



Sub-funds

Enabling donors to leave a living legacy on their own terms

Loredana Fyffe

Giving is one of the most powerful ways Australians express their values—during their lives and in their Wills. But when done without a strategy, it can lead to unintended outcomes, such as missed tax opportunities, confused beneficiaries, and in some cases, unfulfilled wishes.

For most people, the largest gift they will ever make is in their Will. But is waiting until after death always the best approach?

Philanthropy is growing, but planning is lagging

Australia is a generous country. Our culture of helping others shows up in times of crisis—when bushfires rage or floods displace communities, people give. In my two decades in philanthropy, this pattern has held true.

The numbers reflect it. Australians gave more than \$13.9 billion in donations and bequests in 2022-23, according to the Australian Charities and Not-for-Profits Commission.

But despite this generosity, very few Australians plan their giving, let alone structure it to make the most of available tax benefits. At Sydney Community Foundation (SCF), we work to change that. SCF helps people realise that philanthropy accommodates a variety of wealth levels, and how thoughtful giving can begin now, in life—not just after death.

Women, in particular, are a force in philanthropy. For example,

SCF's Sydney Women's Fund has seen ever-increasing numbers of women give deeply to causes they care about. But many give modestly in relation to their overall wealth, often because they are saving 'just in case'. As a result, they miss out on powerful tax advantages and the joy of seeing their giving in action.

When good intentions go wrong

Many generous bequests have unravelled because of unclear instructions or outdated Wills. It is something special counsel Todd Bromwich from law firm Hall & Wilcox sees often in his practice.

"One of the common issues we see is insufficient clarity in who is the intended recipient of a gift," Bromwich said.

"Clients might say, 'I want to leave \$20,000 to this organisation, and \$30,000 to that one,' but the charities aren't correctly described in their Will so the executor can't give effect to the gifts. Or by the time they die, the charities no longer exist, or simply don't match the intent. It can be frustrating for charities and heartbreaking for the family left behind—and can complicate an already emotional time."

Fortunately, these scenarios are avoidable with the right planning.

"All of this can be addressed by being really clear about who you want to benefit, and by future-proofing your wishes," Bromwich said.

The sub-fund solution

A sub-fund is a charitable giving account within a community foundation that allows individuals, families or businesses to create an on-

going source of funding for causes they care about. It operates like a personal charitable foundation but without the administrative burden, as the community foundation assumes the role and responsibilities of trustee.

Donors contribute to the sub-fund, and the capital is invested, with annual grants distributed to charities based on the donor's interests. The principal remains invested, ensuring long-term, sustainable impact.

Sub-funds versus private ancillary funds?

A private ancillary fund (PAF) is a standalone charitable trust requiring its own governance, financial reporting, and compliance with regulations. A sub-fund is managed within a community foundation, meaning donors avoid administrative complexities while still directing grants to charities. PAFs suit those who want full control and have significant funds to manage, while sub-funds offer a simpler, faster-to-establish, cost-effective alternative with professional investment management and oversight.

While sub-funds can be established with as little as \$20,000, they also cater to the high-net-worth cohort. For example, there are many multi-million-dollar sub-funds in Australia and even billion-dollar sub-funds like we see with the Silicon Valley Community Foundation in the US.

A tax-smart tool many do not know about

Philanthropic structures like sub-funds within a community foundation offer a tax-effective, flexible alternative to more complex giving vehicles.

A donation of \$100,000 made before 30 June, for instance, can be claimed as a tax deduction immediately or spread over five years. That money is directed into a client's named sub-fund—where they retain the ability to recommend grants over time, without rushing big decisions.

Sub-funds are a perfect tool for situations such as a financial windfall or year-end tax planning, giving clients a way to align impact with strategy. Even more importantly, they can prevent well-intentioned gifts from going awry.

A donor-advised sub-fund offers three types of solution. It allows donors to:

1. *establish their giving intentions during life*—documenting wishes and choosing themes that align with their values
2. *ensure gifts continue beyond death*—with the foundation administering grants aligned with the donor's legacy
3. *avoid unnecessary tax traps*—by ensuring charities receiving gifts have Deductible Gift Recipient (DGR) status.

The Australian Taxation Office states that entities endorsed as DGRs:

... are entitled to receive donations which are deductible from the donor's income tax. Division 30 of the Income Tax Assessment Act 1997 determines which entities can gain DGR status.

“Many people don't realise that leaving capital assets to a charity without DGR status can trigger a tax liability for the deceased individual, that is paid out of the estate assets. And executors' decisions of whether to sell or transfer estate assets can produce substantial unintended tax liabilities if the right steps are not taken,” Bromwich said.

“In one case, we saw an estate incur an unnecessary tax liability of almost \$1 million. These tax bills can often be legitimately avoided or reduced with a clearer giving strategy, earlier in the process, and with the benefit of timely professional advice.”

The question advisers should be helping clients answer is: ‘Whom do you really want to benefit, and how can you do it with minimal tax and maximum impact?’

Compound impact: Why time is on the donor's side

One of the greatest advantages of setting up a sub-fund earlier in life is time itself. A sub-fund is invested with and is designed to grow—long-term around 7% p.a. While SCF is required to grant a minimum of 4% each year overall from its total fund holdings, not all sub-funds are called on to distribute annually, as we raise and grant millions separately from donor-advised sub-funds.

What does this mean for donors? It means their fund can grow over time, even as it gives.

For example, an initial \$100,000 gift invested over 25 years, assuming 7% annual growth and 4% annual distribution, could grant out more than \$173,000 to community causes—while still growing to a balance of more than \$180,000. That's the power of structured giving—impact now, and a growing legacy for later.

Compare this to a PAF, which is legally required to distribute 5% of its net assets each year, regardless of market conditions or donor readiness. This often forces rushed decisions or dilutes capital over time. With a sub-fund, clients can enjoy compound returns while giving strategically and at a sustainable pace.

The next generation is not signing up for the admin

A common story SCF hears is from well-meaning parents and grandparents who have set up a PAF, only to discover their children or grandchildren do not want to manage it. They are busy, time-poor, and often overwhelmed by the ongoing compliance, reporting, and finding reputable charities to support.

Further, we are now seeing an increasing number of PAFs rolling into community foundations. The benefit? Families retain their legacy and intent—without the paperwork. Donors and their families can be as involved or as hands-off as they like. The recipient foundations handle the compliance, vet the organisations, and offer bespoke giving advice if donors want it. It is a solution that adapts as the family does.



Loredana Fyffe, Sydney Community Foundation

Loredana is chief executive of Sydney Community Foundation (SCF). For two decades, SCF has supported individuals and families to structure their giving with purpose and achieve lasting impact. With a deep understanding of community needs and a trusted network of vetted charities, SCF provides expert guidance, administration, and impact reporting for clients who want their giving to be strategic, personal, and effective. To date, SCF has connected \$25+ million to grassroots initiatives, making a measurable difference in people's lives.



The quote

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Case study: When timing changes everything

Consider a real-life scenario that underscores just how high the stakes can be.

A couple known to SCF purchased an investment property in 1987 for \$45,000. Thanks to Sydney's soaring property prices, it is now worth over \$6 million. Selling it would attract a major capital gains tax bill (potentially up to \$1.4 million).

Scenario 1—gifting to a non-DGR

If the couple leaves the property to a charity without DGR status, or an unregistered cause or informal community group, the estate may be liable for a significant tax payment—possibly reducing the gift by hundreds of thousands of dollars.

Scenario 2—structured giving to a sub-fund

If the couple donates the property (or proceeds from its sale) to a DGR-registered entity like SCF, the gift should be tax-effective and secure. The foundation manages distributions in line with the couple's wishes, and their legacy lives on—tax-free. Even better, if the donation is made during their lifetime, they should be entitled to a tax deduction for the gift.

The difference? Proactive, informed advice.

Advisers are the missing piece

With Baby Boomers now entering peak estate planning years, advisers have a critical role to play in helping clients build giving into their broader legacy.

For clients who want flexibility and simplicity, a sub-fund may be the answer. It allows them to give now and later, support multiple causes over time, and engage their families in their legacy.

More and more, we see people who want to give while they are alive—to witness the good their gift creates. Structured giving allows them to experience that impact, build relationships with causes they care about, and feel the joy of making a difference.

Advisers are uniquely placed to support that journey—aligning tax strategy with purpose and ensuring their clients' legacies are carried out as intended.

Partnering with foundations can help advisers achieve effective and meaningful solutions for their clients. Sub-funds offer reduced administration, flexible giving, and real community impact—now and for generations to come. **FS**