Frequently Asked *Questions*

We've curated the following questions and answers to address the process involved as well as basic exchange control and tax consequences of investing in one of our foreign-domiciled offshore funds.

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.

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 **US dollar-denominated and foreign-domiciled funds**, providing access to both developed and emerging markets in a pure equity or multi-asset portfolio.

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 (R1 million single discretionary allowance and R10 million foreign investment 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).

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

Do I need **tax clearance (now called Approval for International Transfer [AIT]) from SARS?**

It depends on how you want to externalise your rands. See table below for more detail.

Single discretionary allowance (up to R1 million per calendar year)	Foreign Investment Allowance (up to R10 million per calendar year)	Amounts greater than R11 million per calendar year
No need to obtain AIT from SARS.	You will need to obtain AIT from SARS.	You will 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.
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.	Obtaining AIT from SARS typically takes 21 working days. AIT 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 AIT.	

How long will it take to obtain tax clearance (AIT) from SARS?

Once you have submitted your application to any SARS office, it typically takes 21 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 an independent specialist currency service provider, or from your accountant or tax adviser who are familiar with these applications and their requirements.

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.

Without special approval	Requires special approval
R11 million per calendar year	>R11 million per calendar year

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

Can I use **other offshore assets** to invest in the Coronation US dollar-denominated and foreign-domiciled 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.

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).

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.

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.

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.

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.

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%). 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

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 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.

** Three 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.*

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

Note that the Coronation US dollar-denominated and foreign-domiciled 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.

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).

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.

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).

If in doubt about investing, it's a good idea to seek independent financial advice.