BRENTHURST GLOBAL WEALTH

INVEST BETTER with BRENTHURST

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In 2025, the US Department of Commerce imposed tariffs of up to 50% on South African automotive, steel, aluminium, and agricultural exports, including a 30% country-specific duty as from 8 August. Mauritius Freeport and their 3% export tax regime now provide a compliant, efficient route for South African exporters to protect margins and maintain global market access.

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THE ULTIMATE ESTATE PLANNING TOOL A MAURITIAN TRUST

MAGNUS HEYSTEK | INVESTMENT STRATEGIST & DIRECTOR, BRENTHURST

Over the past decade, ever since Treasury allowed a far greater offshore investment allowance (from 1st April 2015), an estimated R1,5 trillion has legally left the country for investment in offshore equities, properties or simply in hard currency bank accounts.

In the 2015 budget it was announced that SA investors can remit R1m annually as a single discretionary allowance, with a further R10m per year per investor, should certain tax requirements be met. This meant that a compliant family could move as much as R22m per year (and in some cases more) to the investment destination of their choice.

This radical change in Treasury regulations – totally unexpected at the time – has had a profound effect on financial markets in South Africa since then, with most local asset management companies totally unprepared for the massive outflow of capital from local to offshore markets.

Most large asset managers have experienced a decade of massive outflow from local discretionary funds into the hands of global investment giants such as Franklin Templeton, Vanguard, Black Rock and Orbis.

Very few were prepared for this torrent of capital leaving our shores and it was only Allan Gray (Orbis) and Ninety-One (Investec Asset Management, at the time) who could offer offshore products to their SA client base. The rest of the industry – with the help of certain myopic media commentators – gamely tried to make a case for "local is lekker" and branding offshore investments as "unpatriotic and disloyal".

MASSIVE INCREASE IN GLOBAL WEALTH

I was a strong proponent for offshore investments and at Brenthurst we persuaded a very large percentage of our clients to make use of this increased allowance, which many fortunately did. The difference in investment returns over 10 and even 15 years is truly amazing.

At the time, the JSE's performance was under pressure from the effects of state capture and the damage being inflicted by former president Jacob Zuma. The rand too was under pressure as foreign investors withdrew large amounts of capital from SA bond and equity markets.

At the same time, US markets were already showing signs of "American Exceptionalism", driven by the performance of the Magnificent Seven – companies such as Amazon, Apple, Netflix, Google and many others.

Early investors who took R10m offshore in 2015 and invested in fast-growing sectors, could easily be sitting with amounts in excess of R100m. Returns of the US Nasdaq and S&P500 have been double and even treble that of the local market, over the same time.

Others used the allowance when the rand was trading at around R12 to the USD to acquire global property, either in Spain, Portugal or Mauritius, and they too have seen very nice increases in value over time.

GLOBAL WEALTH NOT WELL PROTECTED

Now here's the problem. Such was the rush to get the money offshore lest the allowances be withdrawn, as many left-leaning politicians threatened during election times, that very little thought was applied to the nature of the offshore structures holding this wealth.

Ideally, any large amount of money should first have been placed in a trust and then invested. Almost all the offshore investment platforms – MWI, Glacier, Old Mutual and Alan Gray – offered the same structures for SA investors who were investing their assets offshore. These investments were mainly placed in (a) individual investment accounts, (b) endowments and (c) sinking funds and/or share portfolios, as far as listed investments were concerned.

None of them offered trusts as an option. Properties too, were mostly registered in personal names or joint names if allowed in specific countries. Great as these investments were, they were still in the estate of the original investor and would firmly land in the punitive tax net awaiting death or even divorce.

STILL TIME TO FIX THE PROBLEM

Today, 10 years later and with the value of those offshore assets increasing beyond belief, in many cases, this has created a problem that needs urgent attention. All those offshore assets are still in personal names and will be dealt with in terms of SA tax laws, which includes punitive taxes such as estate duties and other taxes that come into play when assets are redistributed to a spouse, children and even grandchildren.

It is not uncommon for estates to change ownership two to three times in a short space of time, every time incurring capital gains taxes (CGT), estate duties and executor's fees which, over time, reduces the originally large estate to a much smaller estate.

I, personally, have dealt with cases where first the original investor dies, soon thereafter the spouse dies and not long thereafter one of the children dies. At each death, CGT, estate duty and executor's fees rapidly diminishes the remaining wealth. Don't let that happen to your estate.

In addition, as a result of enormous delays at the various Master's offices countrywide, due to incompetence or just total indifference, estates could take anything up to 2-3 years to wind up, often causing major problems for heirs awaiting their inheritances.

All of this can be solved upfront by the creation of a trust in one of the many reputable jurisdictions, such as Guernsey, Gibraltar or Mauritius.

Mauritius has, in recent years, made enormous strides in the offering of global financial services, and the industry is very strictly controlled by the Financial Services Commission (FSC) on the island.

BRENT CONSULTA

Several years ago, it became clear that Brenthurst needed to set up or acquire its own trust company in Mauritius, where we already had an asset management licence (Brent Wealth) which offered global advisory services to our non-SA and ex-SA clients. After several years of negotiating, we managed to purchase an existing trust company, renaming it Brent Consulta. Brent Consulta now has a staff compliment of 14 people operating from offices in Grand Baie and Black River in Mauritius and Stellenbosch in South Africa.

STRONG RECOMMENDATION

I am, now, a very strong advocate of setting up an offshore trust in Mauritius as soon as capital is exported from SA, for investment in either global-listed assets or property, either in Mauritius or anywhere else in the world. The longer the delay, the greater the cost to rectify the initial error. The set-up cost – ranging from $2 500 to $4 000 – is often a very small price to pay, when measured against the tax savings over the lifetime of the investment, which often is measured in decades rather than years.

This is particularly imperative for SA investors taking fresh money offshore, as there is no capital gains tax to consider when money is converted from a personal name to the name of the trust. However, SA tax laws require that such a transfer of money be deemed a loan, and that a certain interest rate must be charged annually to service the loan.

This is where specialised tax planning can reduce the cost of the loan (and the interest charged) substantially.

So, my advice when you start taking money offshore, especially if you think you will be moving large amounts offshore every year, is to first set up the trust and then do all the investments via the trust thereafter. This ensures inter-generational wealth protection, out of the hands of certain greedy politicians who are often threatening a raid on the so-called "wealthy".

Estate duty for estates larger than R30m is already 25% and is bound to move higher over time, as the Treasury gets more desperate for money. Setting up a trust requires specialised tax and estate duty knowledge and experience, as each trust differs.

Brenthurst has a team of estate-planning and tax experts to assist investors in the setting up of an appropriate trust which caters to their specific requirements. Over the past ten years, I have advocated an investment strategy for putting as large a distance as possible between your investments and the rapacious policies of the ANC: offshore, as far as global equity is concerned, and the Western Cape, if you wanted to invest in residential and commercial property. This simple strategy has been very successful indeed.

A Mauritian trust is the best way possible to protect your family's wealth from the ANC.

Speak to any one of Brenthurst Wealth's offices in South Africa to discuss setting up a trust, or write to invest@brenthurstwealth.co.za for us to set up a Teams appointment with one of our trust specialists in Mauritius via info@brentconsulta.mu.

One day your children and grandchildren will thank you for that.

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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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