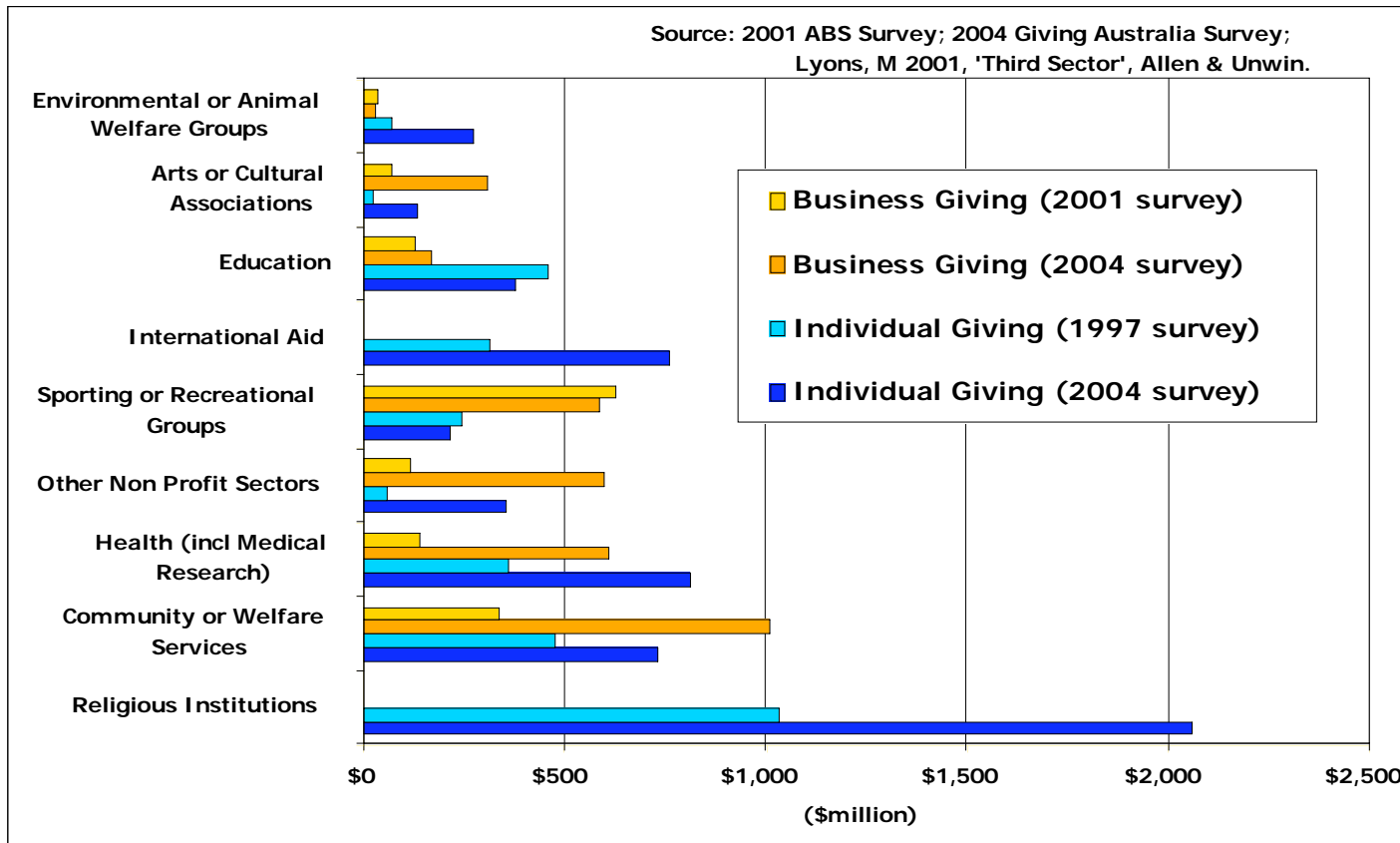
Who gives the fundraising part (non Government)



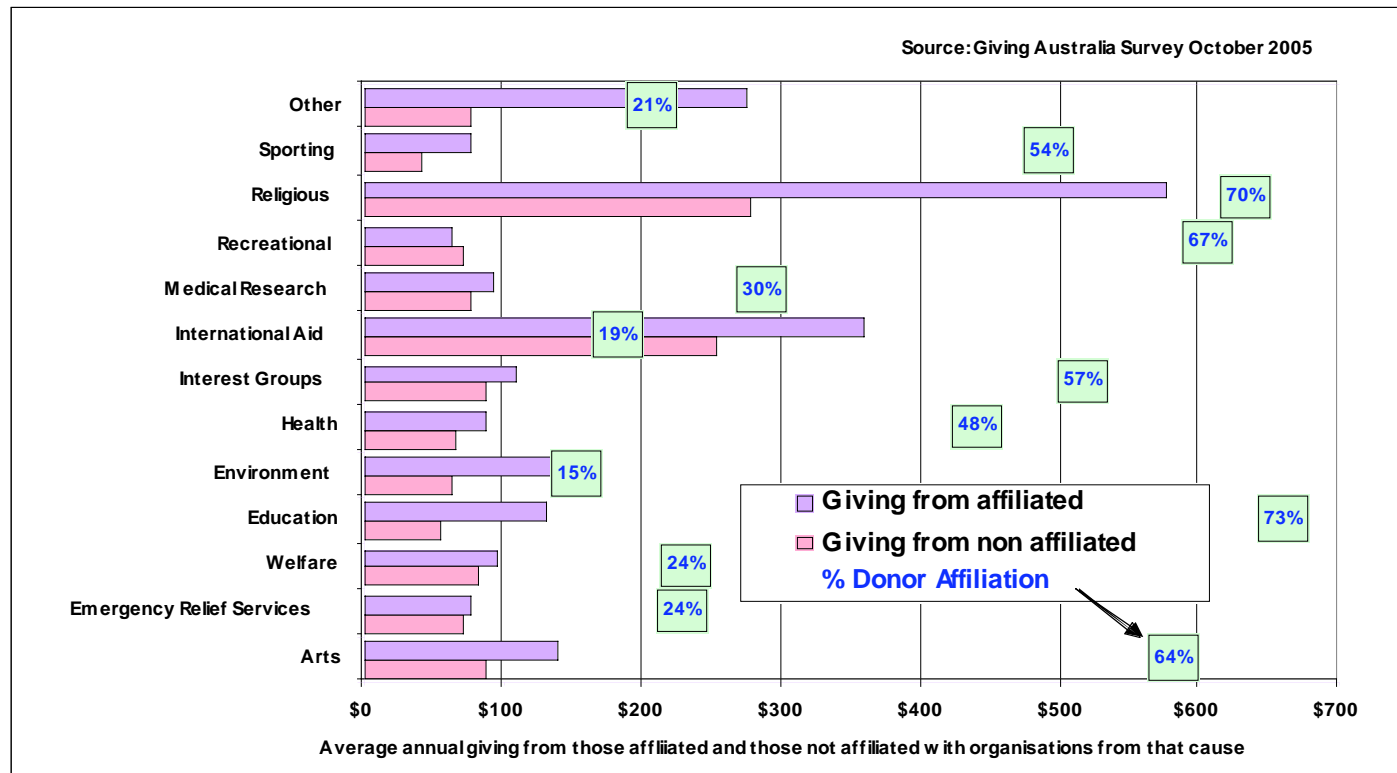
Total individual and business giving of \$9 billion in 2004 was dominated by individuals and mostly not claimed as a deduction.

(Source: Giving Australia Research Philanthropy in Australia Oct. 2005)

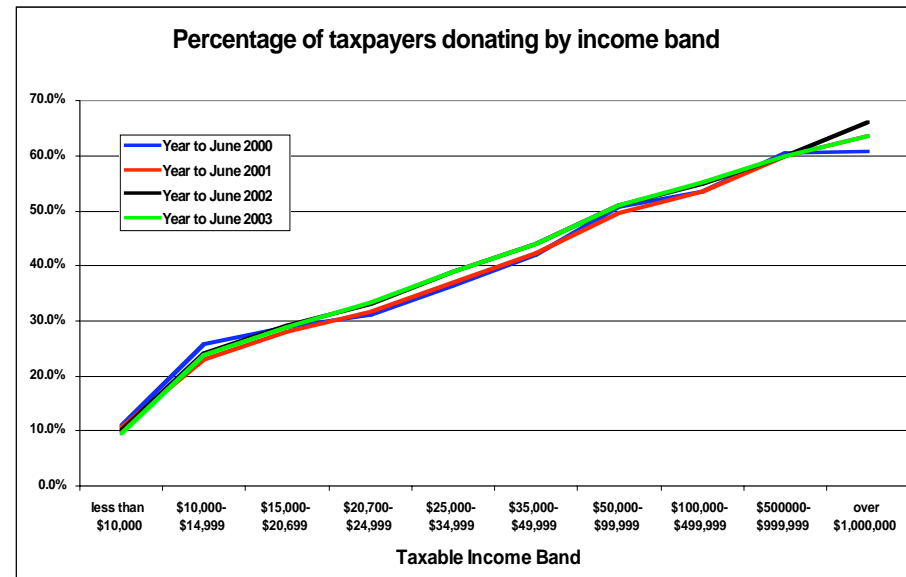
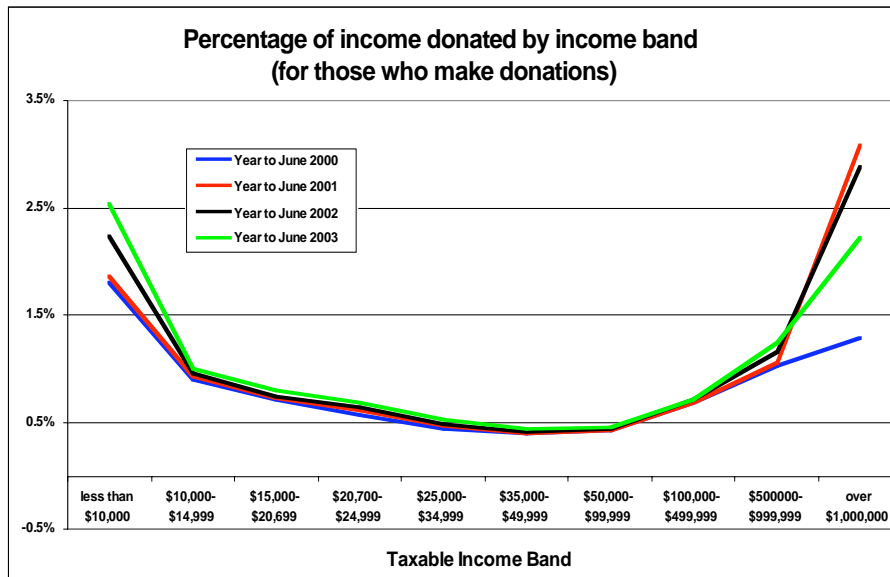
Business and Individual Giving Growth by Sector



Effect on Giving by Donor Affiliation by Sector



Giving in Australia

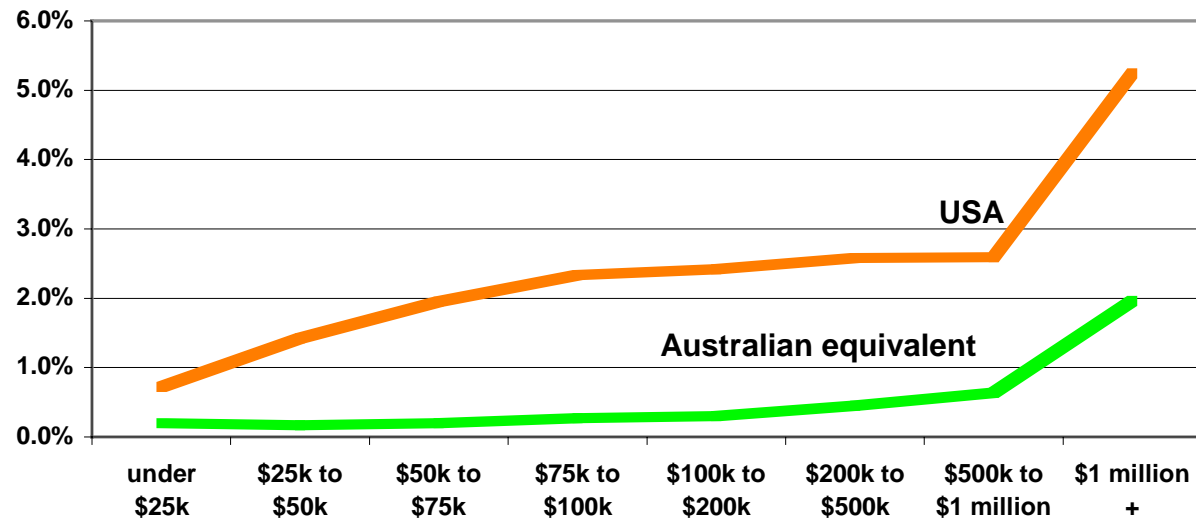


Source: Queensland University of Technology (QUT), Australian Taxation Office (ATO)

Donations by income level – Australia vs USA

USA 2001 - Proportion of Income Gifted by tax bracket

Source: IRS, New Tithing Group, QUT



The patterns are similar including the jump at \$1 million+ (after PPFs introduction). Levels of government welfare support and “who should pay” questions, only partly explain the different levels of giving.



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Why are Financial Advisers interested in this?

- Their clients are interested
 - 50-60% of clients who have taxable incomes above \$100,000 are active in this area.
- Enables them to broaden relationships with clients.
 - Open up new business opportunities with established clients
 - Be involved in stable and succession planning, engage with the next generation.
- Enables Advisers to differentiate offering from other advisers in a competitive and crowded market place.
- A smart and “nice” way to educate clients on new approaches to investment and to introduce new products and service offering to new and established clients.



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Philanthropic Services

Has been established to:

- Promote Philanthropy across our client base
- Provide advice and assistance to Endowments and Foundations, not-for-profit and charitable groups
- Assist corporate clients to establish and manage an appropriate Philanthropic Strategy



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Philanthropic options

Volunteer your time

Write a cheque

Donate assets

Make a bequest

Make a donation to a Community Foundation

Contribute to an existing Private Foundation

Establish your own Private or Family Foundation

More and more individuals and companies are spending more time incorporating this activity into their day to day and longer term planning.



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Donor Advised Funds

- Outsource Investment
- Retain grantmaking participation
- Small starting amounts \$20 - \$50,000, especially when compared to a PPF
- Attractive model for those not wanting to own the administration



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What is a Prescribed Private Fund (PPF)?



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What is a Prescribed Private Fund?

A PPF is a vehicle to which businesses, families and individuals can make a tax deductible donation

A fund established by Will or Trust:

- Has Deductible Gift Recipient (DGR) Status
- Normally has tax exempt status
- Ability to attract tax concessions

PPFs can only provide an income stream which is distributable to approved organisations with DGR status

A PPF can be established for a limited time or specific purpose provided that fund has deductible gift recipient status

No requirement for gifts to be sought or received from the public



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Case study

Client sells business with large capital gain - wants to support a charity

Situation

- Selling business for cash
- Triggers large capital gains tax liability
- Pledges \$1m to a Charity, on the basis of \$100,000 each year, for the next 10 years

Action

- Set up a Foundation
- Make a larger donation in year one to offset against tax liability
- Create a Foundation to throw off growing annual contribution

Result

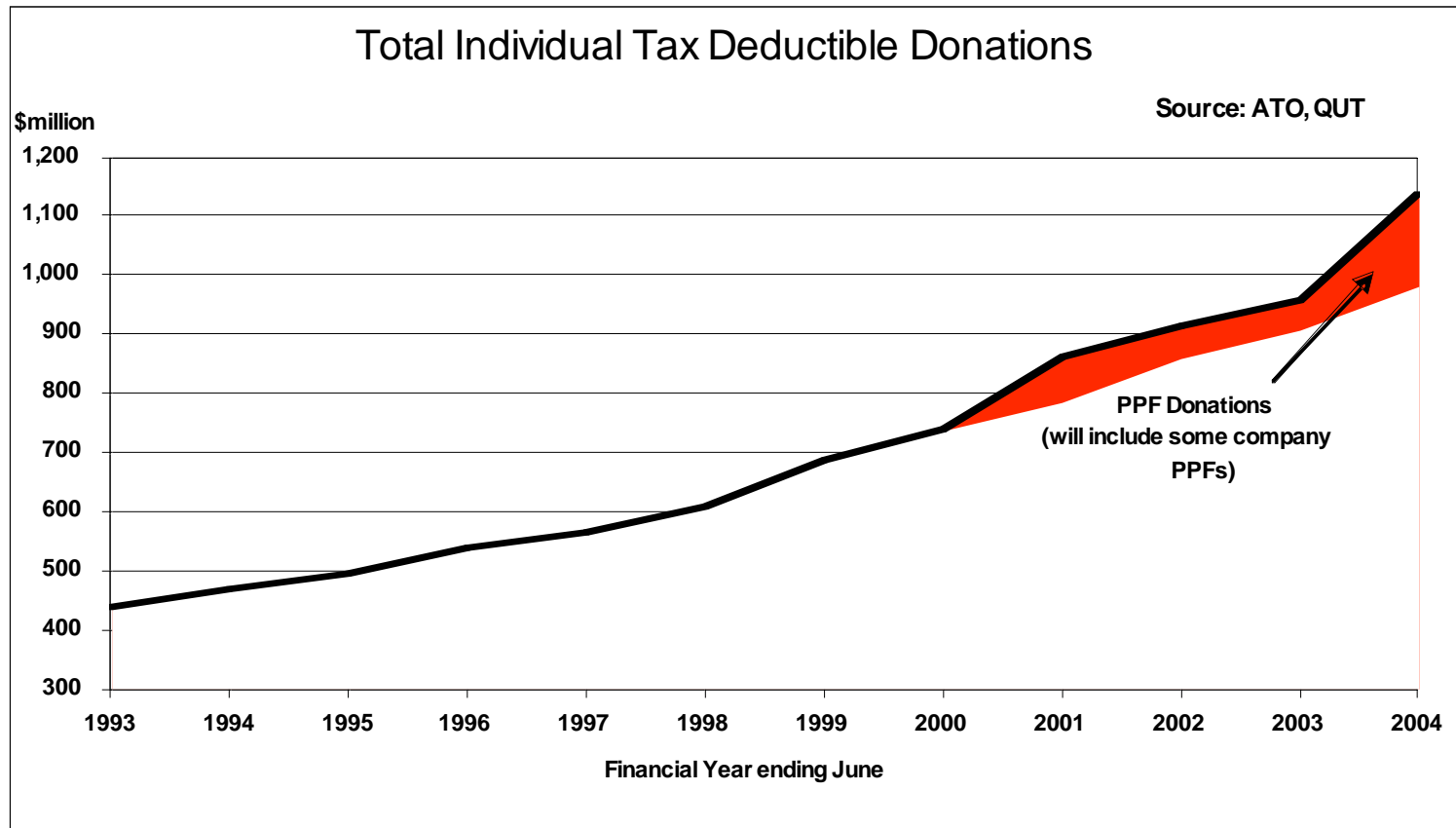
- Client may attract some relief for large CGT liability
- Capital may begin to compound in a tax exempt environment
- Charity receives a growing income stream that keeps growing after the end of 10 years
- Client achieves maximum tax benefit (that may not have occurred in years 7, 8, 9 and 10 if the client hadn't had the taxable income to offset his annual gift).



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Impact of PPFs

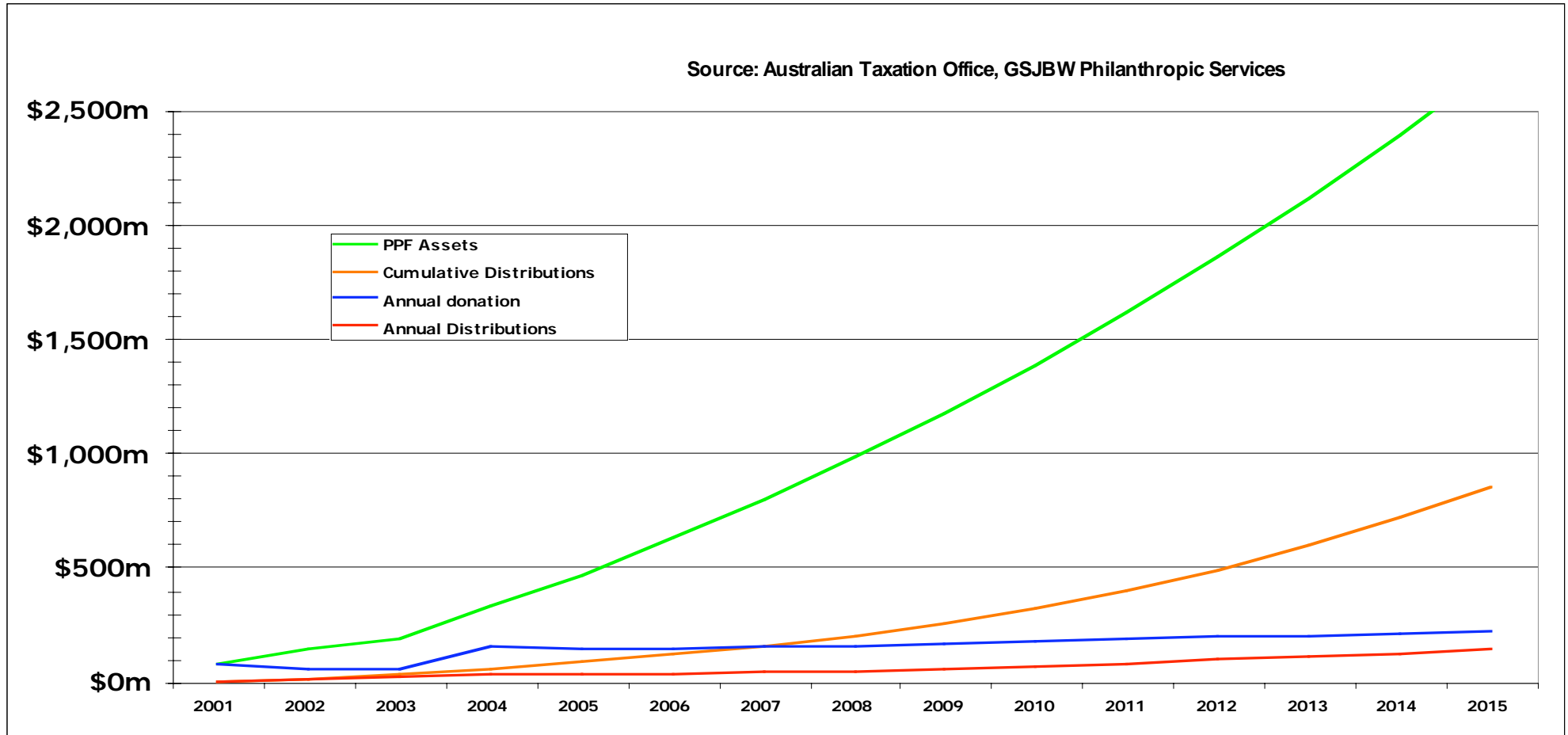
Giving in Australia



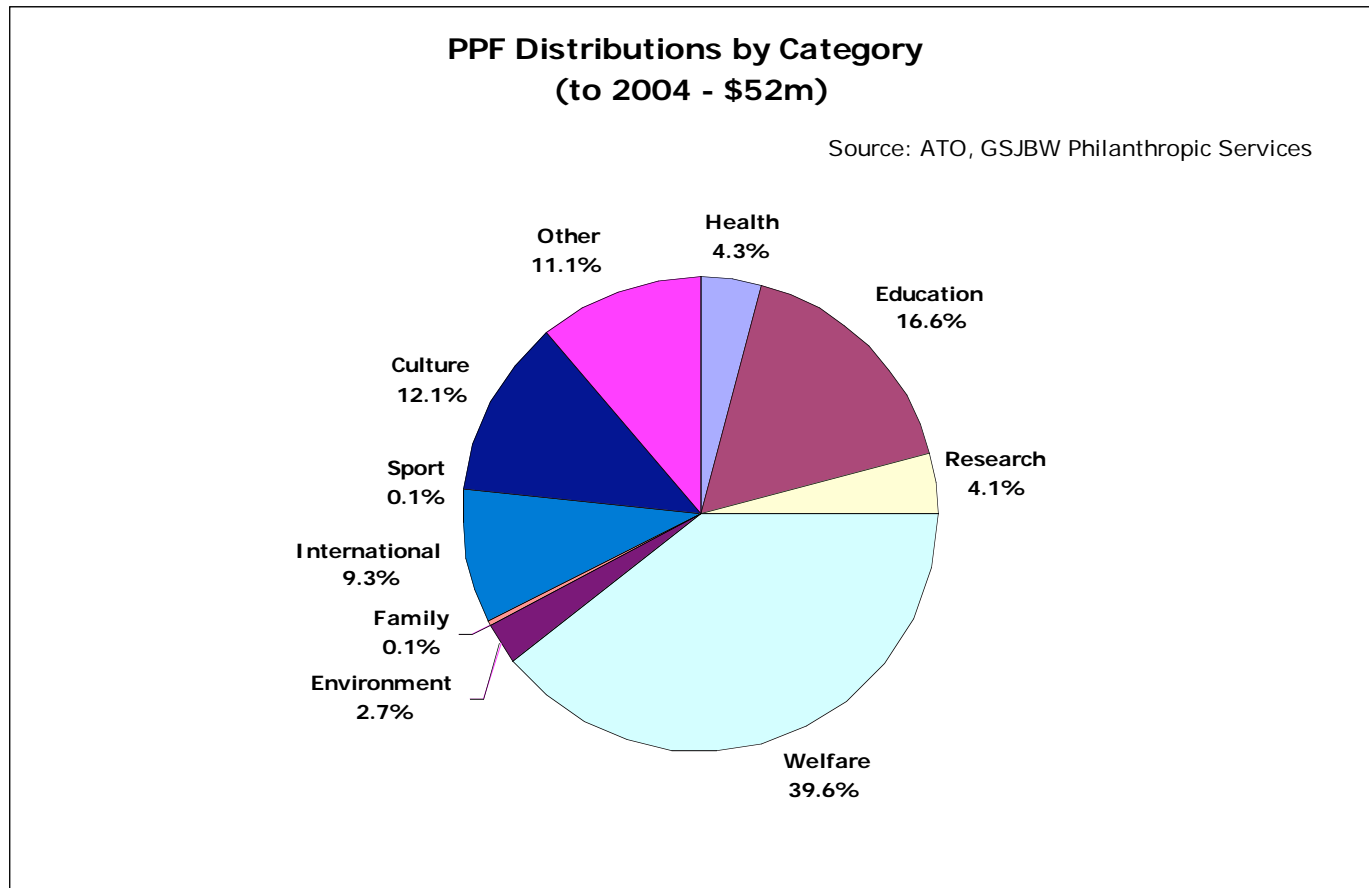


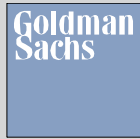
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PPF – Financial Projections



Cumulative PPF Distributions 2002 - 2004





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Why are Individuals establishing a Foundation?



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The case for a Foundation

Income \$80,000
 Investments \$1,000,000
 Giving \$20,000 p.a.
 Dividends 4% fully franked
 Capital growth 4%

Additional benefit is \$99,852 via access to tax deduction in the year of establishment of the foundation.

It should be remembered this is an irrevocable gift.

	No Foundation	Set up a Foundation	
Investments	\$1,000,000	\$794,118	\$205,882
Income	80,000	80,000	
Dividends	40,000	31,765	8,235
Franking	17,143	13,613	3,529
Capital Gain	20,000	15,882	-
Donations	20,000	-	-
Total Income	137,143	141,261	11,765
Tax Payable	52,226	54,223	-
Div Rebate	17,143	13,613	3,529
Capital Gain	40,000	31,765	8,235
Cash Flow	104,917	102,920	20,000

Source: Philanthropic Services

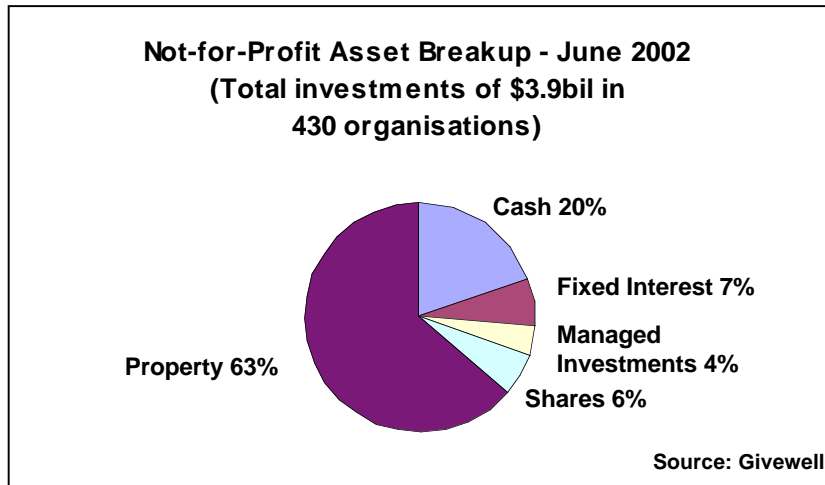


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Investment Issues for Private Foundations and Not-for-profit/Charitable Investors

Financial issues for a Foundation

- **Asset allocation**

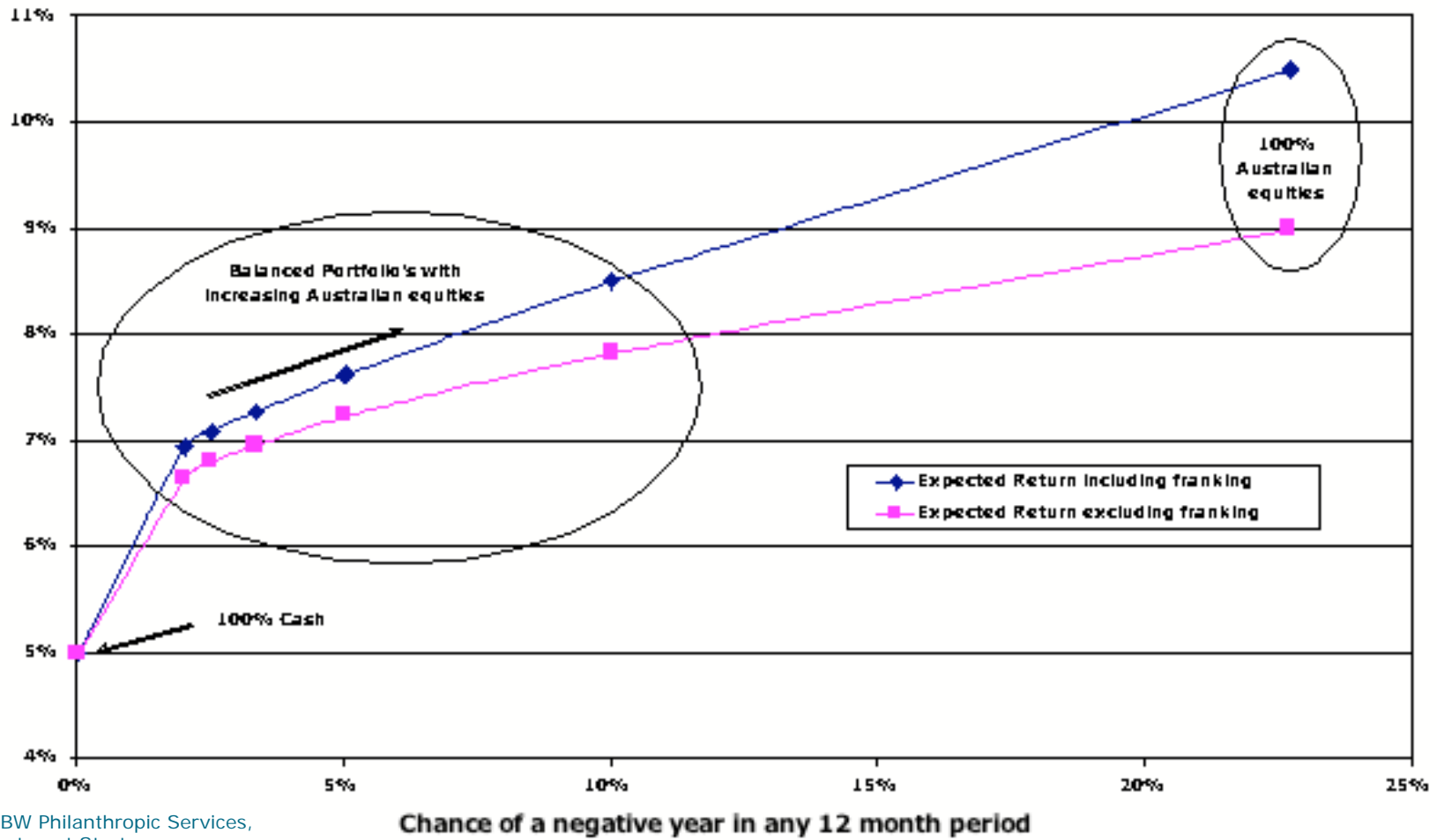


- Not for Profits are generally too overweight in property and cash
- Foundations will mainly be invested for perpetuity and with a high franked income focus

- **Ethical investment issues**

especially for grant making and not for profit foundations, socially responsible investments are often a required mandate.

- 24% of US grant making foundations under US\$5 million use SRI screens
- 16% of all US grant making foundations use SRI screens



Source: GSJBW Philanthropic Services, GSJBW Investment Strategy



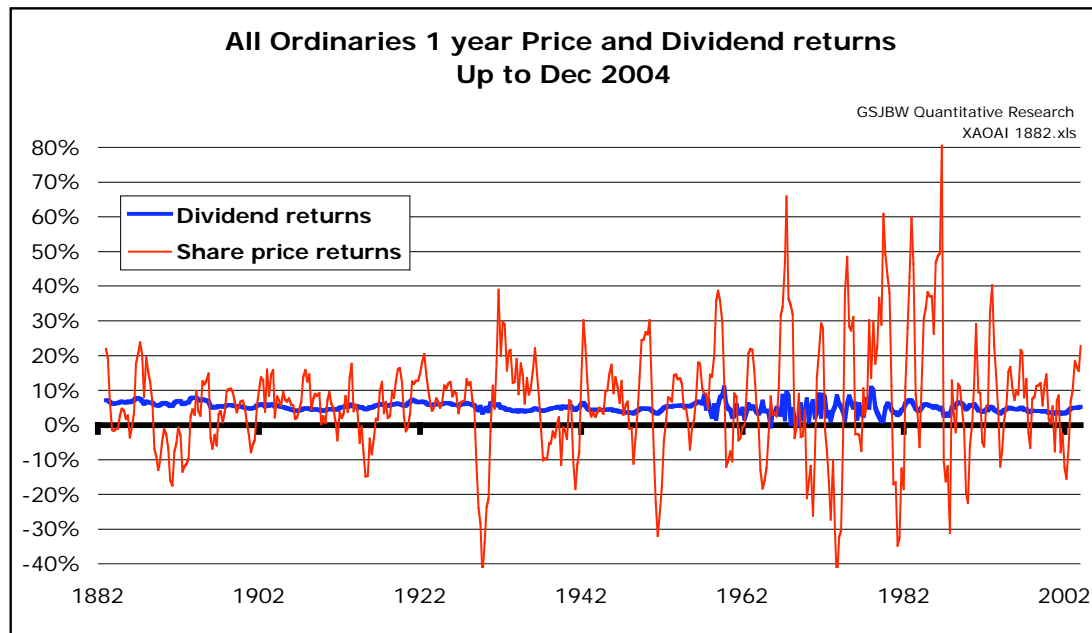
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Asset allocation as risk increases

Chance of negative year	1 in 1,000 0%	1 in 50 2%	1 in 40 3%	1 in 30 3%	1 in 20 5%	1 in 10 10%	1 in 4.4 23%	Long term asset class returns
Including Franking								
International Equities		0%	1%	1%	2%	4%		8.5%
Australian Equities		15%	18%	21%	26%	43%	100%	10.5%
Property		6%	6%	7%	10%	12%		8.0%
Cash	100%	10%	10%	4%	2%	2%		5.0%
Fixed Interest		50%	47%	49%	42%	21%		5.8%
Alternative Assets		18%	18%	18%	18%	18%		8.0%
Total Portfolio	100%	100%	100%	100%	100%	100%	100%	
Expected Total Return	5.0%	7.0%	7.1%	7.3%	7.6%	8.5%	10.5%	
Not Including Franking								
International Equities		7%	6%	7%	11%	17%		8.5%
Australian Equities		3%	8%	11%	17%	29%	100%	9.0%
Property		12%	12%	12%	12%	12%		8.0%
Cash	100%	10%	6%	2%	2%	2%		5.0%
Fixed Interest		50%	50%	50%	41%	22%		5.8%
Alternative Assets		18%	18%	18%	18%	18%		8.0%
Total Portfolio	100%	100%	100%	100%	100%	100%	100%	
Expected Total Return	5.0%	6.6%	6.8%	7.0%	7.2%	7.8%	9.0%	

Source: GSJBW Philanthropic Services, GSJBW Investment Strategy

But should you focus on income stability?



Dividend payouts have been far more stable than share price performance with franking making them even more attractive to not-for-profits.



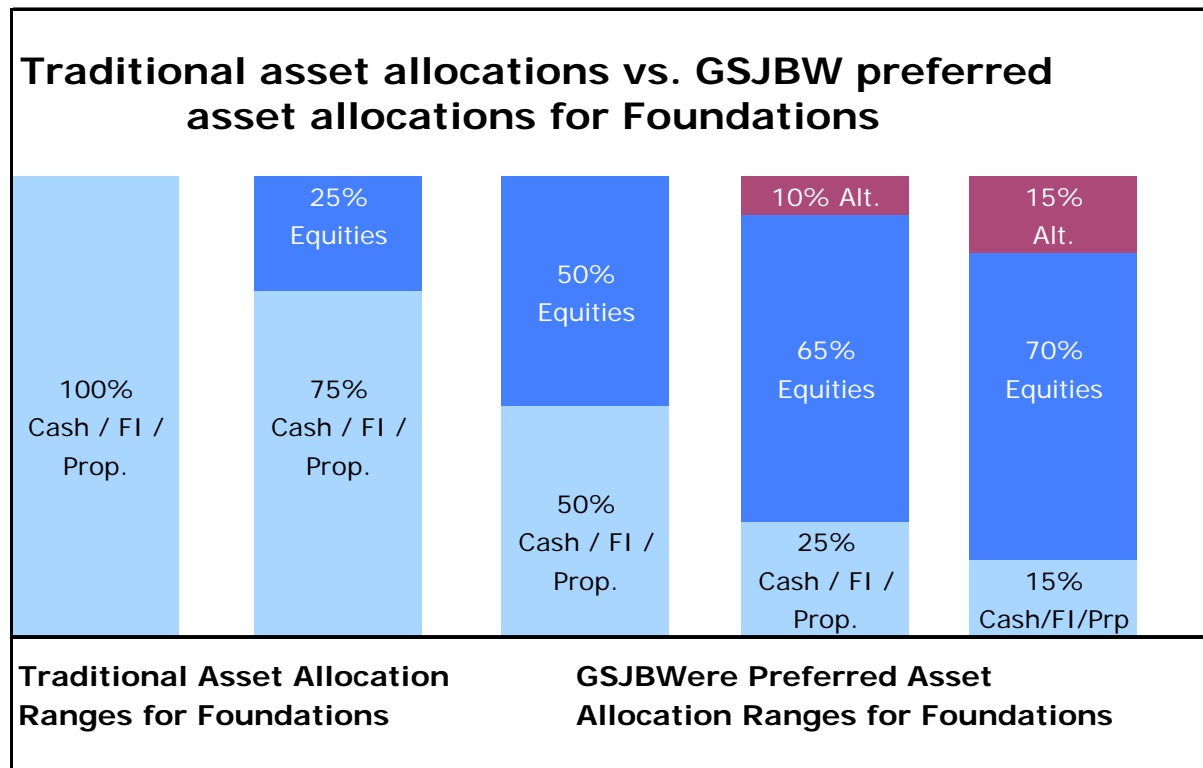
Impact of Franking Credits

	<u>Cash</u>	<u>Fixed Interest</u>	<u>Equities</u>
<i>Amount</i>	\$1,000,000	\$1,000,000	\$1,000,000
<i>Yield</i>	5.2%	5.9%	4.9%
			Fully Franked
<i>Income</i>	\$52,000	\$59,000	\$49,000
<i>Franking Credits</i>	\$0	\$0	\$21,000
<i>Total* Income after tax</i>	\$52,000	\$59,000	\$70,000
Effective Yield	5.2%	5.9%	7.0%

*assumes zero tax paying entity and all franking credits rebated

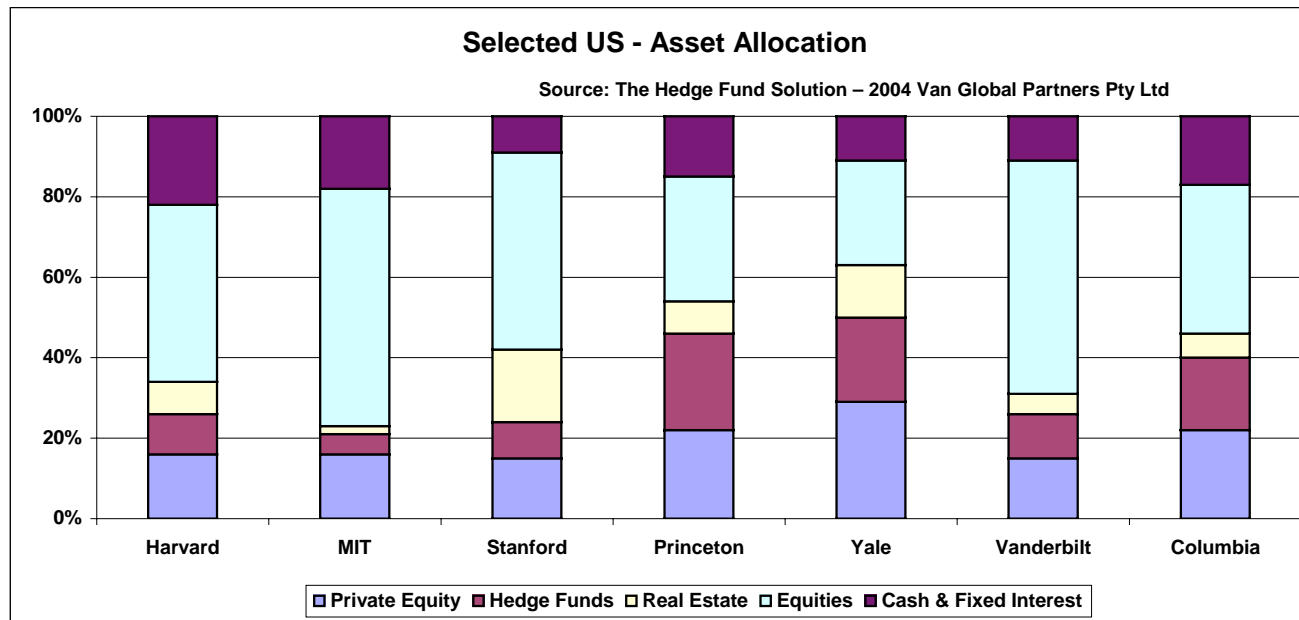


Asset allocation considerations for Foundations



Source: Goldman Sachs JBWere Research

Asset allocation at selected US education foundations



There are many differences between these groups:

- The size of corpus in these groups is generally much larger than in Australia
- The requirement to pay out 5% p.a. of assets regardless of returns leads to an absolute focus on return
- The availability of alternative asset product is greater in the US
- The ability to self-generate product in some cases by research institutions
- The fact that these foundations have been established for many years can give their officers comfort



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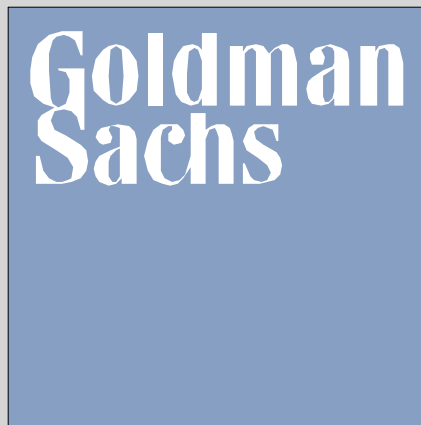
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