Money

Dubai in the UAE is a popular offshore investment destination

Searching the shores for **tax havens**

Investing offshore is not always a dirty business nor is it as tricky as some make it out to be. It can be above board, just as long as you identify the right offshore tax havens to invest in and put the right investment vehicle in place.

The main attraction drawing investors to tax havens are the better tax rates, often going at minimal rates, at no fee or next to nothing, all in a bid to encourage building wealth from foreign investment.

Now with exchange controls relaxed, what are some of the places where wealthy South Africans can invest their cash offshore?

Head of investments and financial planner at Gradidge-Mahura Investments, Craig Gradidge, says Switzerland used to be considered a tax haven for the mega rich, but nowadays popular offshore investment destinations include Guernsey, Jersey, the Isle of Man and Bermuda. There are also an increasing number of investors looking to invest in the east in countries like Singapore, the UAE (Dubai) and Hong Kong.

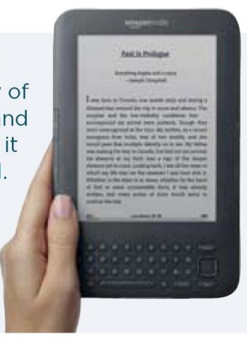
People looking to emigrate overseas, travel or wish for their children to live and study overseas can benefit from investing in hard currencies such as the dollar, pound or euro.

There's a R1m discretionary allowance for South African residents annually that can be used for travelling, study allowance, foreign capital allowance, among others, while those SA residents looking to invest abroad, are allowed a R4m investment a year.

But they would need to get tax clear-

BEGINNING OF THE END FOR BOOKSELLERS?

We all know that it's a digital world now and that many of the familiar objects in our households – such as books and photographs – are going the way of the dinosaurs. Yet it appears to be happening faster than many expected. In the realm of bookselling, for example, e-books are threatening to obliterate even the most established of book retailers. US giant Barnes & Noble, for example, announced that it expects to close as many as a third of its retail stores over the next decade.



Mitchell Klipper, CEO of Barnes & Noble's retail group, indicated that in 10 years' time the group will have a miserly 450 to 500 stores. Currently, the company operates 689 retail stores and a separate chain of 674 college stores. Will there be any need for booksellers in 10 to 20 years? The numbers suggest that perhaps there won't be. According to market researcher Nielsen BookScan, unit sales of print books dropped 9% in the US last year and they are down 22% from 2007, when digital books started taking off.

ance from the South African Revenue Service (SARS), which can be quite an administrative process.

Financial planner at The Financial Coach, Gregg Sneddon, says the advantage with investing in these tax havens is that the world becomes much bigger and your investment gets exposed to great international companies.

Gradidge says the strategy is to determine the cash-flow requirements from an investment in determining how much to invest offshore. But he says empirical evidence suggests that investing between 20% and 30% of an investment portfolio offshore leads to optimal results over time.

When it comes to offshore investing, says Gradidge, investors can consider direct offshore investments or asset swap funds, where investments are made in rand and converted to offshore assets in the fund, and the investor takes out the rand when they disinvest.

He says tax havens are coming under review post 2008, mainly due to governments looking for extra income.

Sneddon cautions investors to entrust their money to reputable asset management companies listed on the Financial Services Board website.

Some reputable asset management companies Gradidge says his company uses on the offshore side are Allan Gray, Investec, Foord, Coronation, primarily for their asset allocation capability and track records.

Some of the investment companies on the top of Sneddon's list are Ashburton Asset Management Service, Prudential M&G, followed by Coronation, Allan Gray and Investec.

The Cape Town-based financial planner says investing offshore via such reputable companies will not only diversify their investments, but the fees are reasonable too.

"You don't want to play with the high flyers, start with a balanced fund as a building block and then specialise. Don't jump out of one (tiny) emerging market and then solely into more emerging markets. We prefer to make use of unit trusts or ETFs as you can get into most of them at no initial fees," says Sneddon.

Gradidge says when you put your money in offshore investments have an expectation to invest for the long term.

"Give it time to grow. One should expect to be invested for a minimum of three to five years as these are classified as risky assets," says Gradidge.

Sneddon says investors should avoid using endowment funds mainly because they are too expensive. He gives an alternative: "For a start, invest in a balanced fund offshore because it's diversified. Many diversified funds have a good trade-off between risk and return."

Gradidge says when it comes to investing offshore, local advisers should not be making asset class, domicile or currency calls.

He says: "As financial advisers our role is to ensure that clients are adequately and properly diversified in order to achieve their investment objectives.

"We choose risk profiled multi-asset class funds and rather leave it to the asset manager to make these decisions. We monitor the funds to ensure that managers are not deviating from mandate or taking unnecessary risks."

Statistics released by the Association of Savings and Investments of South Africa (ASISA) show that unit trust investors in South Africa have between 5% and 10% of assets in offshore domiciled funds. But Gradidge is of the opinion that this number should be a lot higher.

Sneddon says it's a great time to be diversifying offshore, especially in developed markets that are still offering reasonable value, with many of the companies in these markets also deriving a significant portion of their earnings from developing markets.

But on the cautionary side, Sneddon says not to invest offshore if you're looking to see returns in the short term stating that with some investments, depending on the strength or weakness of the local currency, you'd have to wait at least 10 years before your investments make some good returns.

"If you need to draw an income from your investments, don't go 100% offshore because if the rand strengthens and markets are weak you could end up with a double negative," advises Sneddon.

Gradidge says investors can invest directly offshore with a minimum of £20 000 or $30 000.

"This makes direct offshore investing still the domain of the wealthy, and the middle class. Prudent diversification strategies would have between 20% and 30% offshore. So at $30 000 an investor should have investable assets of at least R1.5m in total," he says.

This suggests that an investor with a couple of hundred thousand rand to invest should rather invest within the country in which he resides.

"If an investor is living in South Africa, his liabilities and assets should largely be South African based," says Gradidge.

He advises: "The best advice would be for such an investor to put the money in a balanced portfolio with offshore exposure."

Concluding, Gradidge says that people should by all means invest offshore, but suggests the reasoning behind it should be sound.

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