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Consider the tax implications when taking your money offshore

South Africans are overburdened with taxes, and it's only set to get worse. If you are considering investing internationally, you should be aware of the tax requirements when deciding on the best investment approach.

This is according to Gavin Smith, senior area manager at deVere Acuma, who says that the continued increases on an already heavily taxed consumer base is good enough reason for South Africans to seriously seek out international investment opportunities.

The 2019 Budget proposals are estimated to raise tax revenue by R15 billion in 2019/20, and further changes are proposed to raise an additional R10 billion in 2020/21. The consistent revenue shortfall will require further tax policy interventions, and the proposed National Health Insurance (NHI) bill will also increase taxes on South Africa's economically active citizens in future.

There are a number of benefits linked to international investment opportunities, but Smith advises that investors should consider how offshore investment taxation works as an initial step.

He explains that the first choice you will be faced with is whether you are using a rand-denominated offshore unit trust facility – also known as an asset swap – or investing directly in offshore unit trusts.

"If you don't want to take your capital out of the country but want to access the benefits of a rand hedge by taking your assets offshore, then rand-denominated offshore unit trusts are a good option," explains Mr Smith.

"On the other hand, if you are ultimately hoping to use your funds overseas, because you are emigrating or have offshore liabilities, you will then opt for using foreign currency to invest in foreign funds."

If you opt for a rand-denominated offshore unit trust, you will pay capital gains tax on all gains, in South Africa. You will also pay tax on interest and dividends, at an effective rate of 20%. You will not use your foreign investment allowance for this option.

Mr Smith says that if you are investing in foreign funds with foreign currency, you will use your R1 million foreign investment allowance or, for further investment of up to R10 million, you will have to apply for tax clearance for your foreign capital investment allowance from SARS.

"When these assets are sold, gains are calculated and converted into rands, and you will be taxed locally on those gains."

"As a part of your investment strategy, you should consider – with the help of an advisor – whether the rand is likely to strengthen or weaken against foreign currencies," he adds.

"If it weakens, a direct offshore investment offers greater tax benefits, but if it strengthens, a rand-dominated offshore unit trust is the better option."

Mr Smith explains that South Africa has a residency-based tax system in place – essentially, if you live here, you pay personal tax here, regardless of where your income originated.

“However, there are certain exemptions that investors can benefit from. It is therefore a good idea to seek out the services of a qualified foreign investment specialist, to support you in making the right decisions, now and for the future.”

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