

Your Foundation: A Way of Helping Others

by Dr Robb Musgrave

Redirecting your tax dollars can help others while working wonders for your own family, and in this article I will show you how.

Preparing your family for your wealth

When we ask our clients, “What do you want most for your children and grandchildren?” The answer is always the same. “We want them to be happy.” Nothing is more satisfying than watching children grow up to be happy, useful, productive members of society.

When founders of a family fortune consider transferring the family’s wealth to an upcoming generation, they usually spend large amounts of time working out how to avoid taxes and create airtight legal documents to protect their wealth from the claims of creditors and irresponsible heirs.

Yet, a successful estate plan is not just about escaping taxation and legislation. The real issue is, “Has my family been able to retain the family wealth and use it in ways that are beneficial personally and globally?”

In other words, have your heirs’ lives been enhanced by receiving it? Or will you be doing them a disservice, as they are not prepared for the responsibility?

Research and studies by Paul Schervish of Boston College, in the U.S. have found that:

- 65% of families have lost the family wealth by the end of the second generation
- 90% of wealthy families have lost the family wealth by the end of the third generation.

These research findings reinforce the timeless expression, “from shirtsleeves to shirtsleeves in three generations” which Andrew Carnegie coined and the Vanderbilt family so aptly demonstrated.

The perfect training ground for heirs

So, if you have significant wealth, how can you pass this wealth on without making your heirs insecure, lazy or wasteful? You could teach them about philanthropy, which allows them to help themselves by helping others.

You could establish a family foundation now for your family and fund it with an appropriate amount of money. Charge the future heirs with the task of distributing these funds responsibly to worthy charitable causes. The ATO provides you with the option of donating money to your family foundation which is a tax free environment for

the purpose of charitable giving. This is similar to Self-Managed Super Funds where you obtain tax advantages when you invest money for the purpose of providing for yourself during retirement. Both reduce the government's financial responsibility to provide for future social welfare.

Philanthropy builds character, develops a positive self-image and provides a real sense of accomplishment for those involved. This is what prepares heirs for responsibility. Your children and grandchildren can be advised about how the money can be invested and they can make donations from the family foundation. Professional advisers may give a broader understanding of investment strategies and your heirs get to understand risk and the impacts of risk on investments. Wherever possible, have all family members participate so they learn and work together for the benefit of others. These are valuable lessons needed to make useful, productive, happy members of society, and are a wonderful way to keep the family together across generations.

Your adult children who are the trustees can then say, "Look at what we did!" You have provided them with a real sense of achievement. You have helped improve their character and development as well as directing them away from a life of selfishness. You have enabled them to do meaningful work, and shown them what they can do for themselves and others. Budgeting, appropriate resource allocation and managing investments are all important skills, as is learning about the plight of others and how they can make a real impact on another person's life.

Your family foundation: technical information

Family foundations must comply with ATO requirements and guidelines, which require care and attention. Often it is helpful to obtain specialist advice and support.

Many family foundations are being established as a result of new legislation and regulations which came into effect in 2001. In Australia, we have seen increasing numbers of family foundations, called Prescribed Private Funds (PPFs), as they provide a terrific opportunity for families to make significant contributions to charity and receive tax advantages and deductions along the way.

A family foundation can survive many generations, usually 80 years and onwards, and in this way the founder's values are passed from one generation to the next. The core of the investment funds driving the foundation, known as the *corpus*, can be built on over a number of years and held in the foundation tax free. Decisions about the dispersal of capital and income can be decided by the trustees (usually adult family members) every year. Even young children can be involved in the family discussions, building family unity.

Your contributions to the establishment of a family foundation can be fully tax deductible and tax deductions can be carried over for up to 5 years. Beneficiaries are

usually required to have Deductible Gift Recipient (DGR) status for tax purposes and most legitimate Australian charities qualify.

There has also been a significant increase in the number of foundations established by corporations and associations where visionary leaders encourage staff and members to become more philanthropic by volunteering time and donating money to worthy causes.