

PRIVATE ANCILLARY FUNDS – LEAVING A LEGACY WITH TAX BENEFITS



Are you looking for a tax effective way to both leave a legacy and help with your estate planning? If so, then a Private Ancillary Fund (“PAF”) may be for you. A PAF is a form of charitable trust designed specifically for private individuals and family groups who wish to establish and pursue a philanthropic program.

How do they work?

Essentially a founder (person who wants to donate) provides funds to a purposely created PAF for which they obtain a tax deduction for their entire contribution. The PAF must donate the lesser of 5% of the capital or \$11000 to a deductible gift recipient/s of their choosing such as AFWA every year. The remaining funds are invested with any earnings being tax free to the PAF. Contributed funds cannot be used for any personal use.

The founder can contribute when they choose although there is no obligation to make any further contributions. Every subsequent contribution will also be a tax deduction for the founder. On the passing of the founder, the cumulative amounts donated remain for the purpose of distributing to charities either in accordance with an established donor policy or at the discretion of the corporate trustee which often includes the founders’ children.

What are their benefits?

- Allow the founders the flexibility to “test out” a number of different charities during their life time, rather

than simply leaving a bequest on their passing.

- Allows income tax deductible giving
- Allows the founder to retain control over which Deductible Gift Recipients receive distributions
- Provide for an income tax exemption on any earnings by the PAF
- Allows you to involve family members and future generations in your passion for philanthropy
- Allows the founder to leave behind a legacy.

What are the restrictions?

- No contributions from the public are allowed
- The greater of 5% of the PAF’s net assets or \$11,000 must be distributed to a deductible gift recipient/s annually (except in the first year).
- There must be a formal investment strategy with all investments made on an arm’s length basis.
- The trustee must be a company with at least one independent director known as a “Responsible person”.

If you would like more information about PAF’s, then feel free to contact Silvia Caratti of Maxim Private Advisory on (08) 9489 2532 or s.caratti@maximadvisory.com.au

Please note that this is general information only and professional advice should be obtained before acting on any information contained herein.