



INVEST BETTER
with **BRENTHURST**
BUILDING WEALTH SINCE 2004

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Offshore investing structures (direct vs wrapped) significantly affect tax efficiency, estate planning, and administration. Wrapped solutions, such as endowments, simplify tax, reduce liabilities and ease inheritance, while direct investing offers flexibility but greater tax exposure and administrative complexity.

INVESTING WITH SA'S

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WITH OFFSHORE INVESTING THE STRUCTURE MATTERS AS MUCH AS THE EXPOSURE

RUAN BREED | FINANCIAL ADVISOR, BRENTHURST STELLENBOSCH

When we sit down with clients who have built meaningful offshore portfolios, the conversation almost always starts with the same question: Where should I be investing? Which funds, which markets, which currencies?

It's a fair question, but it's not the most important one. The question that tends to have the bigger impact on your wealth is this: how is that investment structured?

Because the vehicle you use to hold offshore assets has a direct bearing on the tax you pay, how your estate is handled when you die, and how much of your wealth actually reaches your family. Getting this wrong is expensive, and it's a mistake we see often.

THE TAX BILL THAT DOESN'T DISAPPEAR WHEN YOU STOP WORKING

A lot of investors assume that once the salary stops, so does the serious tax exposure. It's a reasonable assumption. It's also wrong, and for investors with large portfolios, it can be significantly wrong.



Here's why. If you hold a portion of your wealth in cash or money market investments, which most people with large portfolios do for liquidity reasons, that interest is taxed every year as ordinary income at your marginal rate, whether you're working or not.

At even a modest yield of 5%, a large capital base generates enough interest to push you firmly into the higher tax brackets. For South African tax residents, that means income tax of up to 45% on those returns, year after year.

Then there's capital gains. As your portfolio grows, so does what's referred to as the embedded gain. When you eventually sell or switch investments, that gain is realised and taxed. Under South African tax rules, 40% of your net capital gain is included in your taxable income and taxed at your marginal rate. For individuals, that produces an effective maximum capital gains tax rate of 18%.

HOW THE ENDOWMENT WRAPPER CHANGES THE PICTURE

The endowment is not a new or exotic product. But it's consistently underused by investors who would benefit from it most.

Here's how it works. Most funds inside an endowment are structured as roll-up funds. Instead of paying out interest and dividends to you as income, which would be taxed at up to 45% in your hands, those returns are reinvested back into the fund price. So, what would have been an annual income tax event becomes a deferred capital event, taxed only when you choose to exit.

This does two things. Firstly, it reduces the tax rate on your returns from up to 45% to a maximum effective rate of 12% on capital gains. Secondly, it puts you in control of when the tax bill arrives.

Think of it this way. In a direct offshore account, SARS is a silent partner drawing up to 45 cents from every rand of interest you earn, every single year. Inside the wrapper, that silent partner steps back and waits until you decide to exit.

Inside the endowment, capital gains tax is applied at a flat effective rate of 12%, regardless of the size of the gain. There is no marginal rate creep. No interaction with your other income. No risk of the rate climbing as your portfolio grows.

DIRECT HOLDING VS ENDOWMENT

Feature	Direct offshore holding	Endowment
Tax on interest income	Up to 45% (income tax)	12% effective CGT
Capital gains tax (large gains)	Up to 18% effective	12% effective (capped)
Tax administration	Declared to SARS by investor	Handled within wrapper
Estate planning	Subject to executor & estate duty	Bypasses estate / no executor fees
Income withdrawals (post 5 yrs)	Taxed at marginal rate (up to 45%)	Treated as capital — 12% CGT
Liquidity (after 5 years)	Fully flexible	Fully flexible (open-ended)

THE NUMBERS: CGT ON R5M GAIN - DIRECT VS WRAPPER

Scenario	Portfolio Value	Capital Gain	Tax Payable
Direct holding (18% eff. CGT)	R15 000 000	R5 000 000	R892 000
Endowment (12% eff. CGT)	R15 000 000	R5 000 000	R600 000
Tax saving in favour of wrapper			R292 000

WHAT HAPPENS TO YOUR ESTATE

The tax efficiency is compelling on its own. But the estate planning benefits are where we see some of the most significant savings, and where unstructured offshore holdings can cause the most damage.

Assets held directly offshore, whether shares in foreign companies, foreign unit trusts or foreign bank accounts, may be subject to estate taxes in the country where they are held.

Add foreign probate processes, potential delays and executor fees in the foreign jurisdiction, and the cost of getting this wrong becomes very real.

Assets held within the endowment fall outside your dutiable estate in South Africa. They bypass the executor entirely, which means no executor fees of up to 3.5% of the asset value on those funds. Your nominated beneficiaries receive the proceeds directly, paid in the currency and account of their choice, net of the 12% tax already settled within the policy.

If a beneficiary would rather keep the policy running than take a cash payout, they can take over ownership of the policy. The capital gains tax rolls over, further deferring the liability.

AFTER FIVE YEARS, FULL FLEXIBILITY

It's important to mention that the endowment does have an initial five-year restriction period. This is a standard feature of sinking fund policies under South African insurance legislation, and it limits certain withdrawals during that time.

These might seem like strict restrictions, but for investors with a medium to long-term horizon, they're rarely a practical obstacle.

Once that five-year period has expired, the policy is fully open-ended. You can make regular withdrawals, switch between funds freely, and manage the portfolio as your circumstances change. And those withdrawals are treated as capital in nature, taxed at 12%, not at your marginal income tax rate of up to 45%.



IS THIS RIGHT FOR YOU?

The endowment isn't for everyone. It's specifically designed for investors with a marginal tax rate above 30% and a medium to long-term investment horizon. If that describes your situation, the cost of not using it is measurable, and in many cases, substantial.

As with all investment decisions, your specific circumstances matter. We'd encourage you to get in touch so that we can look at how this structure could enhance your portfolio.



RUAN BREED | FINANCIAL ADVISOR, BRENTHURST STELLENBOSCH



Ruan joined Brenthurst Wealth in 2021 as a Wealth Manager in our Stellenbosch office. He obtained his BCom in Financial Sciences from the University of Pretoria in 2018 and subsequently enrolled with CIMA (Chartered Institute for Management Accountants) as a prospective CGMA candidate. In addition, he completed a Diploma in Investment Management at the University of the Free State.

Before joining Brenthurst, Ruan gained valuable experience in the tax and advisory field at Crowe Tax and Advisory Services in Stellenbosch. Ruan is fully qualified to provide advice on all investment matters.

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CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR NINE OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY.

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