SUBMISSION TO THE 2023 PRODUCTIVITY COMMISSION INQUIRY IN TO PHILANTHROPY

5 MAY 2023

PURPOSE

The purpose of this submission is to outline how a small number of highly impactful recommendations could support Treasurer Jim Chalmers and Assistant Minister Leigh's shared aspiration to double philanthropic giving by 2030.

BACKGROUND

Philanthropy plays a vital role in enabling Australia's higher education institutions to undertake mission-driven research initiatives aligned with the priorities of government, industry and the broader community. Philanthropic partnerships enable universities to attract the best and brightest researchers to Australia, and to deepen research across a breadth of disciplines, driving transdisciplinary solutions to the most compelling challenges of our time.

Philanthropy also plays a growing role in enabling universities to support students to pursue higher education regardless of personal, financial and geographical barriers. Through Australia's 1.6M+ higher education students, donors ultimately amplify their impact across society - today, and for generations to come.

The scale, reach and breadth of the university sector in Australia means it is uniquely placed to deliver widespread societal impact through philanthropy. Our universities are enduring institutions with profound civic and global connectivity, deeply embedded in our societies through our students, staff, and local communities, as well as our collaborators in Australia and around the world. The ways through which universities inspire, apply, and steward philanthropic gifts serves as a powerful declaration of the impact of generosity, further reinforcing a culture of giving in Australia, and ultimately helping shift the dial toward a more generous society. Encouraging greater levels of philanthropic giving in partnership with Australia's higher education sector is essential in leveraging the opportunities that lie ahead.

This submission highlights four key recommendations that will provide tangible progress toward doubling philanthropic giving, and in doing so, support Australia's national aspirations toward – and well beyond – 2030.

RECOMMENDATION 1 – INCREASE PHILANTHROPIC GIVING THROUGH UNDER-UTILISED GIVING VEHICLES

1.1 Superannuation bequests

- Superannuation represents approximately 21% of Australian household wealth[1]. The majority of retirement savings that Australians accumulate tend to remain unspent at the time of their death.
- Australian superannuation fund balances at death are projected to reach more than $130 billion by 2059, and are projected to increase further under the current legislated increase to the Superannuation Guarantee.
- Providing Australians with the choice to bequeath superannuation fund balances, and abolishing associated tax penalties could unlock tens of billions toward philanthropic giving in the coming decades.
- This could be facilitated through existing superannuation processes, reinforced in partnership with superannuation funds and employers, and in turn strengthen Australia's culture of workplace giving.
- Similar options for donating retirement plan assets already exist in the USA, where it is possible for individuals to donate IRAs, 401(k) and 403(b) assets upon their death, with no income taxes payable on distribution of the asset.

1.2 Living Legacy Trusts

- Australia will experience the largest intergenerational wealth transfer in its history, with $2.6 trillion to be bequeathed in the next two decades2. Yet in 2016, only 7.4 percent of final wills included charitable bequests3.
- Establishing structures to support planned giving would help significantly grow philanthropic giving by introducing a new tax incentive through which donors place assets in a trust for a charitable beneficiary upon their passing. Under such structures, donors can continue to receive an income stream from the asset/s while alive, and receive a tax benefit when they place the asset in the trust. Intermediary lending (secured against trusts established) could provide access to capital and short-term finance in order to further accelerate impact.
- Similar approaches are already successfully applied in the USA via a variety of planning giving vehicles, for example Charitable Remainder Unitrusts, Charitable Remainder Annuity Trusts, and Charitable Lead Trusts.
- In addition to providing greater financial capacity and long-term security to charitable organisations, establishing and encouraging such structures as viable and desirable vehicles could meaningfully transform Australia's culture of giving.

1.3 Private Ancillary Funds

- In Australia, there are more than 1,800 Private Ancillary Funds (PAFs) with total assets of over $7 billion1. PAFs are growing in both number and value each year.
- Currently, private ancillary fund must distribute a minimum of only 5% of the market value of the fund's net assets, or at least $11,0004.
- Each percentage-point increase from the current minimum would have an immediate and profound impact for beneficiaries. For example, doubling the minimum PAF distribution rate to 10% could unlock more than $350 million each year in additional philanthropic support. Exploring tax and other incentives to increase distribution rates could present a powerful opportunity to leverage the current impact of PAFs in Australia.
- Furthermore, within the current regulatory framework, it is technically possible for monies placed in a PAF to remain there for decades into the future beyond the point at which the contribution was made. The submission from Philanthropy Australia to Treasury (December 2020) that ancillary funds should not be excluded from the requirement to register with the ACNC in order to obtain or maintain DGR status is to be commended. This would enhance public confidence in the value of structured giving vehicles. There are reports that up to 40-50% of PAFs have not registered with the ACNC or do not appear on the ACNC register, and are not subject to any public information statement disclosure. We support revisiting this submission with a view to transitioning ancillary funds to the ACNC register, or clarifying circumstances in which this would not be appropriate and introducing an 'opt out' system where Parliament considered this appropriate, for example if a PAF does not have the legal status of a charity.
- As an additional measure, requiring PAFs with more than $10 million in total assets to publicly disclose financial statements could drive greater transparency of funds withheld and distributed, and accelerate giving through these vehicles.

RECOMMENDATION 2 – INSPIRE PARTNERSHIP THROUGH FIT-FOR-PURPOSE MATCH FUNDING PROGRAMS

2.1 Tiered tri-partite matching program

- To achieve genuine transformative impact, significant financial and operational investment is often needed, however this can be prohibitive for individual donors, organisations, and governments. Partnering creates synergies through pooled funds, talent, investment, networks, and infrastructure, enabling greater impact than individual efforts alone.
- Internationally, successful tri-partite matching programs (such as the 'Matched Funding Scheme' in England (2008-2011)) have proven effective in incentivising giving and supporting the growth of the charitable sector.
- Acknowledging that some universities have more advanced fundraising functions than others, the ratio of Government support could be tiered to reflect fundraising capacity and capability and to encourage smaller and newer university fundraising / advancement teams to raise their sights. For example, a smaller university with limited advancement staff and track-record may access a smaller total capped amount, but on a ratio of $1 for every $1 raised; a more mature/larger university might access $1 for every $2 raised with a mid-level total cap; and a university with significant fundraising resources and more mature operations could access $1 for every $3 raised, but with a larger total cap.
- Eligibility for matched funding could be shaped to align with Federal Government priorities, including economic growth, research and innovation, sovereign capability, widening participation in higher education, and quality of life for Australians. Such a program could be piloted with the Australian higher education sector in alignment with the above national priorities, with a particular focus on enhancing educational equity and related societal benefit.
- A piloted approach could significantly mitigate risk and provide flexibility for program enhancements, which could be particularly attractive to philanthropic foundations seeking tri-partite arrangements to de-risk investment and amplify impact. Limiting the matching program to a set period of time would also drive activity and incentivise participation.

RECOMMENDATION 3 – INCENTIVISE PHILANTHROPIC RESEARCH FUNDING

3.1 Reform R&D Tax Credit scheme

- Research grants and partnerships are critical to the ongoing success of Australia's research-intensive universities. The 2016 Review of the R&D Tax Credit scheme found that significant opportunity exists to enhance the overall impact of the scheme.
- Currently, a tax deduction for a philanthropic gift can only be spread over a five-year period. Allowing amortisation of tax deductibility over a longer period could provide a strong incentive to increase philanthropic research funding.
- Increasing the R&D tax credit rate for long-term philanthropic research collaborations involving universities, donors, and industry would provide a financial incentive for these sectors to engage in more long-term partnerships for research and development activities aligned with government priority areas.
- Doing so would strengthen the relationships between these sectors, lead to more effective use of resources, and ultimately, create a pipeline of more innovative and impactful research outcomes.

RECOMMENDATION 4 – BUILD CAPACITY AND CAPABILITY OF PHILANTHROPIC SECTOR

4.1 Further professionalise the philanthropic sector

- Better fundraising and gift management builds donor confidence and future appetite to gift again. Trust in the organization, and in its ability to fulfill its stated mission is the core underpinning of all philanthropic decision-making. When donors have a poor experience with a beneficiary organization, their trust and confidence in future giving is profoundly compromised. We are yet to see a case in which an organization has been disingenuous in its dealings with donors, but there are cases where inexperience, in both asking for gifts and applying gift monies has brought about disappointment from donors, that could be avoided.
- Fundraising is a relatively new profession in Australia, compared to other countries such as the US and UK. Attracting and retaining talent remains a top risk in effectively implementing strategies to grow giving in Australian universities and the broader charitable sector. To double philanthropic giving by 2030, it will be crucial to continuously build and sustain a high-quality pipeline of talent in both fundraising and supporting fields.
- Further professionalisation of fundraising, development of fit-for-purpose resources, and targeted up-skilling of fundraisers, management, and boards, as well as auxiliary professions (such as accountants, financial planners, and family offices) will have a significant impact on the capacity of the sector. This might be achieved through government investment in a national capacity-building program, for example by providing grants to individuals and organisations undertaking training and initiatives to benefit the sector, or through establishment of a 'hub' responsible for developing and pooling best-practice resources, and facilitating cross-sector knowledge-sharing.
- Pending further growth of Australia's domestic talent pool, new or amended visa pathways supporting migration of highly-skilled fundraising and philanthropy professionals could provide an immediate boost to Australia's workforce capacity via the Department of Home Affairs' skilled migration program.

4.2 Foster a community of practice for financial and legal advisors

- We have seen steady growth in Gift in Will income over the past decade in Australia, mostly credited to strong economic performance. Australians have a disproportionately high level of comfort in making a gift in their will, relative to other philanthropic nations.
- Consequently, the number of gifts in wills are expected to be approximately 1.7 times higher in 2040. Similarly, anticipated long term growth in house and share prices leaves the expectation that the average value of a gift in will to be 1.3 times higher in 2040.
- The level of experience of wealth and legal advisors in providing meaningful advice to potential donors about matters relating to tax efficiency, DGR status and the opportunities to explore gifts in wills is however, varied. Closely related to recommendation 4.1, providing greater opportunity for advisors to learn more about the options for gifts in wills would significantly support the growth of such giving in the years ahead. This could be achieved through greater integration of philanthropy within the focus of relevant legal and wealth management professional organisations. For example, The Australian Taxation Office, ACNC and Productivity Commission could partner more closely with peak bodies such as The Law Council of Australia and CPA Australia to inform position papers, policy statements, professional guidelines, and professional development resources that support the Federal Government's long-term ambition to double philanthropic giving.

4.3 Integrate philanthropy in to higher education pedagogy

- Compared to global peers, Australian universities students and alumni have yet to fully embrace a culture of philanthropy. Fostering and embedding a culture of giving - both on campus and among our alumni - will play a powerful role in shaping Australia's philanthropic culture in the decades ahead.
- Developing courses or modules that focus on philanthropic impact, offering students opportunities for experiential learning with partnering philanthropic organisations, and incorporating philanthropic principles and projects into existing courses present tangible means of building philanthropic awareness and ambition.
- Furthermore, involving HDR students and early-career researchers in philanthropically-funded initiatives could further develop the skills, knowledge, and aspiration to lead philanthropically funded programs in their future careers.

NEXT STEPS

We would welcome an opportunity to discuss the recommendations contained within this submission with the Productivity Commission, Treasurer Chalmers, and Assistant Minister Leigh. We appreciate the opportunity to contribute to this inquiry and look forward to seeing its positive impact on the philanthropic sector in Australia.

CONTACT

This submission represents the collective views of Jennifer Karlson (Vice-President, Advancement and Community Engagement, The University of Queensland), Briony Beaumont (Advancement and Community Engagement, The University of Queensland), Nick Blinco (Vice-President, Advancement, Communications & Marketing, The University of Melbourne), Alex Furman (Vice-President, Advancement, Australian National University), Fiona Allan (Chief Advancement Officer, University of Western Australia), Liz Hawkins (Executive Director of Advancement, University of Adelaide), Rossie Ogilvie (Vice-President Advancement, University of Sydney), Susanne Williamson (Chief Philanthropy Officer, Monash University), and Lindsay Robinson (Chief Development Officer, University of New South Wales).

Questions regarding this submission are welcome via Jennifer Karlson

This submission is submitted with the endorsement of Heather Hamilton, Executive Director Asia Pacific at Council for Advancement and Support of Education (CASE), and Sam Rosevear, Executive Director, Policy, Government Relations and Research at Philanthropy Australia.

APPENDIX 1 – REFERENCES

1. Blueprint to Grow Structured Giving Report, Philanthropy Australia, 2023, via: https://www.philanthropy.org.au/wp-content/uploads/2023/01/Blueprint_to_Grow_Structured_Giving_Report_Final.pdf
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4. DGR requirements for Private AFs, Australian Taxation Office, via: https://www.ato.gov.au/Non-profit/Getting-started/In-detail/Types-of-DGRs/Private-ancillary-funds/?anchor=Minimumannualdistributionrequirements#Minimumannualdistributionrequirements
5. Material benefit, gifts and contributions, Australian Taxation Office, via: https://www.ato.gov.au/Non-profit/Gifts-and-fundraising/Tax-deductible-donations/is-it-a-gift-or-contribution-/