



THE POWER  
OF INDEPENDENT ADVICE

## IN THIS ISSUE

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## HOW TO GET THE TAXMAN TO FUND YOUR OFFSHORE INVESTMENT

By Magnus Heystek, Investment Strategist & Director Brenthurst Wealth Management

Your first reaction would be that this is not possible. But it is absolutely true, 100% legal and makes use of existing tax and foreign investment laws in order to get up to R500 000 offshore over a period of 2 years, which the taxman is funding. Isn't this just about as good as it gets?

If done correctly in terms of timing by making judicious use of the tax-year an investor can move approximately R500 000 offshore in less than 13 months.

However, there are (unfortunately) certain terms and conditions, and they are as follows:

- ⇒ **It only applies to taxpayers older than 55**  
(so there are certain advantages to being older than 55 after all!).
- ⇒ **It only applies to taxpayers who have not made use of the current R500 000 tax-free withdrawal from RA's and retirement funds.**
- ⇒ **It is only recommended for taxpayers being taxed at high marginal rates of taxes.**

The scheme is quite simple, but it took some of Brenthurst's best tax and investment brains to come up with the scheme. It has been tested with various investment companies and there are no red flags that have been raised.

The scheme combines the (a) tax relief granted to tax-payers on lump-sum contributions to retirement annuities with (b) the R500 000 lifetime tax-relief members of retirement funds, which includes Retirement Annuities, with a lesser-known (c) withdrawal benefit from existing retirement annuities, currently any amount below R247 500.

**Take for example a taxpayer earning a gross income of R1 million.**

In terms of this scheme he will contribute R247 500 into a single premium RA during the month of February. This will bring his taxable income down to R752 500 which means R101 475 less in taxes.

This money is invested in a cash account (just in case the market goes screaming upwards which, in this case you don't want) in order to ensure that value remains below R247 500. The scheme won't work if the amount is higher than R247 500.

This amount is immediately withdrawn in the first week of March - and remember it is tax-free -and is then sent abroad into your chosen investment vehicle on an investment platform, using your R1m discretionary allowance.

**This is a fantastic investment and tax planning opportunity and we strongly recommend clients of Brenthurst makes use of it, while one still can.**

The only drawback is that there is a considerable amount of paperwork that needs to be done in order to proceed with the strategy. However, all Brenthurst offices will have pre-populated sets of documents that can be filled in all at once.

Brenthurst will be charging an upfront fee of 3% which will take care of all the documents as well as for structuring this option with some of our major investment companies, in order to make the process as smooth as possible.

All investors who wish to participate in this investment this year needs to do so before or on the 22nd of February 2019 in order to make the cut-off date on the 28th of the month.

#### **INVESTORS WILL NEED TO SIGN THE FOLLOWING DOCUMENTS:**

1. Application for single premium RA - up to R247 000.
2. Application to withdraw all the funds first week of March 2019.
3. Application to open a bank account in order to receive funds in order to remit funds offshore (discretionary allowance).
4. Application to open a new offshore investment account or addition form if account already opened.

Alternatively a local investment into offshore assets can also be used to achieve the same goal.

**Please speak to your investment advisor should you wish to discuss this.**



#### **RETIREMENT FUND LUMP SUM BENEFITS OR SEVERANCE BENEFITS**

<b>TAXABLE INCOME</b>	<b>TAX</b>
R0 - R500 000	0% of taxable income
R500 001 - R700 000	18% of taxable income above R500 000
R700 001 - R1 050 000	R36 000 + 27% of taxable income above R700 000
R1 050 001 and above	R130 500 + 36% pf taxable income above R1 050 000

Also consider the first R1 050 000 lump sum on retirement for those clients that can access larger lump sums will be taxed at an effective 12.42% and is an attractive tax rate to pay for HIGH INCOME EARNERS.

The choice of offshore investment depends on the normal risk criteria, but one excellent recommendation is the **NEWLY-LAUNCHED BRENTHURST GLOBAL EQUITY FUND**, which is one of the lowest global equity funds as it only uses low cost ETF's in the construction of the portfolio. There will be no entry fee into this fund for investors.

Click on link to read more: <https://bit.ly/2B7eg3c>

As an alternative for smaller amounts, we will be using the **MI PLAN GLOBAL IP OPPORTUNITY FUND (SA'S BEST EQUITY FUND OVER 5 YEARS) OR THE NEWLY LAUNCHED BRENTHURST WORLDWIDE FLEXIBLE FUND OF FUNDS.**

**Remember, all instructions or investment must be placed before the 23<sup>rd</sup> February 2019 in order to be accepted by the various investment companies.**



## INVESTMENT RECOMMENDATION NO 2: DO THIS IF YOU ARE OVER 55 WITH FUNDS IN A RETIREMENT ANNUITY

Retirement annuities (RA's) have long been a popular investment vehicle for self-employed people to fund a future retirement. The marketers of these products tend to focus on the tax-advantages of contributions into these investments, either regular payments or single-premium contributions just before the end of the tax-year in order to receive the tax relief on employment income. Monies stay invested until at least 55 when one third of the capital value can be withdrawn while the balance is used to purchase an income from a living annuity.

**However, RA's are subject to Regulation 28 of the Pension's Act which prescribes the maximum amount of capital into the various asset classes, including offshore investments.**

Currently funds invested under subject to Reg 28 can only invest a maximum of 30% into offshore funds (with an additional 5% into Africa). However, local equity investments have been growing at substantially lower rates of return than global equity markets, particularly the USA stock market. As we have been pointing out for several years now, investments on the JSE have not produced meaningful returns over the past 5 to 10 years. This has resulted in a major drag of the investment returns to investors in RA's, pension and provident funds.

**In fact (as can be seen from the accompanying graph) investments in RA's (and most other types of pension funds) have not beaten the inflation rate over 1, 3 and 5 years...and soon also 7 years.**

# - NOT BEATEN INFLATION RATE OVER 5 YEARS



We don't expect this to change soon and the under-performance can even get worse as a consequence of the many political and economic headwinds faced by the local market (think EWC, election, political rhetoric and Eskom).

It therefore remains a very strong recommendation to mature your RA's (if over 55), withdraw your one-third in cash and transfer the balance to a living annuity, which is not subject to Reg 28 and you can therefore select funds and asset classes from all over the world.

It is unlikely that your current investment company will advise you to do so. It is not in their interest as any withdrawals mean a reduction in assets and hence fees. They will rather prefer to remain quiet about these options, but it is in your best interest to do this as soon as possible.

## BRENTHURST OFFERS A FULL FOREX SERVICE

Speak to your advisor or contact:

**Suzean Haumann** [suzean@brenthurstwealth.co.za](mailto:suzean@brenthurstwealth.co.za)

**Esmerie Pienaar** [esmerie@brenthurstwealth.co.za](mailto:esmerie@brenthurstwealth.co.za)



+27 (0)21 914 9646

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