



Externalising funds for offshore investment

A guide for financial advisors



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South Africa's exchange control framework provides individuals, companies and trusts with different routes to offshore diversification. The appropriate choice depends on the investor's entity type, investment size, tax position and estate-planning objectives. This guide examines the externalisation options for each entity type, covers the rand-based alternatives available when direct externalisation is not preferred or not available, and explains how capital gains tax (CGT) is calculated across all options.

Direct externalisation

1. Individuals

South African (SA) tax resident individuals aged 18 and above have two annual exchange control allowances available that may be used for investment purposes. The allowances reset on 1 January each calendar year. In addition, individuals can apply for further uncapped additional allowances provided certain conditions are met.

Allowance	Annual limit	SARS/SARB approval required?
Single Discretionary Allowance (SDA)	R2 million	No – no SARS AIT PIN or SARB approval required
Foreign Capital Allowance (FCA)	R10 million	Yes – SARS AIT PIN (Tax Compliance Status) required but no SARB approval required
Special Allowance: Additional amounts above the annual R12 million	No fixed limit	SARS Letter of Compliance and SARB FinSurv special approval required

Subscriptions in foreign currency, online foreign currency purchases and in-person purchases while travelling all draw from the same SDA allowance and individuals must track their usage of this allowance across different banks.

The Approval for International Transfer (AIT) from SARS which is required for the FCA and for the Special Allowance is valid for a 12-month period. The application can be made via e-filing, and the following information/documentation is required:

- Relevant material that demonstrates the source of the capital to be invested, for example, a bank statement reflecting the available cash as well as supporting documents showing where the cash originates from. Further guidelines regarding the specific documents depending on the source of the capital are available on the SARS website.
- A statement of assets and liabilities for the previous three tax years (this should include disclosure of all investments, loan accounts and distributions from local and foreign companies, trusts, etc.).
- An applicable Power of Attorney where the application is submitted by a person other than the taxpayer.

As noted in the table on page 1, a Special Application for an amount in excess of the annual allowances also requires a SARB FinSurv approval. This application must be submitted only once the AIT approval has been received. The SARB FinSurv approval will include a condition that the taxpayer must annually submit a report via the authorised dealer reflecting how the externalised funds are invested. Previously, the approval stipulated that the externalised funds may not be used to make loans to foreign trusts, but this condition has been relaxed in recent years.

Depending on the type of investments made, foreign probate and inheritances taxes may be applicable.

The Ninety One products available for investment once the funds are externalised are the [Ninety One Global Life Portfolio](#), the [Ninety One International Investment Portfolio](#) or the [Ninety One Global Investment Portfolio](#).

Depending on the type of investments made, foreign probate and inheritances taxes may be applicable.

2. Companies – foreign direct investment and foreign portfolio investments

SA resident companies may make outward foreign direct investments (FDI) of up to R1 billion per company per calendar year through an authorised dealer. Where the application is over R1 billion, the authorised dealer must obtain SARB FinSurv approval. Certain specific conditions are applicable to FDI applications, and these are not available for passive investment purposes but rather to obtain shareholding (in excess of 10%) in a target foreign entity.

Companies can also apply for foreign portfolio investments where less than 10% shareholding will be obtained.

Specific advice should be obtained when an FDI or foreign portfolio investment is being considered.

Scenario	SARB requirement
FDI – up to R1 billion p.a.	Authorised dealer only; no prior FinSurv approval required
FDI – above R1 billion p.a.	Application to SARB FinSurv via authorised dealer
Foreign portfolio investment (< 10% shareholding/voting rights in target)	SARB approval required regardless of amount
Ongoing: any approved structure	Annual progress report to FinSurv

3. Trusts – distributions from an SA trust to a foreign trust

SA resident trusts have no separate foreign investment allowance. A recent dispensation allows SA trusts to make distributions directly to a foreign trust, subject to SARS and SARB approvals that are provided on a case-by-case basis.

To be clear, the investor will therefore be the foreign trust and not the SA trust. There is no specified limit to the amount that may be approved provided all the conditions are met.

Conditions

- The foreign trust must be named as a beneficiary in the SA trust deed (by name or as part of a class of beneficiaries). If this provision is not present, consideration can be given to amending the trust deed in line with the amendment provisions contained in the trust deed.
- The SA trust and related SA entities and individuals must be tax compliant.
- All SA tax liabilities relating to the distribution must be considered to determine the amount available for transfer.
- The SA trust must remain solvent after the distribution has been effected.

The two-stage approval process:

Stage	Body	What happens
1	SARS	Application for a Manual Letter of Compliance. Audit of the trust deed, source of funds and tax compliance
2	SARB FinSurv (via authorised dealer)	Review of funding of foreign trust, trust deeds and tax compliance

It is strongly recommended that a tax opinion is obtained prior to applying for approval of the trust-to-trust distribution to address any potential tax implications arising from it.

Once funds are received by the trustees of the foreign trust, the trust may invest in any of the following products: the [Ninety One Global Life Portfolio](#), the [Ninety One International Investment Portfolio](#) or the [Ninety One Global Investment Portfolio](#), with the Ninety One International Investment Portfolio generally being the most suitable option.

Alternatives to direct externalisation: feeder funds and asset swaps

Where direct externalisation is not possible or preferred, or the annual allowances have been exhausted, all entity types can obtain offshore market exposure through rand-denominated feeder funds and through asset swaps. No SARS or SARB approvals are needed by the investor.

1. How they work

A feeder fund is an SA-registered collective investment scheme that invests into a direct offshore fund. The fund manager converts the rand investment into foreign currency using the manager's own SARB-approved asset swap capacity. The investor makes no foreign exchange transfer. SARB caps financial institutions' offshore allocation at 45% of total retail assets under management. When capacity is fully used, access to certain funds may be temporarily unavailable.

An asset swap is the same mechanism accessed directly through a stockbroker or investment platform, typically for larger amounts (different limits may apply). The mechanism involves an agreement between the investor and a financial institution with asset swap capacity, whereby the institution holds an offshore asset on behalf of the investor. Although the underlying assets are in an offshore jurisdiction, the investment is rand-denominated.

On redemption, proceeds are received in rand (after conversion where needed).

2. Entity-specific considerations

Individuals

Feeder funds typically have lower minimum investment amounts compared to applying for an asset swap. Rand depreciation affects the CGT calculation of individuals invested in feeder funds. However, rand depreciation does not affect the CGT calculation when invested via asset swap (or directly offshore) as the CGT is calculated on the gain in the fund's hard currency, converted to rand at disposal.

Illustrative example: Direct offshore investment (or via asset swap) of USD 100 000 when USD/ZAR = R18. Fund grows to USD 140 000 over eight years when USD/ZAR = R22. Taxable gain = USD 40 000 × R22 = R880 000. The R400 000 rand depreciation uplift from R18 to R22 on the USD 100 000 amount is not taxed. If the client invested in a feeder fund, the gain would be calculated as R3.08 million (USD 140 000 × R22) – R1.8 million (USD 100 000 × R18) = R1.28 million.

Companies

Feeder funds and asset swaps are often the most efficient route for offshore exposure, particularly for smaller amounts or where the FDI allowance requirements are not met.

Companies calculating CGT on offshore assets must convert the base cost and proceeds using the exchange rates at acquisition and disposal respectively. Rand depreciation is therefore included in the capital gain, and this applies for feeder funds, asset swaps and direct offshore investing.

Trusts

Where a trust-to-trust option is not viable, feeder funds and asset swaps are the preferred options for offshore portfolio exposure.

Rand depreciation affects the CGT calculation of trusts invested in feeder funds. The base cost and proceeds are both in rands and the entire rand gain – including the currency depreciation component – forms part of the taxable capital gain. Rand depreciation does not affect the CGT calculation when invested via asset swap or directly offshore (the same principles apply as for individuals).

Holding feeder fund investments inside a life policy wrapper (such as the Ninety One Life Portfolio) reduces the effective CGT rate to 12% within the policy, compared to 36% (or 18% if distributed) where a trust invests directly in feeder funds or via an asset swap.

In conclusion

Understanding the externalisation options available to your client and their tax implications is a vital first step in putting together the road map to achieve the foreign exposure targets for your clients.



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