

10 steps for investing offshore

There are many reasons to invest offshore, and it has never been easier to do so. Before you head off to make an investment transaction involving foreign exchange, though, you may need to bear a few things in mind. Colin Archibald, Regional Manager at Glacier International, has some steps for anyone considering investing in foreign markets.

Step #1: Speak to a trusted and experienced financial adviser

Do your homework and ensure that the financial adviser you appoint is registered with the Financial Sector Conduct Authority (FSCA) and is both qualified and experienced in investments.

Step #2: Consider your reasons for investing offshore

As with all matters of consequence in life, start with your purpose, by establishing which of these statements relate to you personally:

- I want to create a diversified portfolio (a good idea in these uncertain times).
- My goal is to hedge against a weakening currency.
- I need to mitigate emerging market risk.
- I want to participate in markets with higher growth prospects.

Whether one or all of these statements are relevant to you, your financial adviser will construct your offshore portfolio accordingly.

Step #3: Consider the complexity of the process

Many investors, and advisers to some extent, may find setting up an offshore investment to be cumbersome and daunting. The process, though complex on the back-end, can be relatively seamless for the investor by using an experienced adviser.

Step #4: Use your annual foreign exchange allowances

As a South African taxpayer, you can use either your annual Single Discretionary Allowance (SDA) of up to R1 million, or annual Foreign Investment Allowance (FIA) of up to R10 million, or both.

When using your FIA, you must first obtain a tax clearance certificate from SARS.

Step #5: Exchange your money

Before the investment can be set up, you need to exchange your capital to the foreign currency of the investment. This can either be done via your bank or by a forex service provider. Most financial advisers prefer to use a forex service provider for their clients as they provide a seamless process, competitive exchange rates, as well as a SARS tax clearance service, where applicable.

Step #6: Determine the appropriate offshore product to meet your investment objectives

There are numerous advantages in using an investment administration platform where a range of offshore investment solutions is available. Your financial adviser is well-placed to determine the best solutions based on your tax and estate planning requirements.

Offshore wrappers (policies) are more tax-efficient if you are a higher tax-paying investor. Offshore wrappers avoid foreign estate taxes, probate and executor costs and they can be passed on to your nominated beneficiaries in the event of your death. They offer a wide range of investment choices.

Linked investment service providers (LISPs) provide a simplified approach where an investor can access a range of international fund managers and portfolios in one investment plan.

Step #7: Research and transparency are critical to offshore investing

Research capability should be one of the pillars that underpin your platform of choice. This ensures that detailed analyses are readily available to assist your adviser in selecting funds and asset managers that are aligned with your risk and return objectives.

Step #8: Consider your investment time horizon

It is important to understand that most offshore investment portfolios are designed with a long-term objective of at least five years. While most solutions offer some liquidity during that period, expect to be invested for the long term.

Step #9: Be tax smart

Direct offshore funds can be more tax-efficient than South African feeder funds. Investors with direct offshore investments are only liable for calculating the tax in the foreign currency. This means that gains generated from local currency weakness are not included.

Step #10: Pay attention to the paperwork

SARS requires you to declare your worldwide income, including your offshore investments, on your South African tax return. This does not apply to offshore wrappers issued by South African insurers as the tax is paid annually to SARS by the insurer.

Income, where applicable, and any realised capital gains on investments administered by LISPs are taxed in the investor's hands and the investment platform company will provide annual tax certificates for you to report on your annual tax return.

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