

THE AUSTRALIAN

Philanthropists stifled as they seek 'blended finance'

STIRLING LARKIN THE AUSTRALIAN APRIL 30, 2016 12:00AM

For those in the know, the funding arms race within both Australian and North American philanthropy has taken interesting turns with new relationships being forged between traditional commercial risk taking and altruistic charitable motivations.

Australian Ultra High Net Worth families in particular have increasingly become frustrated by the rigidity of ATO-recognised Private and Public Ancillary Fund philanthropically approved structures — often referred to as PAFs or PuAFs — and this has seen several seek better outcomes in the jurisdictions of Hong Kong, Israel, Switzerland and importantly, the US.

The interesting turn for northern hemisphere philanthropy has been the rise and nascent acceptance of “blended finance”; which, in essence, sees public, private, corporate and charitable pools of savings co-mingled to achieve altruistic outcomes via commercially driven endeavours.

Australian taxpayers are already contributing to these blended initiatives through our financial support and membership of the IMF, World Bank and ASEAN, to name but a few.

To better understand the new directions contemporary philanthropic trends are heading, it becomes important to recognise that traditional 20th century philanthropy had always perceived “risk” as a discounted factor — in other words, all moneys allocated towards a given cause or project has subsequently been written-down as spent and therefore the risk of returning capital has never needed to be contemplated.

It appears now though that 21st century philanthropy is heading in new directions and Australian UHNW families are paying greater attention to these developments than most simply because their current, domestic options remain so restrictive.

The most recent example of newly blended financial engineering has seen a heated debate in the US surrounding the role of “limited liability company” or “LLC” blended entities and this new approach has been dubbed “Private Capital Philanthropy”.

On December 2, 2015, Facebook founder Mark Zuckerberg and his wife, Priscilla Chan, announced they would philanthropically pledge 99 per cent of their

Facebook shares and do so through an limited liability company and not what is traditionally expected, being either a US private foundation, charitable remainder or lead trust.

Given that on the date of this announcement their gift would be in the vicinity of \$US50 billion, this sizeable example of private capital philanthropy stoked a fresh debate within Australian philanthropic communities about how else they may also find blended financial options to champion their respective families' charitable missions, personal giving programs and family foundation remits.

The Zuckerbergs' initiative raised poignant questions that resonate for Australians which include:

1. Given that gifting via US LLCs does not constitute a charitable donation for tax purposes, as American law requires a donor to make an outright gift and lose control of donated assets, how would tax deductibility be treated for Australian equivalents?
2. American entrepreneurs are clearly testing new ways that they can dedicate personal assets for causes, while retaining control and flexibility, but will the Australian Taxation Office respect the initiative of Australian entrepreneurs and socially-minded philanthropists as the US IRS appears to have?
3. In the US, LLCs are often used as a part of a broader giving strategy that includes traditional methods such as private foundations, direct donations and donor-advised funds and the question remains, can Australian PAFs, PuAFs and family foundations interact with for-profit structures such as proprietary limited (Pty Ltd) companies in these ways?
4. Even though LLCs do not provide donation tax deductions, they do reassure investors in the donor's company that the donor retains voting control and very importantly are not obliged, as US private foundations are, to spend 5 per cent of their assets annually — this predicament is echoed nearly identically in Australia, especially regarding compulsory minimum annual distributions.
5. Who defines the requirement for "impact" — whether that be social, environmental or scientific — given that the donating parties remain as both commercial and altruistic participants? As is the case with the Zuckerbergs or eBay founders Pierre Omidyar and Laurene Powell Jobs, who also championed LLC giving.

Above all else, the primary frustration for bona fide Australian philanthropists is that, unlike the US, within Australia, this debate is not being allowed to proceed

as any notion of ingenuity when it comes to charities and philanthropy is muted before it is allowed to begin — “negative gearing” can be debated to no end but new forms of private capital philanthropy are apparently beyond the pale.

Nonetheless, it has become crystal clear if the government and corporate Australia is rapidly withdrawing from public funding of the arts, charities and educational initiatives between now and 2019, either traditional or private capital philanthropy must play a more compelling role.

Mobilising private capital to generate, not just economic value but also social and environmental value, represents the best strategy for Australia, given the profound societal challenges ahead and the ever-present need to modulate the amount of accepted risk.

Larkin Group is an Ultra High Net Worth wealth team focusing on high-yielding global investments.

www.larkingroup.com.au