

OFFSHORE



EXTERNALISE YOUR RANDS

A how to guide

CORONATION

TRUST IS EARNED™



The Coronation Client Charter

We strive to always
put clients first

We have an unwavering
commitment to the long term

We focus on producing
top performance over all
meaningful periods

We are uncompromising
about ethics

INVESTING OFFSHORE

an attractive option to diversify and optimise your investment portfolio.

As a resident South African taxpayer, the South African Reserve Bank permits you to externalise funds of up to R11 million per calendar year (a R1 million single discretionary allowance plus a further R10 million foreign investment allowance) for direct offshore investments in foreign currency denominated assets. This guide explains the simple process of how to go about investing your rands offshore. To find out more about the benefits of offshore investing and which offshore funds would best suit your needs, read our Corolab [here](#)

It takes 4 simple steps to invest in one of Coronation's foreign currency denominated investment funds:

1. Choose the right offshore investment fund and submit your completed application form to Coronation Client Service
2. For investments greater than R1 million*, apply for tax clearance from the South African Revenue Service (SARS)
3. Contact your bank or an authorised forex broker to arrange for a transfer of funds
4. Submit your proof of payment and tax clearance certificate to Coronation Client Service



STEP 1 Choose the right offshore investment fund and complete the Coronation application form

Coronation offers a range of **foreign-domiciled investment funds** that are available directly from us or through selected offshore platforms offered by Alexander Forbes, Allan Gray, Cidel, Discovery, Absa Investment Management Services, Glacier by Sanlam, Investec, Momentum, INN8 and Old Mutual International.

Matching your needs to the right fund is vitally important, so if you are unsure 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 details on the various fund options.

Once you've made your fund(s) decision: visit our website and click on **Invest Now**, or download and complete the **Application Form**, or ask one of our client service consultants to email or post the application form to you.

Matching your needs to the right fund is vitally important.

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

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

Your completed forms and supporting documentation should then be faxed to us on **(021) 680 2181** or emailed to **offshoreinvestments@coronation.co.za**.

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

Coronation has identified two independent foreign exchange providers. For convenience, here are their contact details should you wish to make use of their services.

Exchange 4 Free

Matthew Lawson 011 453 7818 / 082 391 5494

matthew.lawson@exchange4free.co.za 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](#)

These providers can assist you with the following:

- 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.



STEP 2 Apply for tax clearance

Your R1 million annual discretionary allowance does not require tax clearance. However, you will require a tax clearance certificate from SARS before investing any amounts above R1 million in any currency denominated offshore investment 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 need 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 return)
- A proof of availability and source of funds for SARS (the relevant supporting documentation required by SARS will vary 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

Before applying, you must ensure that any overdue returns and payments are fully up to date 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 have tax clearance, you need to arrange to purchase currency through your bank or a specialist currency service provider (such as those listed above) 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 D of the **Application Form** or from [Coronation Client Service](#). If you are an existing Coronation investor, you can use your existing investment number 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

We hope the answers to frequently asked questions below provide you with an overview of the process involved and basic exchange control and tax consequences of investing in one of our foreign currency denominated offshore funds.



THE IMPORTANCE OF ADVICE

At Coronation we know the importance of making the right investment choice; we also know the value of seeking **independent professional advice**. If you are at all uncertain as to which is the right investment for you, we recommend that you talk to your financial adviser.

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



Can I invest offshore?

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 have an individual offshore allowance of up to R11 million (a R1 million single discretionary allowance and a further R10 million foreign capital allowance) per calendar year to invest in a foreign currency denominated investment fund. Depending on your needs, Coronation offers a focused range of foreign-domiciled funds, providing access to both developed and emerging markets in a pure equity or multi-asset portfolio. Immigrants* and non-residents are also able to invest in Coronation's range of foreign currency denominated investment funds, but are not subject to the individual offshore allowance regulations.

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

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Who qualifies for the annual R11 million foreign investment allowance?

Note:

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.

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 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).

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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

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Do I need a SARS tax clearance certificate?

It depends. If you want to externalise rands under your annual discretionary allowance of up to R1 million per calendar year, you 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.

If you want to externalise rands using your annual foreign capital allowance of up to R10 million per calendar year, then you would need to obtain foreign tax clearance from SARS. Obtaining a foreign tax clearance certificate from SARS typically takes **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 would need to apply for a new foreign tax clearance certificate.

If you want to externalise an amount of rands greater than R10 million, you would need to apply for a “letter of compliance” from SARS and apply for special approval from the SARB. There is no limit on the size of these applications for individuals.

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How long will it take to get a tax clearance certificate from SARS?

Once you have submitted your application to any SARS office, 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.

A foreign tax clearance certificate is valid for a period of 12 months from date of issue.

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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. You can also 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

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Can I use other offshore assets to invest in the Coronation foreign currency denominated investment 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 are funds held offshore in contravention of the exchange control policies.

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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 has not yet expired. If you intend to use the same bank or specialist currency service provider for future transfers, you may ask 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.

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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.

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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).

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Can I borrow funds from another South African resident?

Yes, provided this is not viewed as a scheme or 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.

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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.

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Does capital gains tax (CGT) rather than income tax apply to the gain realised on the sale of a foreign collective investment scheme (CIS)?

To determine whether the units were held as capital assets or trading stock, the seller's intention and the period of ownership is taken into account.

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%). 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 seller's intention and the period of ownership is taken into account. Section 9C of the Income Tax Act No 58 of 1962 contains a 'safe harbour' provision in which the gains from the sale of qualifying shares will be treated as capital in nature, if the owner held the shares for a period of at least three years. However, the units in a foreign CIS do not qualify for such protection and so the 'normal rules' apply relating to the seller's intention and 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.
- a switch between different offshore funds

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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 cost² 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 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. 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.

²Three asset identification methods for determining the base costs 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.

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What are the tax implications of income distributions on an offshore investment fund?

Note that the Coronation foreign currency denominated investment 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 offshore investment funds. An offshore investment fund 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.

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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 that constitutes a redemption of a participatory interest in a foreign investment fund. Any proceeds received from the redemption of an offshore investment fund are therefore not treated as a 'foreign dividend' and will be subject to CGT or income tax (if held for trading purposes).

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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.

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How do I redeem or repatriate my offshore investment?

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).

Note:
if you are a South African resident, you are allowed to hold foreign bank accounts and currency denominated accounts with your local SA banker.



For **enquiries** you can call us on **0800 22 11 77**
or email us at clientservice@coronation.com

For **new applications or transactions** you can email your forms
directly to offshoreinvestments@coronation.co.za or fax us on **086 677 0007**
For more information or to invest online, visit us on www.coronation.com.