



INVESTING OFFSHORE

USING YOUR ANNUAL FOREIGN INVESTMENT
AND DISCRETIONARY ALLOWANCES
(EXTERNALISED RANDS)



CORONATION
TRUST IS EARNED™

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UNDER EXCHANGE CONTROL REGULATIONS THE SOUTH AFRICAN RESERVE BANK (SARB) PERMITS EACH RESIDENT SOUTH AFRICAN TAXPAYER TO EXTERNALISE FUNDS OF UP TO R11 MILLION PER CALENDAR YEAR (R10 MILLION FOREIGN INVESTMENT ALLOWANCE AND A R1 MILLION SINGLE DISCRETIONARY ALLOWANCE) FOR DIRECT OFFSHORE INVESTMENT IN FOREIGN CURRENCY DENOMINATED ASSETS - AN ATTRACTIVE OPTION FOR INVESTORS SEEKING TO FURTHER DIVERSIFY THEIR INVESTMENT HOLDINGS.

The process of investing in one of Coronation's foreign currency denominated international funds has 4 simple steps:

- 1** Choose the right fund and submit your completed application form to Coronation Client Service
- 2** For investments using your foreign investment allowance of R10 million per calendar year, apply for tax clearance from the South African Revenue Service (SARS)
- 3** Contact your bank or an authorised specialist currency service provider to arrange for a transfer of funds from South Africa
- 4** Submit your completed investment application, proof of payment and a copy of your tax clearance certificate to Coronation Client Service

STEP 1 CHOOSE THE RIGHT FUND AND COMPLETE THE CORONATION APPLICATION FORM

Coronation offers a range of **foreign-domiciled funds denominated in US dollars** that are available directly from us or through selected offshore platforms offered by Alexander Forbes, Allan Gray, Cidel, Glacier by Sanlam, Investec, Old Mutual, Absa Investment Management Services (AIMS) and RMBI/Momentum.

Matching your needs to the right fund is vitally important, so if you are unsure as to which fund is right for you, speak to your financial adviser or contact Coronation Client Service on 0800 86 96 42 and one of our consultants will gladly provide you with further details on the various fund options.

Once you've made your fund/s decision, visit our website and click on **Invest Now**. Alternatively you can download and complete the **Application Form** or request that one of our client service consultants email or post the form to you.

If you are not an existing Coronation investor, you will need to include the following FICA documentation with your application form:

- A copy of your South African identification document (ID) bearing ID number and photograph
- Proof of residential address less than three months old (e.g. utility bill or telephone account)
- Proof of SA income tax number if applicable (e.g. SARS issued document bearing name and tax number)

Completed forms and supporting documentation should then be faxed to us on (086) 676 9780 or emailed to OffshoreInvestments@coronation.co.za.



Steps 2 and 3 as explained below can be completed by you, or you can make use of a foreign exchange currency provider who will facilitate the process of obtaining tax clearance and the transfer of funds.

These providers can assist you with the following:

- Assistance in completing the required exchange control and tax clearance forms
- Applying for foreign tax clearance on your behalf with SARS (typically within 1-2 days)
- Preferential discounted live wholesale foreign exchange rates
- Zero commission and administration fees
- Applying for a SARS 'letter of compliance' and foreign tax clearance as well as the necessary SARB approval to invest amounts greater than the current R11 million in annual individual allowances.

Coronation has identified two independent foreign exchange providers.

Should you wish to make use of their services, please see their contact details below.

Exchange 4 Free

Matthew Lawson
011 453 7818/082 391 5494
matt@exchange4free.com
www.exchange4free.co.za

Currency Partners

Eike Feltz
086 002 2007/079 276 4503
eike@currencypartners.co.za
www.currencypartners.co.za
or click [here](#) to register online



STEP 2 APPLY FOR TAX CLEARANCE

A tax clearance certificate is required from SARS prior to investing amounts under your capital allowance (the R1 million annual discretionary allowance does not require tax clearance) in any currency denominated international fund. To do this, simply contact one of the currency providers identified by us who offer this as part of their service free of charge, or speak to an accounts/tax practitioner for assistance. Alternatively, you can download and complete the FIA001 Tax Clearance Certificate application form from the SARS website at www.sars.gov.za, or request it from Coronation Client Service.

You will be required to submit the following documents to SARS together with your completed Tax Clearance Certificate application:

- A SARS power of attorney (if someone is applying on your behalf)
- A statement of your personal assets and liabilities (if you have not already filed one with your last tax)
- A proof of availability and source of funds for SARS (the relevant supporting documentation required by SARS will vary in this regard depending on where the funds will be coming from - refer to the SARS guide or speak to the specialist handling the application on your behalf)
- An original certified copy of your South African ID

You must ensure that all overdue returns and payments are fully up to date prior to applying or your application will be declined. The approval time depends on your specific SARS office and typically takes between 1-3 days for amounts up to R4 million, or 4 -10 weeks for amounts greater than R4 million. Your foreign tax clearance certificate is valid for a period of 12 months from date of issue, but your annual allowances are granted per calendar year and will expire on 31 December when you are entitled to new allowances for the next calendar year.

STEP 3 TRANSFER OF FUNDS

Once you've obtained tax clearance, you need to arrange for a purchase of currency through your bank or a specialist currency service provider (such as those we have identified) and request the onward payment of your foreign currency to be completed to the relevant Coronation offshore bank account, depending on your fund selection.

Coronation's bank account details are available in section F of the [Application Form](#) or from Coronation Client Service. If you are an existing Coronation investor, you can use your existing investor client reference code for the onward payment. Alternatively, you can use your name and surname.

STEP 4 SUBMIT YOUR FINAL DOCUMENTATION TO CORONATION

Once you've arranged for the transfer of your foreign currency, kindly send Coronation Client Service your investment application form along with a proof of payment to enable us to process your request and allocate your funds.

FREQUENTLY ASKED QUESTIONS

Coronation has prepared a set of frequently asked questions and answers with the objective of providing you with a general overview of the basic exchange control and tax consequences of investing in one of our foreign currency denominated international funds. If you are in any way uncertain, we recommend that you obtain appropriate independent advice prior to making such an investment.

For further assistance, please contact Coronation Client Service on 0800 86 96 42 or by email at OffshoreInvestments@coronation.co.za

If you are a South African resident with a green bar-coded ID book or smart ID and have a South African income tax number, you can utilise your individual offshore allowances of up to R11 million (R10 million foreign capital allowance and a R1 million single discretionary allowance) per calendar year by investing in a foreign currency denominated unit trust fund. For investments under your foreign investment allowance, you will need to apply for foreign tax clearance from the South African Revenue Service (SARS).

Depending on your requirements, Coronation offers a focused range of **foreign-domiciled funds denominated in US dollars**, providing access to both developed and emerging markets in a pure equity or multi-asset portfolio. Immigrants* and nonresidents are also able to invest in Coronation's range of foreign current denominated international funds, but are not subject to the individual offshore allowance regulations

The following questions and answers have been prepared to assist you in understanding the requirements and process involved and also to provide you with a general overview of the basic exchange control and tax consequences of such an investment.



Please note that this summary is not intended to constitute a comprehensive guide to the exchange control considerations and tax treatment of your foreign investment. If you are in any way uncertain, we recommend that you obtain appropriate independent advice prior to making an investment.

1 WHO QUALIFIES FOR THE ANNUAL R11 MILLION FOREIGN INVESTMENT ALLOWANCE?

The individual annual foreign capital and discretionary allowances are currently available for natural persons who are:

- taxpayers in good standing; and
- over the age of 18 years.

Each individual may invest an amount of up to R11 million (R10 million foreign capital allowance and a R1 million discretionary allowance) per calendar year offshore.

Natural persons are regarded as South African residents if they are domiciled or registered in South Africa for income tax (for example if they were born in South Africa and lived in the country all their life) or foreign nationals who have taken up permanent residency in South Africa and have been living in the country for more than five years.

South African residents are subject to exchange control restrictions and can therefore only invest in offshore assets such as foreign unit trusts within certain restrictions set by the South African Reserve Bank (SARB)

2 WHO DOES NOT QUALIFY FOR THE FOREIGN INVESTMENT ALLOWANCE?

- Legal entities
- Trusts
- Partnerships
- Foundations
- Clubs
- Natural persons under the age of 18 years
- Natural persons who are NOT taxpayers in good standing

* Immigrants are subject to exchange control regulations after five years of residency, subject to certain concessions.



3 DO I NEED A SARS TAX CLEARANCE CERTIFICATE?

It depends. Investors wishing to externalise rands under their annual discretionary allowance of up to R1 million per calendar year do not need to obtain foreign tax clearance from SARS. The discretionary allowance can be used for any legal purpose abroad and must include any travel spend abroad in foreign currency from South Africa e.g. credit card expenditure. Investors can also utilise their annual foreign capital allowance of up to R10 million per calendar year subject to obtaining foreign tax clearance from SARS.

For applications up to R10 million, a foreign tax clearance certificate can be applied for from SARS (typically within 1 - 3 working days). A foreign tax clearance certificate is valid for a period of 12 months from date of issue and once expired or fully utilised, you will need to apply for a new foreign tax clearance certificate.

Applications for amounts greater than R10 million are subject to a special application for a "letter of compliance" from SARS and a special approval application to be made with the SARB. There is no limit on the size of these applications for individuals.

4 HOW LONG WILL IT TAKE TO GET A TAX CLEARANCE CERTIFICATE FROM SARS?

You can submit your application with any SARS office and it typically takes 1 - 3 working days to be approved or declined. Applications for a "letter of compliance" for amounts greater than R10 million are subject to a special review process by a client analyst from the compliance risk unit at SARS who can request additional information for the application. This process typically takes 4 - 10 weeks. In both instances, we highly recommend you get assistance from one of the independent specialist currency service providers who offer this as part of their services, or from your accountant or tax adviser who are familiar with these applications and their requirements.

5 WHAT IS THE MAXIMUM AMOUNT I CAN TRANSFER OFFSHORE?

You can transfer a maximum of R11 million (R10 million foreign capital allowance and a R1 million single discretionary allowance) per calendar year from South Africa, without special approval from the SARB. It is also possible to transfer amounts greater than this subject to a special approval application with the SARB.

In addition to your annual allowances and special approvals, you can invest other legal funds offshore, for example:

- growth/income on previously transferred funds where such income was retained abroad
- income earned abroad from a foreign employer after 1 July 1997 and either retained abroad or remitted to South Africa
- foreign inheritances
- own foreign capital introduced into South Africa on or after 1 July 1997
- funds for which amnesty was granted in terms of the Exchange Control Amnesty and Amendment of Taxation Laws Act, 2003 (Act No. 12 of 2003), unless amnesty was granted on the basis that the funds had to be repatriated to South Africa
- other amounts if specific approval has been obtained from the SARB



6 CAN I USE OTHER OFFSHORE ASSETS TO INVEST IN THE CORONATION FOREIGN CURRENCY DENOMINATED INTERNATIONAL FUNDS?

Yes, if these assets are, or originate from, previous foreign capital allowance transfers, or from the sources referred to above.

No, if the assets represent funds held offshore in contravention of the exchange control policies.

7 DO I HAVE TO TRANSFER THE FULL AMOUNT AT ONCE?

No, you can transfer in tranches under a valid foreign tax clearance certificate which has capacity and did not yet expire. If you intend using the same bank or specialist currency service provider for future transfers, you may request them to keep a copy of your foreign tax clearance certificate on your behalf. The original certificate is required by the bank/authorised dealer, handling your transfer. If you are using a specialist currency service provider, they will manage this for you.

8 IS THIS AN ANNUAL LIMIT?

Yes, the allowances are granted per calendar year and expire on 31 December without any carry-forward on un-used amounts.

You will receive a new annual allowance on 1 January each year.

9 CAN I BORROW FUNDS OFFSHORE?

Yes, provided there is no recourse to South Africa (e.g. guarantees or surety to an overseas lender from South African sources).

10 CAN I BORROW FUNDS FROM ANOTHER SOUTH AFRICAN RESIDENT?

Yes, provided this is not viewed as a scheme of arrangement to bypass exchange control restrictions. It is generally permissible to borrow funds from another family member (such as a parent or spouse) or even a family trust. If you have any doubts about a particular loan, please obtain an opinion from your banker or financial adviser.

11 HOW PROBLEMATIC IS AN ACCIDENTAL BREACH OF THE ANNUAL LIMIT?

The SARB maintains a database of all transfers made by all individuals via all banks since the implementation of this allowance in 1996. You, the applicant (not Coronation, SARS, your bankers, advisers or SARB) are however ultimately responsible for not exceeding the limit. You may be fined between 20% and 40% of the excess transfer amount if you inadvertently exceed the limit. This penalty range, however, only applies if you approach the SARB's Financial Surveillance Department (FSD) first. Otherwise, the full amount in excess of the limit could be confiscated. If you are uncertain regarding a proposed transfer resulting in a breach of your annual limit, carefully check your records. A last resort is to apply to the FSD to check your records.



12 DOES CAPITAL GAINS TAX (CGT) RATHER THAN INCOME TAX APPLY TO THE GAIN REALISED ON THE SALE OF A FOREIGN COLLECTIVE INVESTMENT SCHEME (CIS)?

The short answer is that as long as you are a long-term investor, virtually always **Yes**.

The disposal of units could attract either income tax (at a maximum marginal rate of 45%) or CGT (at a maximum effective rate of 18.00%). If the units were held as capital assets, the gain (i.e. the difference between your proceeds and the base cost of the units disposed of) should be subject to CGT. If the units were held for speculative purposes, the proceeds on disposal will be subject to income tax.

To determine whether the units were held as capital assets or trading stock, the intention of the seller is taken into account, and the period of ownership. Section 9C of the Income Tax Act No 58 of 1962 contains a 'safe harbour' provision in terms whereof the gains from the sale of qualifying shares will be treated as capital in nature, if the owner held such shares for a period of at least three years. However, the units in a foreign CIS do not qualify for such protection and it will therefore be necessary to apply the 'normal rules' relating to the intention of the seller as well as the period of ownership, to determine whether the proceeds will be subject to income tax or CGT. A disposal of units is defined for tax purposes to include both a redemption instruction given to Coronation and a sale to a third party.

A disposal can also take place in a number of other instances, for example:

- a deemed disposal in the event of death of the unit holder; or
- a transfer between spouses, including a transfer in the event of the death of the unit holder or in terms of a divorce order.

13 WHAT ARE THE TAX CONSEQUENCES OF A DISPOSAL, ASSUMING THAT THE UNITS ARE HELD AS CAPITAL ASSETS?

- In the case of the disposal (or deemed disposal) of units, the difference between the proceeds (or deemed proceeds) on disposal and the seller's base cost* in the units, will be subject to CGT.
- Where the units are transferred between spouses, there will be no capital gain on the transfer, but the transferee spouse will effectively step into the shoes of the transferor spouse; with the result that the gain will be subject to CGT only at the time when the transferee spouse disposes of the units. Such roll-over relief will not apply where the transferee spouse is non-resident for tax purposes;
- On the death of the unit holder, the deceased will be deemed to have disposed of the units at market value, i.e. CGT will be triggered in such case. This rule does not apply where the units are bequeathed to the deceased's spouse, in which case the roll-over relief referred to above applies.

* Three asset identification methods for determining the base cost of identical assets such as unit trusts exist, namely weighted average cost, specific identification and first in first out. Coronation has adopted the weighted average cost methodology which, in essence, involves keeping running totals of the number of units bought and sold in a particular fund.

Coronation will disclose the following information to you to allow you to calculate your tax liability: number of units disposed, cost of those units disposed, proceeds on disposal of those units; and gain derived from, or loss incurred in respect of the disposal of those units.

Unit holders who do not wish to use the weighted average cost method to determine capital gains on the disposal of their units are not bound by the return provided by Coronation. However, they will have to keep the necessary records to support the alternative they select.



14 WHAT ARE THE TAX IMPLICATIONS OF INCOME DISTRIBUTIONS ON A FOREIGN COLLECTIVE INVESTMENT SCHEME (CIS)?

Note that the Coronation foreign currency denominated international funds are currently structured as roll-up funds. This means that any investment income earned in the portfolio is reinvested in the fund for future capital growth. As a result, there is no investment income earned or distributed by Coronation's foreign CIS.

A foreign CIS is treated as a foreign company under the Income Tax Act. Dividends (or distributions) paid by foreign companies are subject to income tax in the hands of South African resident unit holders, subject to certain partial and full exemptions available.

15 CAN GAINS ON MY INVESTMENT BE DEEMED TO BE FOREIGN DIVIDENDS FOR TAX PURPOSES?

No. The definition of 'foreign dividend', as amended in the 2011 Taxation Laws Amendment Act (TLAA), which took effect from 1 January 2011, includes any amount that is paid by a foreign company in respect of a share in that foreign company, where that amount is treated as a dividend or similar payment by that foreign company. The definition clearly states that it excludes any amount so paid that constitutes a redemption of a participatory interest in a foreign CIS. Any proceeds received from the redemption of a foreign CIS are therefore not treated as a 'foreign dividend' and will be subject to CGT or income tax (if held for trading purposes).

16 WHAT ARE THE ESTATE DUTY IMPLICATIONS?

Foreign investments are included as property in your estate and are therefore subject to estate duty.

17 SHOULD I HAVE A FOREIGN WILL AND APPOINT A FOREIGN EXECUTOR?

Not necessarily. In most instances a foreign will would not be required and a resident's South African will would apply to his/her worldwide assets. However, should you own significant and complex foreign assets it is recommended that you consult an attorney in the relevant foreign jurisdiction for legal advice and assistance.

18 HOW DO I REDEEM OR REPATRIATE MY OFFSHORE INVESTMENT?

The policies allowing individual SA residents to transfer funds offshore and to retain certain assets offshore also allows for the holding of foreign bank accounts and currency denominated accounts with your local SA banker. If you wish to redeem an offshore investment, Coronation can transfer the redemption proceeds to another offshore destination via a third party (offshore anti-money laundering legislation permitting), transfer the proceeds to an offshore bank account in the name of the investor, or transfer the proceeds to a currency account in South Africa (FICA & other legislation permitting).

Disclaimer: All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result thereof, there may be limitations as to the appropriateness of any information given. It is therefore recommended that any potential investor first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the potential investor prior to acting upon information. Neither Coronation Fund Managers Limited, Coronation Management Company (RF) (Pty) Ltd nor any other subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. Coronation endeavours to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. Coronation does not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only. Coronation Fund Managers Limited is a Full member of the Association for Savings & Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548) and Coronation Investment Management International (Pty) Ltd (FSP 45646) are authorised financial services providers.

Coronation Global Fund Managers (Ireland) Limited
Seventh Floor, MontClare Place, Cnr Campground and Main Roads, Claremont, 7708
PO Box 44684, Claremont, 7735 Tel: +27 (21) 680 2000 Fax: 086 676 9780 Toll Free: 0800 86 96 42
Website: www.coronation.com E-mail: OffshoreInvestments@coronation.co.za