CONSEQUENCE
PRIVATE WEALTH

Offshore Revisited: A Brief Q & A

November 2017

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In 2012 we published a brief Q&A article on investing offshore. This year has seen renewed interest in offshore diversification, so we have updated the original piece below. Consequence now manages significant client assets offshore and we have strong expertise assisting in transferring assets overseas and estate planning in foreign jurisdictions. Contact us if you would like to find out more.

Note the 9 questions below assume the reader is a South African tax resident.

1. How much can I transfer offshore using my annual Foreign Exchange Allowance?

The Reserve Bank (SARB) allows individuals to transfer up to R11 million per calendar year offshore. No Tax Clearance Certificate is required on the first million (Single Discretionary Allowance) but clearance is required for values above that (Foreign Capital Allowance). Valid FICA documents and Exchange Control forms are also required. Additional transfers may be allowed on emigration and on special request to SARB.

2. How are offshore assets taxed?

SA tax residents must declare all worldwide assets, income, and capital gains to SARS. Tax paid in foreign jurisdictions can be offset against tax payable locally. Capital gains are calculated in the currency of the offshore assets in question. These are then converted into Rand for local Capital Gains Tax purposes using either the forex spot rate at time of sale or the average forex rate for that tax year, whichever is most favourable to the investor.

3. What happens to offshore assets on death?

Although the assets themselves do not have to be sold and repatriated on death, the value of assets in the deceased's name is liable for estate duty and capital gains tax on death. Generally, taxes on death such as estate duty are applied in the jurisdiction in which the assets are domiciled. Again, these taxes or duties can be offset against those due locally.

4. Do I need a Will in every country in which I own assets?

An offshore Will is not a necessity as SA Wills offer sufficient guidance in most jurisdictions. An offshore Will may be helpful if the size or nature of assets make it difficult to wind the estate up; in certain jurisdictions an offshore executor may be better placed to handle matters.

5. What's the difference between investing in local funds with offshore exposure and investing offshore directly?

Buying local unit trust funds which have access to offshore investments gives exposure to those markets, but the investments remain domiciled here in SA (also known as 'Feeder Funds'). Direct offshore investment entails the actual transfer of money overseas. The underlying assets may be the same, but the location of ownership and the currency differs.

6. How do changes in the value of the Rand affect offshore assets?

Assets domiciled offshore have no connection to our local currency. Local funds which hold offshore assets reflect both the underlying performance of those assets and exchange rates as they are valued in Rand. If the offshore currency strengthens, one immediately has more Rands and vice versa.

7. Can offshore assets be housed in a trust? Is that the best investment vehicle to consider?

Local trusts cannot own offshore assets, but it is possible to establish an offshore trust for long term estate planning and asset protection. Trusts can however be expensive and are not suitable for all. For many clients simply owning funds in their own hands is best. There are also other well-priced offshore options which provide wide underlying fund choice, improve tax efficiency and facilitate immediate access for heirs on death.

8. Is this a good time to invest offshore and how much should go?

Many clients worry that they will exchange currency at an inopportune time. A strategy we use to mitigate this concern is to invest regularly over time in local Feeder Funds which are exposed to currency fluctuation, thereby averaging those fluctuations out. Those funds are then used to transfer out using the Allowance.

As to what percentage is best, Treasury places no allocation limits on discretionary investments but caps offshore exposure within Pension Funds at 25%. Discretionary funds must therefore be used to increase overall offshore exposure. We generally recommend a high offshore exposure for clients with aggressive risk profiles, but each client requires an individual analysis to determine the ideal allocation.

9. Given that I can get offshore exposure locally, is there any point in doing this?

All portfolios require an appropriate level of diversification of asset classes, managers and currencies. A geographic diversification adds to this. As proud South Africans we are keen to invest in our nation, but we also believe it is prudent to explore investment opportunities globally.

Please note that the above is not be construed as financial advice in and of itself. Please consult further with us or your financial advisor before making any financial decisions.

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