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OWN OFFSHORE ASSETS?

CONSIDER AN OFFSHORE TRUST

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This was the advice from Caoilfhionn van der Walt, founder and managing partner of global tax planning firm Regan van Roy, at a tax and trust seminar hosted by Brent Wealth and Brent Consulta in Mauritius.

The seminar was the first hosted by the two Mauritian-based companies in the Brenthurst Wealth Group and also included Sean Peche from Ranmore Fund Management.

The event was well-attended by mostly South African expats who have settled on the west coast of Mauritius, an area very popular amongst expats from all over the world. The increase in the offshore investment allowance to R10m per year, since 1st April 2015, has played a major role in attracting wealthy people to the island.

IN THIS ISSUE

Offshore trusts can play an important role in protecting international wealth, supporting succession planning, and preserving assets across generations. For South Africans with offshore investments, the right trust structure can provide long-term flexibility and peace of mind.

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Many wealthy South Africans have used the increased allowances (R10m plus R1m single discretionary allowance, recently increased to R2m per year) to finance a move to either Grand Baie or Black River on the west coast. These allowances were used to purchase property and/or make offshore investments in global equity portfolios.

But the mistake that is often made is that these assets remain in their global estates and will be taxed on death at a rate of 25% plus an additional 4% executor's fees. The winding up of estates, too, is problematic in SA due to inefficiencies at the Master's Office, and could take two years or longer to wind up.

Owning property in Mauritius in one's personal name is also problematic as the Mauritian civil code overrides any testamentary wishes, instead following guidelines as laid down by family bloodlines. The solution is that offshore assets, both portfolios and property, must be placed in a Mauritian trust as a matter of priority.

Owners of offshore properties, which are often rented out, think that SARS will never find out about these properties. But all this is changing, and within three years' time SARS will have access to data on ALL properties owned by South Africans worldwide, including Mauritius.

This could lead to potential challenging discussions with SARS in the future. Many people also baulk at the deemed high cost of setting up of a trust, but the impact of these costs reduce over time as the portfolio grows in value.

It's not uncommon for investors who started with R10m a decade ago to have values of around R60m-R80m now, provided their funds were invested correctly. Waiting until the portfolio is large enough to justify the costs of a trust causes a much larger capital gains tax event when the capital is eventually transferred into the trust.

WHEN AN OFFSHORE TRUST MAKES SENSE

An offshore trust can be very effective if the objectives are:

- Estate planning and succession
- Asset protection
- Multi-generational wealth
- Privacy
- Flexibility

WHEN A TRUST MAY NOT BE APPROPRIATE

There are many situations where direct ownership is preferable.

For example*:*

- Offshore investments of under R10 million may not justify the ongoing costs.
- An investor with no children or a very simple estate may gain little benefit.
- Investors wanting complete personal control over investments often dislike the restrictions imposed by trustees.
- Trusts involve annual administration, trustee fees, tax compliance and legal costs.

COSTS

An offshore trust typically involves:

- Initial establishment costs that can range from several thousand to tens of thousands of US dollars depending on the jurisdiction and complexity.
- Annual trustee fees.
- Accounting and tax compliance.
- Legal reviews.

For smaller portfolios, these costs can materially reduce investment returns.

A PRACTICAL GUIDE

OFFSHORE ASSETS	TRUST LIKELY?
Under R10 million	Usually not unless there are special family circumstances
R10–30 million	Depends on estate planning objectives
R30–100 million	Often worth considering
Over R100 million	Frequently forms part of the overall wealth structure

This threshold is only a guide. Family circumstances, tax residency, business risks and succession goals are usually more important than portfolio size alone.

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He is the co-founder and director of Brenthurst Wealth, where he oversees investment strategies, research and client communication. Heystek is also a published author, having written several books on investments and retirement planning. His expertise in offshore investing has made him a respected thought leader in the financial industry.

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