**VIEWPOINT**

# The cash conundrum

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## The investor's cash could show little or no growth over time.

Investing offshore can be intimidating, and holding cash in a foreign bank account is often perceived as an easy way to gain offshore exposure. However, it is likely that the investor's money won't grow due to very low interest rates, and on death, it can be complicated and costly to deal with this asset.

Depending on where the bank account is held, offshore probate may apply on the death of the investor. This means that an overseas agent, similar to a South African executor, may have to be appointed to deal with the bank account, which could be a lengthy and expensive process.

Overseas inheritance tax (situs) may also apply, which can be as high as 40%, depending on the country where the account is held. What's more, estate duty may be payable in South Africa as the worldwide assets of a South African resident are subject to this tax. There may be a double taxation agreement between the countries that could provide some relief, but it's still possible that the higher foreign inheritance tax will be applicable.

The foreign bank account will be frozen while the estate is being finalised. This process can be lengthy and the deceased's family and dependents will not be able to access the cash until the estate has been wound up.

Bearing this in mind, a foreign bank account may be useful for those going on an overseas vacation in a few months' time or to meet other short-term offshore funding needs. It is key to obtain financial advice to ensure proper estate planning in respect of all your assets. For those investors who are looking to build up an offshore nest egg over time, there may be other, more efficient investment options to consider.

Our offshore solution, Investec GlobalSelect Access,[1] provides simplified, flexible access to offshore markets. Investors can choose from a wide range of unit trust funds, which include money market and income funds. Because the funds are held in a policy, they offer a host of benefits:

- Investors don't have to worry about personal tax reporting. Investec Assurance Limited (IAL) takes care of all the tax administration by calculating and paying any tax due on behalf of investors.
- No income tax is applicable, only capital gains tax (CGT) when switching funds or selling units. This is because the underlying investments are in roll-up funds, so interest income and dividends are not distributed – investment income is capitalised. What's more, CGT is taxed at a rate of only 12%, versus a maximum effective rate of 18% for investments not wrapped in a policy. So, there may be attractive tax benefits for investors being taxed at a higher marginal rate when investing in a unit trust fund via our offshore policy.

[1] Investec GlobalSelect Access is a sinking fund policy, governed by the Long-Term Insurance Act. A five-year term applies, but investors can access their capital plus 5% growth via a loan and/or a surrender, at any time during this period – without being subject to any penalties. Certain restrictions also apply in respect of the maximum contributions investors may make in a year.

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Investors can nominate a beneficiary who will receive the benefits on their death, thereby avoiding some of the offshore estate costs associated with foreign bank accounts and offshore unit trust funds that are not held in a policy.

There is no need to appoint a foreign agent to deal with this asset if there is a nominated beneficiary, and no offshore inheritance tax[2] nor South African executor fees will be payable. However, estate duty may apply in South Africa.

On the death of the investor, the proceeds of the policy will be exempt from CGT, if the policy is transferred to the nominated beneficiary.

After transfer, the beneficiary will have immediate access to the investment and no investment term will apply.

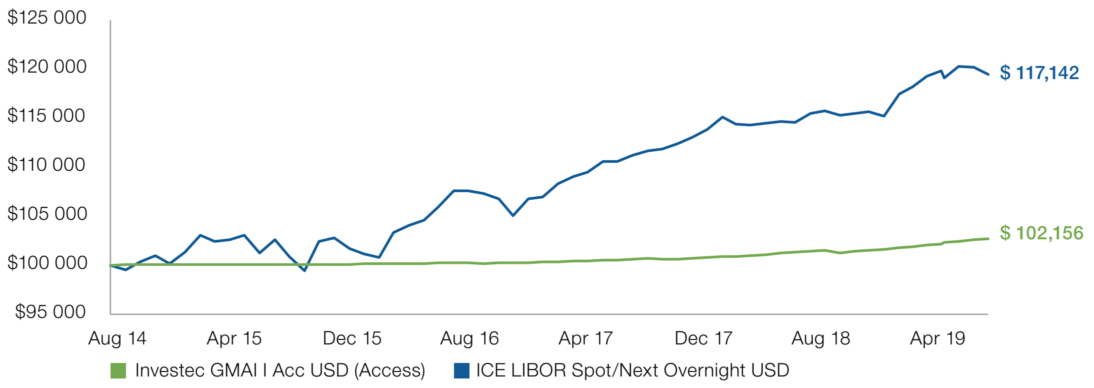
## Choosing a suitable fund

As mentioned earlier, foreign cash may be prudent for some investors as a short-term parking facility. But it is all too common for investors to have ‘lazy’ money in a foreign bank account for an unspecified period. Holding foreign cash rather than a diversified basket of assets can be risky, as investors are purely exposed to the exchange rate, which can be volatile.[3]

Longer-term investors who seek an alternative to foreign cash, could consider accessing a low equity multi-asset fund, such as the Investec Global Multi-Asset Income Fund (the Fund), via our offshore policy. The Fund, which aims to produce attractive income with capital growth over the long term, invests in a mix of global fixed income assets and equities. Equity exposure is no more than 40% of the value of the Fund. Investors can invest directly into the Fund’s dealing currency (US dollar).[4] Let’s look at an example, as illustrated in the chart below.

Figure 1: Investec Global Multi-Asset Income Fund

Comparison with offshore cash and the benefit of a roll-up fund via GlobalSelect Access




Past performance is not a reliable indicator of future results, losses may be made.
Source: Investec Asset Management, 31.08.19. Performance is net of fees (NAV based, including ongoing charges, excluding initial charges), gross income reinvested, in USD. If the share class currency differs from the investor’s home currency, returns may increase or decrease as a result of currency fluctuations. Inception date of share class 28.11.13. Prior to 31.05.13, the Fund was called Global Defensive Bond and was managed to a different investment objective. Highest and lowest returns achieved during a rolling 12-month period since inception: Aug-14: 9.5% and Feb-16: -2.2%. Higher rate tax payer. 70% of return of GMAI income class assumed to be of an income nature and taxed accordingly. Full disposal assumed at end of term

[2]No foreign inheritance tax will be payable on the death of a South African resident investor. The investor is not the owner of the underlying assets, but owns a policy issued by IAL acting through its Guernsey branch. Currently, no inheritance tax is payable in Guernsey.
[3]Our article, Consider your portfolio holistically, covers this topic in more detail, available at www.investecassetmanagement.com/offshore investing-insights.
[4]The dealing/base currency that will be applicable (US dollar, pound or euro) will depend on which GlobalSelect fund an investor chooses.

The green line at the bottom of the chart represents offshore cash (US dollars). It shows that $100 000 invested in US dollar cash five years ago, would have left an investor with pretty much the same amount of cash after this period – a case of a return of capital, rather than a return on capital.

Of course, an investor would have had to assume some risk, to earn the more attractive return that the Investec Global Multi-Asset Income Fund achieved over this period. Figure 1 further illustrates the benefits of investing in a unit trust fund via Investec GlobalSelect Access. As the unit trust funds available via our offshore policy are roll-up funds, no income tax is applicable, only CGT, which is taxed at an effective rate of 12%. Individuals who do not make use of a policy wrapper, are subject to a maximum effective CGT rate of 18%. So, there are clear tax benefits to invest in a unit trust fund via our Investec GlobalSelect offshore policy.

## Conclusion

Investors need to carefully consider the investment vehicle they choose when investing offshore. While opening a foreign bank account may seem like the simplest way to move money offshore, the investor's estate could face double taxation and will be subject to executor fees in South Africa. The process will likely be drawn out and costly as a foreign agent may need to deal with the offshore bank account.

Besides these constraints, the investor's cash could see little or no growth over time. Investing offshore via Investec GlobalSelect Access, provides investors with a range of funds to match their risk profile and needs. What's more, no income tax is payable, and CGT is at a reduced rate of 12% (versus a maximum effective rate of 18% when individuals invest directly). So, the benefit of using a policy wrapper and choosing a suitable fund, can translate into better outcomes for investors.

Investors need to carefully consider the investment vehicle they choose when investing offshore.

Estate planning benefits are another key feature of investing via Investec GlobalSelect Access. There is no need to appoint a foreign agent to wind up the foreign assets (if a beneficiary has been appointed), and no foreign inheritance tax nor executor fees apply. Completing the required paper work is relatively simple. Once we have received the relevant documents from the beneficiary and transferred the policy into their name, the investment becomes fully liquid and accessible.

For more information on how Investec GlobalSelect Access works, please visit our website, www.investecassetmanagement.com. Investors should speak to their financial advisors who can help them make an informed choice.

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