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BOND UNIVERSITY

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

Dear Sir or Madam

Improving the Integrity of Prescribed Private Funds (PPFs) Discussion Paper 2008

Bond University welcomes the opportunity to comment on the Treasury's Discussion Paper 'Improving the Integrity of Prescribed Private Funds (PPFs)', November 2008.

Proposed new distribution rates for prescribed private funds

While Bond University supports a number of the proposed amendments designed to improve and enhance the integrity of the operations of PPFs, including the simplification of the distribution calculation, the University would like to convey its deep concerns with regard to the proposed amendments detailed in Principle 1a – Required distributions – Points 19 and 20.

More specifically, such concerns relate to the recommendation that PPFs increase the size of compulsory distributions and distribute 15 percent of the closing value of their fund each year. Bond University believes that this would not only adversely impact on existing PPFs through a loss of value in real terms over time, but would also act as a major disincentive to the establishment of new PPFs. Furthermore, the proposed amendments have the potential to effectively eliminate PPFs giving in perpetuity.

Bond University believes that the legislation of such amendments would lead to many PPFs adopting a short-term focus with respect to their strategies of philanthropic giving, with the concomitant likelihood that PPFs will significantly curtail their capacity to offer long-term or ongoing financial support to educational institutions and other sectors working for the benefit of the Australian community.

Social impact is one of the driving forces behind philanthropic giving and any legislation that threatens the ability of PPFs to enter into engaged relationships with funding recipients, as a consequence of long-term funding arrangements, will have deleterious effects on the capacity of PPFs to achieve their goals of bringing about change for the betterment of Australian society.

The Australian Government's 'Giving Australia: Research on Philanthropy in Australia' report (2005) identified the growing proportion or rate of giving and increasing generosity in giving by individuals, households and businesses. The PPF structure has had an enormous influence in developing this culture of philanthropy in Australia.

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Any legislative changes to PPFs that serve to discourage ongoing traditions of giving and create unnecessary barriers to giving will be to the detriment of developing a stronger culture of giving and ultimately disadvantage the entire community. Any decline in giving will, without doubt, place an increasing financial burden on Government to bridge the gap in funding social needs.

Bond University strongly encourages the Treasury to reconsider some of the recommendations in its discussion paper before taking definitive action.

The need for integrity and change in PPF rules

Bond University supports the Treasury's desire to improve and enhance the integrity of PPFs and to provide trustees with a greater understanding of their philanthropic obligations.

Moreover, the University agrees that requiring PPFs to distribute a minimum amount each year (based on the market value of the PPF's net assets at the close of the previous financial year) would provide greater certainty to PPF trustees and improve consistency in giving from PPFs.

Indeed, Bond University believes that simplifying the distribution methods, and clarifying guidelines, could also contribute to an increase in the establishment of new PPFs.

The establishment of the PPF structure has been a positive move to encourage greater giving by those with high net wealth. The rapid increase in the number of PPFs since 2001 demonstrates clearly the interest of many to give to Australian society in a meaningful and significant manner. However, the proposed distribution rate of 15 percent per annum is inconsistent with the original rules under which PPFs were established. Such drastic changes to the guidelines have the potential to undermine the confidence of philanthropists in the commitment of the Australian Government to support philanthropic endeavours and to encourage a culture of philanthropic giving.

Bond University believes that the proposed distribution rate of 15 percent would significantly limit – and, in many cases, cripple – the capacity of many PPFs to contribute meaningfully to educational and other community initiatives over the long term.

The value of PPFs to higher education in Australia

The Australia 2020 Summit noted that Australia's future depends on educational achievement. If Australia is to excel in education, it is essential to encourage philanthropy and establish an ongoing 'culture of giving' in Australian higher education. Legislation that nurtures a vibrant and healthy PPF environment will encourage further philanthropy in education, which will help to ensure that Australia's education sector is world-class.

Bond University

In recent years, Bond University has received generous support from PPFs, including The Balnaves Foundation.

In 2008, The Balnaves Foundation made a gift of \$1.5 million to establish Bond University's world-leading state-of-the-art Multimedia Learning Centre. This technology-rich space has set new world standards in student facilities, and is extensively utilized by students for individual or group study, including discussion and writing of assignments and research projects. The facilities also enable students to use iLearn, wireless internet and multi-media technologies. Seminars and workshops are also held in this facility which is designed to meet a wide range of learning needs for Bond students. More than 60 percent of Bond's students use the space more than twice a week, and 93 percent of students say they would recommend the

Multimedia Learning Centre to other students. The value and significance of such facilities to a student's higher education experience cannot be overestimated.

Bond University is anxious that generous PPF donors, such as The Balnaves Foundation, remain confident that their gifts can continue to make an impact into the future, and moreover, that other PPFs will feel confident in giving to the University.

The need for gifts in perpetuity

Philanthropy requires a long-term approach to major issues in the community. In the higher education sector, grant-making in perpetuity make it possible to provide premium learning facilities, to conduct new research, to offer more valuable and a greater number of scholarships, and furthermore, enable the development of new and important curricula and teaching methods to meet the changing educational and vocational needs of contemporary students.

The proposed distribution rules would in all likelihood result in most existing PPFs ceasing to exist within a 10-15-year period, and, furthermore, curtail the establishment of new PPFs. The Balnaves Foundation, for example, estimates that under the proposed new amendments, it will be forced to close within 10 years, a great loss to the Australian community and a major disincentive for potential new PPFs. Compelling PPFs to distribute as much as 15 percent of their closing value each year will effectively eliminate their capacity to give in perpetuity.

Bond University agrees that neither the Federal nor State governments should bear the full burden of providing our nation's education. However, if Australia is to ensure excellence in the sector, generous, *long-term* philanthropy is critical to achieving this goal.

Recommendations

Bond University believes that a distribution rate of 5 percent, similar to the rate adopted in the United States of America, is an appropriate percentage to ensure the sustainability of PPFs, while at the same time, ensuring that PPFs meet their philanthropic obligations and maximize the long-term benefit to the community.

A distribution rate of 5 percent would ensure a 'win-win' outcome. It would guarantee that at least 5 percent of the corpus is distributed to the community every year and it would also enable PPFs to accumulate funds over a reasonable period of time, ensuring that their annual distribution constitutes a meaningful amount.

Bond University believes this more moderate approach would maximize benefits to educational and other community sectors, while fulfilling the Treasury's desire to clarify PPF distribution rules and maintain the integrity of PPFs.

If you wish to discuss this submission, please contact me on (07) 5595 1048 or rstable@bond.edu.au.

Yours sincerely



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