Using endowments when investing offshore

MARTIENS BARNARD
Marketing Actuary,
Momentum Investments

When investing directly offshore in hard currency, i.e. after converting rand to foreign currency, financial advisers generally have two options to consider on an offshore investment platform: a pure offshore investment or an offshore endowment.

For local investments, clients could benefit from using endowments as part of their personal financial plans, especially high-income earners. These clients could pay up to 45% tax on interest earned on their local investments, and capital gains tax of up to an effective rate of 18%. When using an endowment, these rates effectively reduce to 30% and 12%. In both instances, dividend withholding tax of 20% applies.

Here, the potential tax benefit is often weighed against the restrictions that apply to an endowment. An endowment has a prescribed minimum term of five years. During any restriction period, a client can make one loan and one withdrawal. Any withdrawal is limited to a maximum of contributions plus 5%.

When it comes to offshore investments, there is more to this choice than merely considering the tax efficiency of an endowment and the restrictions prescribed by legislation. Certain international endowments consist of multiple underlying policies, which means that clients have increased access to their money.

Offshore endowments have many benefits that are not as well known, although some of these benefits also apply to local endowments. Generally, an endowment can have the following role players: the investment owner (policyholder), the insured life or insured lives, and the beneficiaries. A beneficiary can be a beneficiary for proceeds and/or a beneficiary for ownership.

Depending on how the endowment is structured with regards to different combinations of role players, the endowment and its proceeds are treated differently in the event of death of the investment owner or the last insured life (if applicable). The endowment can be structured in such a way that it follows the intent of the client. For example, who the ultimate owner should be or who should benefit from the proceeds. An endowment can also hold estate planning benefits; for example, a potential saving on executor fees and, in some instances, even on estate duty and capital gains tax.

The most compelling reason for using an offshore endowment is probably when it comes to situs tax and probate.

In short, situs tax is a type of tax equivalent to South African estate duty. Probate is a procedure where a legal authority approves a will as the valid and last will of a deceased testator. The probate process can be expensive, complex and time-consuming, which means that the winding up of a South African deceased estate could be delayed.

Situs tax and probate can be avoided by using an optimally structured offshore endowment.

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Another benefit of an endowment is that the legislation provides protection in the event of the insolvency of the investment owner's estate when an insured life has been added (for example, on the Momentum International Endowment Option: Life insurance bond). Note that there are various requirements that must be met for this to be true; for example, the policy must have been in force for at least three years.

The most effective way to invest in an offshore endowment is to use the services of a reputable and established offshore investment platform.

We have more than two decades of direct offshore platform experience. Our offshore investment platform, Momentum Wealth International, was established in Guernsey in 1999. Guernsey was our jurisdiction of choice as it offered an efficient regulatory and fiscal framework, together with investor protection policies. Based on our criteria at the time, we considered Guernsey the safest financial services centre.

The Momentum International Endowment Option (offshore endowment) is available as the Life insurance bond or the Capital redemption bond, a sinking fund without insured lives. This offers various structuring options for financial advisers to make sure that, on death, the transfer of ownership or payment of the proceeds can be handled according to the client's wishes.

We believe that our comprehensive range of products, investment funds and other investment components places us at the forefront of international investment solutions to cater for every client's offshore investing needs.

Your client's offshore investment isn't just another investment. It's unique and personal to them. We can help you with the offshore investment solutions your clients need to help them achieve their goals.