

# PAYING IT FORWARD: CHARITABLE FOUNDATION DISTRIBUTIONS IN A COVID-19 WORLD



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The Government has recently announced changes to distribution guidelines for Public and Private Ancillary Funds. Jane Magor, Perpetual's National Manager - Philanthropy & Non Profit Services, looks at what this means for philanthropists and at the bigger picture of giving in a time of crisis.

This year is shaping up as our generation's *annus horribilis* – and it's only May! We had only just started to recover from the bushfire shock of summer when the world shut down in response to COVID-19.

The pandemic is a tragedy on every level and it is already having real impact on the community sector. However, it's been great watching philanthropists start to tilt their charitable foundations towards giving that will help at-risk communities deal with the health and economic havoc COVID-19 is wreaking.

## Paying it forward

The Government – with input from the philanthropy community – recently stepped up with some regulation changes that will encourage this granting pivot. Here's a look at the changes and how they might affect those with a Private Ancillary Fund or a Public Ancillary Fund.

- There are regulatory minimum distribution requirements for Public and Private Ancillary Funds. Public Ancillary Funds must distribute a minimum of 4% of net assets and Private Ancillary Funds are required to distribute a minimum of 5% of net assets per annum – calculated as at 30 June the year prior. Thanks to the guideline changes, Public and Private Ancillary Funds that grant at least 4% more than their minimum annual distribution across the 2019-20 and 2020-21 financial years will be eligible for a partial 'credit' which they can use to reduce their minimum distribution in subsequent financial years.
- The credit is equal to half of the total percentage points that exceeds its minimum distribution requirement in 2019-20 and 2020-21 financial years. It can be applied in increments of 1% annually to reduce a fund's minimum distribution in the

The Perpetual view is that this is a welcome policy change, encouraging extra giving this year and next when it is vital and giving philanthropists much needed flexibility. It is also completely voluntary – funds can grant more than their minimum and can choose not to use any credits they are entitled to.

### A case study for a Private Ancillary Fund

Your Private Ancillary Fund has a regulated minimum distribution of 5% of net assets.

To help those most affected by the COVID-19 crisis, you decide to increase your giving and make an annual distribution of 8% in 2019–20 and 7% in 2020–21. This is 5% above the minimum over the two financial years.

The fund will be entitled to a 2.5% credit. The fund is now able to reduce its annual distributions by up to 1% from 2021–22, until its credits are exhausted.

Source: ATO

The Perpetual Philanthropy team will be assisting Private Ancillary Fund clients who would like to take advantage of this policy change, to adjust their distributions.

### Public Ancillary Funds and Perpetual Foundation Endowments

Public Ancillary Funds, like the Perpetual Foundation, are required to distribute 4% of net assets annually. At Perpetual, we achieve this by giving Perpetual Foundation Endowment holders a target of 4% for their own distributions annually. The Perpetual Philanthropy team will be working with clients who wish to give an extra 4% this year with a view to claiming a ‘credit’ for future years.

### Time to step up?

If there’s one ray of sunshine in the COVID-19 world it’s that Australia is in a good position to weather the storm. We’ve had nearly 30 years of a constant economic growth and a stock market that’s been on the up since 2009.

For those philanthropists who can give more, the key is to give in more effective ways. In this environment, that means:

- **Front loading contributions when you can** - the government is encouraging just that and whether you believe we are going to have a V-shaped recovery or a U-shaped recovery, the real damage to communities is happening **now**.
- **Give more flexibly** - with high demand for their services and other revenue drying up, NFPs need flexibility in how they deploy their funds. This is the time to “untie” your grants if you can.
- **Support capability** - NFPs will need to pivot *their* services as COVID-19 unfolds. Funding their infrastructure – their people and systems – is perhaps even more important than funding specific programs.

For more ideas on how your giving can have maximum impact in 2020, see our recent article: [COVID-19: Five things philanthropists can do](#).

### ► FURTHER READING - COVID-19

Visit our COVID-19 Insights Hub for economic and market updates to keep you informed as the situation evolves.