Could South Africa's new, tighter exchange control rules end up backfiring?

By Harry Scherzer

9 Aug 2023

In April this year, the South African Revenue Service (Sars) announced strict new administrative regulations for South Africans wishing to take their money offshore. The changes came almost overnight, taking the financial sector by surprise and leading some to call it regulation by stealth.

Source: Pexels

Under the new regulations, the administrative requirements for emigrating for tax purposes and investing money offshore have been replaced by a new dynamic application called ‘Approval International Transfer (AIT)’. According to Sars, the AIT is meant to strengthen legislative alignment with the SA Reserve Bank (Sarb), particularly when it comes to emigration.

While the regulations may be well-intentioned and designed to help prevent South Africa from falling further afoul of traditional regulators, there’s also a good chance they could backfire. Some have even gone so far as to argue that they could ultimately result in Sars collecting less tax revenue.

Understanding the change

Before looking at how the AIT regulations might backfire, it’s worth taking a deeper look into what they’re replacing.

Previously, someone wanting to move money offshore for emigration purposes had to obtain an emigration-specific Tax Compliance Status (TCS) Pin from Sars. Those moving money across for investment purposes, meanwhile, needed to obtain a “Foreign Investment Allowance” (FIA) TCS Pin.

With this pin, individuals were able to take up to R10m a year out of the country without restrictions (in addition to the R1m that can be taken out without any prior approvals). With an AIT, they can take the same amount out, but the approval requirements have become a great deal more stringent.

On its own, that’s not necessarily a bad thing. As South Africa’s greylisting by the Financial Action Task Force (FATF) earlier this year shows, the country clearly needs better oversight on funds entering and leaving the country.

And if better alignment between Sars and the Reserve Bank makes it easier to provide that oversight, then so much the better. Implemented properly, it could also have simplified the application process for anyone wanting to take money offshore.

Piling on complexity

Unfortunately, that isn’t what’s happened. Instead, the information and documentation required to get an AIT are far more involved and complex than they ought to be. For example, the requirements for taxpayers to list local and foreign assets and liabilities – and allocate a value to each of them – could result in lengthy delays in the AIT being granted (especially when you factor in further verifications from Sars).

SA tops global ranking in forex trading interest
7 Aug 2023

In the investment space, especially, time wasted is money lost. So, even if an investor wants to legitimately take their money offshore, they’ll struggle to do so. But that money, put to work, is a net positive for South Africa. Grown in more stable international markets, it can then be put to work in the economy. Having grown a healthy offshore nest egg, for example, someone might use it to build their retirement property or supplement their pension.

Many may simply choose not to do so, robbing South Africa not just of money that would otherwise go into the broader economy but of tax revenue too. Some, as renowned investment strategist Magnus Heystek warns, may even be more inclined to find other (legal and illegal) ways of accumulating capital offshore.

None of those scenarios are good for the South African economy or the state’s ability to provide basic services to the country’s people.

The right forex provider can help

While there’s little that ordinary people can do when it comes to pressuring Sars to change its regulations, they can avoid a lot of the pain associated with them. Partnering with the right forex provider, for example, can remove at least some of the administrative heavy lifting.

At Future Forex, for instance, we use a combination of automation and streamlined forms to gather client information, which can then fill in the much more complex regulatory forms. We also offer complimentary tax clearance applications, further simplifying the process.

It’s not a cure-all and doesn’t account for any inefficiencies on Sars’ part, but it does mean that the overall experience is less painful. The assistance offered by a good forex provider should also make the process quicker.

Looking after the customer first

Ultimately, tweaks to financial regulatory regimes aren't uncommon. In fact, when tied to effective enforcement, they can be incredibly important ways to ensure that financial outflows and inflows are legitimate. But those tweaks should be made with ordinary people in mind.

In time, Sars' AIT requirements may become more user-friendly. In the meantime, those impacted by AIT are much better off working with financial services providers that can minimise the effort needed for compliance than trying to find ways around it.

ABOUT THE AUTHOR

Harry Scherzer is the chief executive officer of Future Forex.