Mission Australia

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**Mission Australia**
580 George Street
Sydney
NSW 2000

GPO Box 3515
Sydney NSW 2001

Telephone (02) 9219 2000
Facsimile (02) 9264 3713
www.missionaustralia.com.au

Manager
Philanthropy and Exemptions Unit
Personal and Retirement Income Division
The Treasury
Langton Crescent
PARKES ACT 2600

**Improving the integrity of Prescribed Private Funds (PPFs)**
**Discussion Paper**

Mission Australia is pleased to provide this submission on The Treasury discussion paper *Improving the Integrity of Prescribed Private Funds (PPFs).* A Review of PPFs as foreshadowed by the Treasurer in the 2008 Budget is timely and appropriate to ensure the integrity and to clarify the operating framework of PPFs in encouraging philanthropy as originally envisaged by the Prime Minister's Community Business Partnership.

As one of the representatives on the Prime Minister's Community Business Partnership Mission Australia welcomed the establishment of PPFs and has welcomed their steady growth after a slow start in providing a sustainable source of philanthropic giving for eligible deductible gift recipient (DGR) charities.

Mission Australia does not wish to comment in detail on the technical provisions flagged in the discussion paper in support of improving the integrity of PPF's to ensure compliance with their original purpose. To the extent that these provisions are designed to improve integrity and compliance they have our support. In particular Mission Australia would welcome legislating PPF guidelines and bringing their administration under the authority of the Commissioner of Taxation.

Mission Australia relies on the philanthropy of individuals, public donations and donations from trusts and foundations and the corporate sector to sustain our community services in assisting homeless, families and children and young people. Over the last 12 months we have seen the demand for our community services increase and we and other community providers expect a significant growth in demand in the coming year in the face of a rise in unemployment.

We would therefore not wish to see any change to the operations of PPFs that would limit their growth or make them less attractive as a legitimate means for distributing donations to DGR recipients. We would be particularly concerned to see their utility curtailed at a time when there has been a significant decline in the value of PPF portfolios as a result of investment market falls. With PPFs increasingly being utilised to facilitate philanthropy, some of the changes mooted in the discussion paper would be a significant disincentive to the establishment of new PPFs and adversely impact the sustainability of existing PPFs.

With regard to the discussion paper's treatment of Principles Underpinning the Rules Governing PPFs we do not take issue with the principle that the benefit provided to the charitable sector by PPFs should be much more than if the Government had taken the revenue forgone and given it directly to the sector. Mission Australia and for the most part other charity recipients of PPF distributions are efficient service providers and are able to deliver service outcomes for clients more efficiently and with greater flexibility than through direct government transfers.

A key challenge for the charitable sector is to ensure sustainable funding for our services and PPFs are providing an excellent mechanism to achieve this. Proposals canvassed in the discussion paper to further limit PPFs' capital growth capacity would severely jeopardise the capacity of PPFs to provide a sustainable and growing distribution of funds to charities.

Of particular concern to Mission Australia is the proposal raised in the discussion paper that might increase the compulsory distribution requirement of PPFs to 15 percent of invested funds. Even in robust market conditions it would be challenging for PPFs to achieve a return of 15 percent and most likely such a requirement would quickly see the dilution of the capital base and subsequent reductions in distributions in succeeding years. This dilution would be exacerbated in the current market climate with many PPFs experiencing significant falls in their capital value.

Mission Australia would not wish to see any change in current percentage distribution requirements applying to PPFs. We submit that a 15 percent requirement would result in a relatively rapid wind up of existing PPFs with little incentive for the establishment of new PPFs by philanthropists wishing to establish sustainable philanthropy.

An alternative approach of allowing the Commissioner of Taxation to "deem" a minimum distribution rate according to market conditions in our view would be a less satisfactory approach. Such a rate would always lag behind current market conditions and on the experience of recent market experience could lead to wide fluctuations in distribution requirements, not conducive to prudent investment management consistent with achieving a sustainable and consistent income flow to DGRs.

In conclusion, while a review of administrative arrangements for the operation of PPFs is timely to ensure integrity with their original purpose, further restrictions on the capital accumulation of PPFs in their establishment phase and a higher annual distribution rate as proposed would severely weaken the capacity of PPFs to provide a sustainable and growing income stream for DGRs. PPFs have made a slow start but are beginning to have an important impact in enhancing the capacity of charities to deliver sustainable services at a time of growing need.

Yours sincerely,

Toby Hall

Toby Hall
**Chief Executive Officer**