Sars will tax you on overseas investments, but you can mitigate its impact

By Harry Scherzer

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As any South African investment advisor worth their salt will tell you, everyone should hold at least a portion of their portfolio offshore.

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That's because a combination of factors – including a weak rand, low economic growth, and underperformance from the JSE – have meant that anyone investing solely in South Africa isn't getting the returns they should be.

In fact, according to a 2022 investment note from Allan Gray, investors would have been worse off by eight percent a year if they'd invested exclusively in South African equities than if they'd invested entirely offshore.

Of course, there are several other reasons why you should hold some of your portfolio offshore. These include diversification, access to unique investment opportunities, and the greater stability offered in some markets. No matter what reasons you have for investing offshore, however, it's important to remember that you will be taxed on any returns you make.

Dividends received by shareholders in foreign companies, for instance, are taxable at a maximum effective rate of 20%.

But South Africans also have to pay tax on foreign interest, interest from Real Estate Investment Trusts (REITs), and capital gains.

While you can't avoid those taxes, you can at least mitigate their impact both when you send money offshore for investment purposes and when you bring your returns back into the country.

Banks hinder DIY approach to investing

That's particularly true for the growing number of investors who prefer to look after their investment choices rather than relying on institutional investment houses. Several South African banks, for example, now allow their customers to set up UK bank accounts. Money can then be disbursed from those accounts to offshore investment products of their choosing. Others may have taken the time to set up an offshore account while visiting a foreign country for the same purposes.

While the growing ease with which people can take a DIY approach to offshore investing is undoubtedly a good thing, there are still obstacles that must be overcome. Ironically, some of the biggest of those obstacles come from the self-same banks, whose offerings purport to make it easier to move money internationally.

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Anyone who's ever tried to move significant amounts of money (a necessity when investing offshore) between different countries will tell you that it can be a massive headache. That's especially true if you struggle to navigate the complexities of a bank's forex offering through its website or app and have to turn to its contact centre for help. Something that should be quick and easy can stretch into hours, days, or even weeks.

Perhaps even more pernicious, however, is that most banks display a profound lack of transparency when it comes to the fees they charge for such transactions. In the most extreme cases, this means an investor will end up with a lot less money to invest on the other side, as well as reduced returns when they draw from their investments.

A more pleasant, transparent alternative

This lack of transparency ultimately means that, unlike with taxes, investors can't plan for the fees they'll be charged on each transaction. But it doesn't have to be that way. By working with a forex provider that prioritises customer service and transparency, investors can save themselves a lot of hassle when it comes to forex transactions. This holds particularly true if they can find a partner that provides a dedicated account manager, a specialist who will seamlessly manage the entire process on their behalf and ensure they never have to deal with a call centre again.

Even more importantly, however, they can make the transactions necessary for their investments at a lower cost than if they went through their bank, while also receiving complimentary regulatory assistance. With the prevailing investing challenges in South Africa, these small differences can be incredibly important.

ABOUT HARRY SCHERZER

Harry Scherzer is the chief executive officer of Future Forex.
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