The Kruger family

The Kruger family wants to emigrate. The husband, Frank, has been working in Australia for a few months of the year on projects for the international company he is working for. Frank and his wife, Elly, have decided they will only emigrate once their son, Matthew, has completed school.

Frank decides to convert part of his discretionary offshore allowance every year, when his situation permits it, until such time that they will emigrate officially. He wants to invest this money so that he will have enough for a deposit on a house in Australia in a few years’ time. As such, he would like to ensure that the investment keeps its value in Australian dollar terms.

Frank is a high net-worth individual and has specific requirements for his estate.

Frank’s need is a medium- to long-term direct offshore investment.

Frank wants exposure to an Australian-domiciled fund that invests mostly in Australia and a mixture of suitable asset classes. He is willing to go through the currency exchange process. Even though he will convert his money to for instance US dollar to make the payment to Momentum Wealth International (MWI), he can still invest in a fund denominated in Australian dollar.

Case study 3

The choice

The MWI platform using the International Endowment Option (IEO) with a foreign-priced component (Australian dollar).

Why does he choose the above?

Frank wants his eventual payout to be in a foreign currency. He doesn’t want to go through the foreign exchange proses again with the full investment amount when he emigrates.

To do this Frank can invest his foreign currency into:

- the Momentum Wealth local platform using the FIO or
- the Momentum Wealth International platform using either:
  - the International Investment Option (IIO);
  - the International Endowment Option (IEO) (capital redemption bond) or
  - the IEO (life insurance bond).

He chooses the MWI platform using the IEO (life insurance bond). By using this offshore endowment, Frank’s investment is taxed under the five-funds approach. The tax rates applied on income and capital gains under this approach are lower than the rates that Frank (being a high net-worth individual) would have paid in his own capacity. The IEO also offers sufficient liquidity due to the number of underlying policies being issued within the IEO. The IEO simplifies his tax affairs and it ticks the boxes when looking at the fiduciary considerations, covered below.

Frank hasn’t yet emigrated. If he had already been an Australian resident, he could be paying tax within the IEO (five-funds approach in South Africa) and then again on the proceeds of the policy in Australia. In this instance, he would probably have selected the IIO. The IIO doesn’t pay tax to any tax authority but provides tax statements that the investor can use to report to any tax authority that he or she may be obliged to.
What happens if Frank dies before he has emigrated?

The IEO offers the option to add multiple insured people and multiple investment owners. The investment would therefore remain in force with his wife as the owner. The IEO will be a deemed asset in his estate.

As this is an endowment, there are no situs tax implications and grant of probate is avoided due to for instance the multiple contract owners.

Grant of probate can also be avoided, eg by appointing beneficiaries for proceeds.

Offshore wills

By the time Frank starts to buy that house in Queensland, he will have to consider an offshore will. To understand what he is in for, he should get advice from experts in the jurisdiction where the house is.

When he dies, the IEO can be transferred directly (due to a number of product features like the joint and survivorship option, successor investment owners and beneficiaries for proceeds). He has to consider these features for his offshore will. It may also be to the family’s advantage to enable wealth transfer and asset protection.

Offshore trusts

Offshore trusts are more complicated and also a matter of personal preference. The benefits need to be weighed up against the costs of administering the structure and the additional complexity from a tax perspective. An offshore fiduciary specialist should ideally be consulted to give advice on the structure.

(Please refer to the addendum.)