

Five tips to ensure tax efficiency in offshore investing

29 February 2024

Offshore investing has become a vital part of clients' investment portfolios due to its diversification benefits. If you currently have an investment portfolio, the chances are good that you already have an allocation to offshore assets. The question is, are you using the correct solutions, with the best tax outcomes, when investing offshore? Abigail Kitshoff, Business Development Manager at Glacier International, helps us understand how to optimise offshore investing through tax efficiency, by providing some tips of what to consider.

Tip #1: Understand how to access direct offshore assets.

There are currently two primary ways a South African client can invest offshore:

1. Invest in rands through a local solution and access offshore assets using an asset swap, or
2. Invest in foreign currency through an offshore solution and by obtaining SARS tax clearance.

EXTERNALISING FUNDS: HOW TO TAKE MONEY OUT OF THE COUNTRY

Individuals

				
R1 million	<R10 million	R10 million +	Foreign currency	Asset swap
You could make use of your single discretionary allowance	You could use your annual foreign allowance	You could request clearance from the SARB or make use of an asset swap facility	We accept funds already allocated offshore	You could use an institutional foreign allowance. As a trust or company, you will use this option, too.

*An Individual needs to be over 18 years old and have an income tax number

*A forex service provider can assist with tax clearance and conversion

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The second option requires the additional steps of a SARS tax clearance and converting the funds to foreign currency. However, once you have completed this process, this and all the other direct investment options include the following benefits:

1. The tax is paid on foreign currency gains and not rand gains.
2. The solution provides access to a much wider investment universe.
3. You can withdraw funds to an offshore bank account in your name. Remember, investments via asset swap will be required to be returned to South Africa.

Tip #2: Understand the tax benefits of investing directly offshore when using the correct investment vehicle.

Let's further unpack the tax consequences of using the correct solution. When you are using a local investment solution to access offshore funds, you are making use of a feeder fund, which is a local fund that invests or *feeds* into an offshore fund, and capital gains tax (CGT) will be applied on rand gains. This could result in a situation where your investment has not grown, but you could end up paying CGT of up to 18% on gains made due to a depreciating rand. The adverse can apply and depends on your view of where the value of the rand is headed. The below comparison illustrates what impact this can have on your investment return.

Feeder fund vs direct offshore comparison



Source: Morningstar

Satrix MSCI World Equity Index Feeder Fund	22/10/2023 to 30/04/2023	Satrix World Equity Tracker USD
R10 000 000	FX R9.73 (22/10/2013)	\$1 027 749
260.08%	Return	96.20%
R26 008 000	Gain	\$988 695
R36 008 000	Gross End Value	\$2 016 444
	FX R18.30 (30/04/2023)	R36 900 925

1. Satrix MSCI World Equity Index Feeder Fund B2 to 30 April 2023 – 260.08%
2. Sartix World Equity USD Tracker C to 30 April 2023 – 96.20%

Source: Morningstar

CGT Outcome

30 April 2023	SA LISP	SA Endowment	Offshore LISP	Global Life Plan
Gross End Value	R36 008 000	R36 008 000	\$2 016 444	\$2 016 444
Gain	R26 008 000	R26 008 000	\$988 695	\$988 695
CGT	R4 681 440 (18%)	R3 120 960 (12%)	\$177 965 (18%)	\$118 643 (12%)
FX R18.30 (30/04/2023)			R3 256 761	R2 171 174
Net End Value USD			\$1 838 479	\$1 897 801
Net End Value ZAR	R31 326 560	R32 887 040	R33 644 164	R34 729 751
		+ R1 560 480	+ R2 317 604	+ R3 403 191

*Before platform and IFA fees

Source: Morningstar

Tip #3: Understand the different investment vehicles and solutions when investing directly offshore.

At Glacier International, we provide a wide range of investment solutions designed to build offshore investment portfolios. Whatever solution you choose, you will need to take certain factors into account, by answering the following questions:

1. Am I investing as an individual or through a company or trust?
2. Where is my tax residency?
3. Does my income tax exceed 30%?
4. What is the amount I intend to invest?
5. What are my investment preferences?



Tip #4: Consider using the recurring option of the Glacier Offshore Investment Plan to start investing directly offshore.

If you are just starting out and want to build a direct offshore portfolio without having to follow the SARS clearance and currency conversion process, the Glacier Offshore Investment Plan with the recurring investment option offers ease of offshore investing. The minimum investment amount is R5000 per month and would form part of your R1 million single discretionary allowance (SDA). If you feel you would benefit from using Glacier's other solutions, the processes are equally as simple – you can transfer your investment once it has reached USD25 000 (or a currency equivalent).

For a comprehensive overview of the solutions on offer, the [Definitive Guide to Glacier International](#) is a well-considered road map that gives details about solutions and product options. This comprehensive guide can help you on your journey to a resilient, diversified investment portfolio with solutions that enable you to combine the best of all worlds – locally and abroad.

Tip #5: Appoint a professional.

Making any kind of investment decision – whether local or offshore – requires skill, knowledge and experience, especially around all of the technical aspects regarding the tax implications. Appoint an [appropriately authorised financial planner](#) to help you on your investment journey. They will help you navigate a sometimes tricky, daunting world and design a portfolio with your needs

and investment objectives at its centre.

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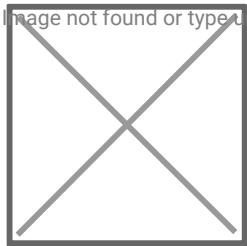
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Abigail Kitshoff



Abigail joined the Glacier International team in January 2023, taking on the role of an account manager. Her primary responsibility is to provide specialised product support to Glacier International's distribution networks in the Western Cape. Abigail initially joined Glacier in April 2016 as a Business Development Manager within the Investment Channel team, overseeing independent financial advisers in the Sandton region. Later, she transitioned to Glacier's Business Development team in Cape Town, where her focus shifted to serving the Southern Suburbs region in the Investment Channel. Her journey in the financial services industry began through the graduate programme at Allan Gray, where she started as a consultant in the Unit Trusts and Client Services divisions. Following her time at Allan Gray, she joined Warwick Wealth as a client relationship manager in 2015. Abigail holds the following qualifications: • Bachelor of Commerce degree in Financial Management, 2011 • Honours degree in Financial Management, University of Stellenbosch, 2012

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