



TAXING. Utilising an offshore endowment removes any potential situs issues relating to an investment in a foreign jurisdiction. Picture: AdobeStock

How can I invest funds offshore?

TAX: WHAT IS DUE WHEN CHILDREN INHERIT INVESTMENTS

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Jonathan Braans

A *Moneyweb* reader asked: If you have offshore funds in a foreign bank, how can we invest it offshore? What would the tax implications be? Also, when our children inherit it what tax is due?

The answer:

Converting funds into foreign currency is a good first step toward diversifying your portfolio and de-risking against the volatile rand. However, foreign bank accounts are notoriously poor investment vehicles as interest rates on savings accounts are low. For example, a savings account in SA should yield approximately 5% per annum, while those in the UK are likely to yield around 0.75%.

Consequently, there is a need to shift this money into an interest-generating vehicle. Many SA-based asset managers offer offshore investment structures and have offshore houses based in jurisdictions like Guernsey or Bermuda. These institutions accept

deposits in numerous currencies.

It would be in your interest to consider how offshore investment structures can help from both an estate and tax perspective. When considering tax, a popular offshore investment vehicle is a global endowment. An endowment offers investors with high marginal tax rates the opportunity to invest in a tax-efficient manner. In the case of individuals, income tax and capital gains tax are 30% and 12% respectively. Dividend-withholding tax (DWT) is levied at 20% for individuals.

On death, South African residents are liable for estate duty based on their worldwide assets. Estate duty is levied at a rate of 20% on an estate value up to R30 million and at a rate of 25% on a value above R30 million.

Not so commonly known is that on death, both the UK and the US also levy an estate duty on certain situs assets, i.e. assets that are physically situated within their jurisdiction.

In the UK, this is known as inheritance tax, while it's called estate tax in the US. Collectively, they are known as situs taxes. This is important to note if you

have assets in either country.

In the UK, a situs tax of 40% is levied on assets over the value of £325 000. Any amount falling below the £325 000 threshold is known as "the nil rate band" and is free from situs tax. There is no situs tax levied on assets left to a spouse. Additionally, if the assets are left to the spouse, resulting in the £325 000 exemption remaining unused, the exemption rolls over to the spouse. The spouse will then have a £650 000 exemption on their death.

In the US, the threshold for situs tax is much lower at only \$60 000, with the top tax bracket being 40%. In contrast to the UK, the US offers no spousal exemptions or rollovers unless the spouse is a US citizen.

Utilising an offshore endowment removes any potential situs issues relating to an investment in a foreign jurisdiction. Instead, these funds are deemed part of your South African estate, where you will pay estate duty ranging from 20% to 25%.

I trust that I have answered your question and provided you with some guidance for offshore investing. I recommend that you consult a financial advisor who can assist you with your specific requirements and get more information about liquidity, risk profile and tax efficiency.

► Braans is a private wealth manager at NFB Private Wealth Management

40%

UK situs tax levied on £325 000