

Dear Sir:

I write in connection with the recent DISCUSSION Paper regarding the improvement of the integrity of PPF's.

Treasury should be complimented on it's review. However, there is a danger that some of the proposed changes may in fact prove detrimental in growing the charity sector. Given the ever increasing demands on the government purse particularly in these harsh economic times it should surely be of paramount importance that those people who are better off than most are encouraged to help the less fortunate members of our community. Many charities that do great work get no government help and are probably not likely to. For example, the PPF that I am a trustee of has made a decision to endow an indigenous scholarship to assist the beneficiary gain university entrance. If the fund is allowed to grow then in the future we hope to endow many more of these scholarships.

It is important that the long term culture (including intergenerational) of giving is encouraged particularly as Australia lags the US and UK in philanthropy. It has to be assumed that the government wants a long term viable Philanthropic sector. Articles such as those that appeared in the Australian Newspaper on January 3rd headlined 'Philanthropy hit as credit crisis and reforms kick in' do little to foster a culture of giving.

The LONG TERM viability of the sector should be a major priority for us all.

By requiring a 15% pay out of the asset value of the fund on a per annum basis gives no encouragement to trustees to invest for the long term. In fact, it may encourage trustees to take a less prudent approach to how investments are made. Not the sort of culture that should be encouraged. If one looks at the many successful foundations both locally and abroad it is because trustees have invested not only with caution but with careful and measured gifts. The Rhodes trust that gives scholarships to Oxford University, including Australians, one of whom was a former Prime Minister, would not be in a position to endow the number of scholarships it has over the years with a 15% asset distribution per annum!! A 5% payment would allow funds to have some prospect of not only maintaining the real value of the fund but some hope of growing it, thereby, growing it's gifts on a long term basis which is obviously to the community's benefit as a whole. The government's proposal to replace accumulation plans seems very sensible and reduces complexity.

In terms of privacy I have no problem with information on PPF's being available on, say, the ATO web site. The funds are after all held in trust for the community and should therefore not be veiled in secrecy.

Better accounting, transparency and disclosure should be encouraged at all times. If, as the document infers, there have been cases of malfeasance then the ATO should act to take away the tax privileges of the fund. This should not be the case where funds have made a genuine mistake. A gift to a local hospital for instance may not qualify because the specific department in the hospital may not be a registered DGR.

Yes, education is very important. Trustees who are appointed to a new super fund for instance are sent a memorandum by the ATO outlining their obligations and responsibilities. This is currently not done for PPF trustees and should be. Having given investment advice to trustees of estates, foundations and family trusts for over 30 years it has surprised me on many occasions that trustees including 'proper persons' don't understand the meaning of terms such as: fiduciary duty, related party transactions, accountability, transparency, prudence, asset allocation and so on. Maybe something like the attached on 'how to invest funds', that I picked up on a recent visit to New Zealand would be helpful.

In conclusion, anything that improves simplification, transparency and accountability, together with the required level of knowledge is to be encouraged. However, for the future viability of the sector the single most important factor should be the LONG TERM GROWTH OF THE CORPUS, which is why a 5% pay out figure is crucial. Our society needs long term success not short term fireworks.

Yours faithfully,

John Charrington
Director, Stranfield P/L trustee of the Mary Vernon Foundation