

PRACTICE NOTES

Tax outcomes differ when exiting different offshore investment vehicles

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Key Points:

- The same investment, with the same growth, can end with different tax outcomes.
- Do your homework and minimise any surprises when you dispose of your investment.
- It is important to select the right offshore vehicles and/or combination thereof.

Introduction

Over the past decade, local investors increasingly turned their attention to offshore investments to diversify portfolios and safeguard wealth across the global financial landscape. It is important for investors to know what to look out for when investing offshore, when selecting the type of investment **vehicle** to use and the **tax** implications of redeeming investments.

South Africa follows a residence-based tax system. This means that if you are a South African tax resident you must declare and pay tax on worldwide income. It is imperative for investors to understand how these offshore (discretionary) investments are taxed in South Africa since not all offshore investments are the same and the tax implications can vary between them.

In this article, we briefly highlight the three most common types/vehicles of discretionary offshore investments for individuals and explain how each is treated for tax on redemption of the investment.

A 10-year investment – saving for a long-term goal

Envisage that it is 2015. You invested R1 million offshore when the rand was at R14 to the US dollar, giving you an investment of \$71 429. Your investment was a passive one, tracking the MSCI AC World Index. Fast forward ten years to September 2025. The rand has weakened to R17.29, the MSCI ACWI has achieved an annualised return of 12% and your investment has grown to \$221 805, or R3 835 324 in rand terms. You have done well over the ten years thanks to a combination of market growth and currency depreciation.

But then comes the question that catches many investors unawares, “what about tax when you dispose of your investment?”

Same investment, different tax outcomes

Feeder fund (rand-based investment)

Feeder funds offer South African investors a convenient way to access offshore markets without having to move money abroad themselves. You invest in rands, and the asset manager takes care of converting your investment into foreign currency and allocating it to a larger offshore fund, typically through an asset swap process. This means you gain exposure to offshore assets, while staying within the South African financial system.

FEEDER FUNDS

Base cost	R1 million (your original rand investment)
Current value	R3 835 324 (30 September 2025)
Capital gain	R2 835 324 (R3 835 324 - R1 000 000)
Tax calculation	
- Inclusion rate	40%
- Tax rate	45% (let us assume you are in the 45% tax bracket)
- Effective tax rate	18% (40% x 45%)
Tax payable	R510 358 (R2 835 324 x 18%)

Because your base cost is in rands, the weakening of the rand works against you – inflating both your capital gain and your tax bill.



- All rand-denominated funds are priced in rands, and all reporting, performance and valuations are done in local currency. Further, when realising units, your funds are converted back into rands and paid directly into your South African bank account.
- Contrary to popular belief, investing indirectly offshore is not complicated nor is it expensive. It can be done through any local reputable fund manager platform. The minimum investment amounts are generally lower when it comes to indirect offshore investing, and regular investment contributions can be made via a debit order.
- Investors can also invest offshore on behalf of their minor children via a feeder fund. Only South African resident taxpayers over the age of 18 qualify for the direct offshore option.

Direct offshore investment (dollar-based)

Direct offshore investing means putting your money straight into a foreign currency, such as the US dollar. Unlike feeder funds, investors bypass the rand-based structure and asset swap process. This approach provides full exposure to offshore markets and allows the base cost of your investment to eliminate any currency movements.

DIRECT OFFSHORE INVESTMENT

Base cost	R1 235 007 (\$71 429 × R17.29)
Current value	R3 835 324
Capital gain	R2 600 317 (R3 835 324 - R1 235 007)
Tax calculation	
- Inclusion rate	40%
- Tax rate	45% (again, let us assume you are in the 45% tax bracket)
- Effective tax rate	18% (40% × 45%)
Tax payable	R468 057 (R2 600 317 × 18%)

Because your base cost is converted at the current exchange rate, the rand's depreciation assists you – reducing your capital gain and saving more than R40 000 in tax when compared to the feeder fund.



- South Africans are allowed to transfer up to R1 million offshore per calendar year without having to obtain tax clearance. For investment above R1 million, you are entitled to make use of the R10 million foreign investment allowance.
- **Hard currency exposure.** Investors can keep the investment offshore in hard currency – there is no need to convert into rands when redeeming the investment

Offshore endowment

With an offshore endowment, you again invest directly offshore in hard currency, but through an offshore tax wrapper. This is a specialised investment structure issued by a South African insurer that allows you to invest in a hard currency like the US dollar. You can also use your first R1 million without tax clearance. The main difference is that your tax rate is lower.

OFFSHORE ENDOWMENT	
Base cost	R1 235 007 (\$71 429 × R17,29)
Current value	R3 835 324
Capital gain	R2 600 317 (R3 835 324 - R1 235 007)
Tax calculation	
- Inclusion rate	40%
- Tax rate	30% (a reduced tax rate)
- Effective tax rate	12 (40% × 30%)
Tax payable	R312 038 (R2 600 317 × 12%)

For individual investors, the income from the investment will be taxed at a rate of 30%. With a capital gains tax inclusion rate of 40%, the effective rate of capital gains tax will only be 12% for high income earners that are in the 45% tax bracket.



- This is advantageous for investors who have a **marginal income tax rate of more than 30%**.
- While tax efficiency is important, there are **many other benefits that fall outside the scope of this article**. For instance, the way they protect families and ensure swift inheritance payouts through smart estate planning. If the investor nominates beneficiaries on the policy, the insurer will transfer the policy or pay the benefit directly to the beneficiary and it will not need to be administered by the executor of the deceased estate, meaning they are not subject to executor fees in your estate, saving up to 4.03% (including VAT).
- **Hard currency inheritance**. Beneficiaries can keep the investment offshore in hard currency and continue with the investment in their name. Or they can opt to cash out and receive the proceeds.

Conclusion

The decision as to which investment vehicle/fund to consider when investing offshore is not a simple one. A significant issue to consider when selecting a fund/vehicle is the impact of CGT. The same investment, with the same growth, can result in different tax outcomes depending on how it has been structured. It is therefore important for investors to familiarise themselves with CGT calculations when investing offshore.

Apart from the CGT differences, remember that each of these vehicles has distinct benefits that include the CGT treatment. Hence, investors need to ensure they add CGT implications to the list when making a full comparison across the respective vehicles.

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