Transcript:

Private Enterprise Conversation Series

Exiting South Africa and Mobility Opportunities

March 2021

Introduction

Mel:

A warm hello to all our listeners today. I am Melissa Duffy, a tax partner at KPMG in Johannesburg and I specialise in the cross-border movements of persons and/or their capital from a tax perspective, individuals' tax, employees' tax, exchange control for natural persons, family offices and private clients. Today, I am joined by Amanda who will explain what mobility opportunities are available for those looking for portability.

Amanda:

Thank you very much Mel, it is a pleasure to join you. I am Amanda Smit, Managing Partner at Henley & Partners South Africa based in Cape Town and I specialise in advising individuals and their families with obtaining alternative residence or citizenship.

Discussion about emigration

Mel:

Thanks Amanda – what do Henley and Partners do?

Amanda:

For more than 20 years, Henley & Partners has been the global leader in residence and citizenship planning. We specialize in advising high net worth individuals and their families with gaining residence and/or citizenship by assisting them to complete qualifying investments in their country of choice. We also have a thriving government advisory practice, in which we advise countries on assignments ranging from strategic consulting to assistance in the design and implementation of investment-related immigration programs. Each year, hundreds of wealthy individuals, families and their advisors rely on our expertise and experience in this area. Our highly qualified professionals work together as one team in over 30 offices worldwide.

Mel:

Thanks and do you have offices in South Africa?

Amanda:

In South Africa we have an office in Cape Town, Johannesburg and Durban. The concept of residence and citizenship planning was created by Henley & Partners in the 1990s and as globalization has expanded, residence and citizenship have become topics of significant interest among an increasing number of internationally mobile entrepreneurs and investors.

Mel:

That sounds very interesting and impressive– esp the part of the government advisory practice. What is a Citizen by Investment programme and what are the amounts involved?

Amanda:

The term 'citizenship-by-investment' describes the policies of countries in which foreign persons may gain citizenship through significant capital contributions to the country. Several countries have programs in place to attract foreign high-net-worth individuals into the country in return for citizenship. The intention is to build a long-term affinity between countries and highly successful people. The investment amount vary significantly depending on the country in which a person is investing and can range anything from USD 100,000 to EUR 8million.

Mel:

Thank you Amanda. Based on Henley and Partners' experience, what are the drivers (in your view) for persons looking for mobility opportunities?

Amanda:

There are a number of reasons why people seek alternative citizenship which includes:

- visa waivers, to opens travel to countries previously restricted by time-consuming visa application processes;
- the freedom to retire in a safe country without worrying about changing immigration laws;
- independence with the ability to travel or have the option to relocate at any time;

- Freedom of movement when other nationals are exposed to physical or financial threats
- Increased privacy in banking and improved physical security;
- Tax Planning - Citizenship is one of the tie-breaker rules in most double tax treaties
- Expatriation - Becoming a citizen of a country with more favourable conditions
- Security - Guarantees the right to a permanent alternative destination to reside in

Mel:

You are correct in that tax planning is a driver and KPMG has a great deal of experience this regard. But tax planning cannot be the sole reason for a move. I am quite intrigued by this topic. Are there particular countries which are more popular as a destination than others? Why is that the case?

Amanda:

Our clients invest in a variety of countries, based on their and their family's specific needs. Our approach is through consulting with each client to understand their objectives and their family structure. Within the scope of investment migrations programs, there are basically two categories, one where actual immigration is necessary, i.e. a person is required to spend a significant time in the country once they have obtained their residence status in order to naturalise as a citizen and then on the other hand there are a variety of programs where no or very little physical stay is required in the country – therefore providing a Plan B. For our South African clients we do have specific popular destinations, one being Portugal which provides client the right of establishment in Portugal through investing in property and a route to be eligible to apply for EU citizenship after 5 years. Then there are many South Africans investing in Malta or Montenegro, both which can be obtained through investing in property with a route to obtaining EU citizenship. Of course when it comes to immigration programs, Australia, New Zealand, Canada and the UK have always been popular destinations, specifically for South Africans. There are also a large number of clients investing in the Caribbean to obtain a Plan B and a very strong passport which affords the holders increased mobility.

Mel:

What are the things (the things we forget to consider) that potential emigrants need to consider before a move to a new location outside of South Africa?

Amanda:

Tax and exchange control are high on the list of things that clients forget. Mel – this is your area. What are the pertinent things to know about tax and exchange control?

Mel:

On the basis that the persons relocating are tax residents of South Africa and to the extent that they cease to be tax residents of South Africa (and there are predominantly two ways to do this), an exit tax may be applicable. The exit tax is a tax which has to be determined upon ceasing to be a tax resident of South Africa. In South Africa, the exit tax is a capital gains tax levy on the deemed disposal of worldwide assets. So the disposal is fictitious – you don't actually sell these assets - but the tax impact to the taxpayer's pocket is real. The exit tax is determined by offsetting the base costs (the original costs) against the market values of qualifying assets for this calculation. If you are subject to income tax in the highest tax bracket of 45%, then your effective capital gains tax rate is 18%.

The other thing to remember is that emigration is that the word is used for a multitude of references. Just because you emigrate (physically move to a new location) does not mean that you emigrated as per the newly defined SARS process. We recommend that persons looking to exit South Africa, consider both the tax and exchange control implications.

I would also recommend that the wills of the emigrants be updated. Also, to the extent that there are trust structures (both local and offshore), clarity and professional advice should be sought as to whether or not and how emigration to a new location impacts the founders and beneficiaries from a tax perspective.

Amanda:

Seems like there's a great deal to cover.

Mel:

Indeed. I understand that Henley and Partners offer a full concierge service – can you please tell me more?

Amanda:

Yes we provide a fully integrated service from A-Z on any available investment migration program from the inception of the application until the successful issuance of their residence or citizenship. Meaning that we not only process the entire application through our local office and our office in the destination country and the government, but if there is a real estate component attached to a program, we also assist clients in the acquisition of the property but also the management and rental thereof. Whenever clients are required to travel to a country to initiate a program, our local office in that country will collect them from the airport, accompany them to property viewings, assist in bank account openings and accompany them to any associated meetings.

Mel:

This has been so insightful. Thank you Amanda. May we share your email address in case any-one wants to reach out?

Amanda:

It's been good to connect today Mel…you certainly can, my email address is amanda.smit@henleyglobal.com

Thanks to you our listeners for your time and attention. Should you have any queries, please do not hesitate to contact Henley and Partners or KPMG. Stay safe and take good care.