

## Article Information

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## Private Ancillary Funds (PAFs) incentivised to increase charitable support

**It is without doubt that the support extended to charities in a COVID-19 environment by way of both financial giving and volunteering in time, will be severely impacted leaving some charities in financial difficulty and unable to provide services to those who need it.**

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Unfortunately, the impacts of COVID-19 are not the only disaster Australia has experienced this year and many donors have made generous donations to the appeals set up to raise much needed funds for those areas severely impacted by the devastation of the bushfires. In the face of that crisis, charities are now faced with uncertainty as to the extent of the giving they can expect during a global pandemic and of course, the resulting economic impact that pandemic will have.

A recent JBWere report<sup>[1]</sup> has attempted to estimate the impact of COVID-19 on charitable giving. Their figures anticipate a decrease in donations to the sector of around 7.1% in 2020 and a further decrease of 11.9% in 2021.

PAFs are required to distribute a minimum of 5% of the net assets of the fund while PuAFs are required to distribute 4%.

As the demand for services provided by charitable organisations increases because of COVID-19 and in response to JBWere's report, on 6 May 2020 the Assistant Minister for Finance, Charities and Electoral Matters, Senator Zed Seselja announced government incentives for ancillary funds, both private and public, to increase support to charities during these difficult times.

The announcement, after consultation with the philanthropy sector, will amend ministerial guidelines to "provide a credit for funds that make total distributions in 2019-20 and 2020-21 that are at least four percentage points above the minimum required distributions. The credit - equal to half the percentage points by which the distributions exceed the minimum - may be used to reduce the minimum distribution by up to one percentage point in 2021-22 and future financial years until the credit is exhausted," said Assistant Minister Seselja.

The credit means that if a PAF makes a distribution of 8% prior to 30 June 2020 and then a distribution of 6% in the 2021 financial year (being an excess distribution of 4% over two years), the PAF will be entitled to 2% credit points. The PAF can then reduce the minimum annual distribution to 4% in the 2022 financial year and again in the 2023 financial year.

It is hoped that the announcement will encourage trustees of PAFs and PuAFs to increase their distributions when charities need the assistance most. The timing of the announcement also means that PAFs and PuAFs that have not yet finalised their distributions or those that may wish to take advantage of the credit, have time to make those donations before 30 June 2020.

[1] Where to from here? The outlook for philanthropy during COVID-19, John McLeod, April 2020