

Key things you need to know about offshoring your business

 By [Adrian Dommissie](#)

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How to move one's business offshore is a popular topic among entrepreneurs, but the decision is not as easy as many seem to think.

Currently there is lots of excitement about Mauritius, particularly because their corporate tax rate is much lower (potentially just 3% as opposed to 28% in South Africa), but offshoring needs to be a substantial and genuine exercise - doing so just because you think you can avoid high tax rates is the wrong way to go about it. SARS is very aware of this issue. If you have a company registered in Mauritius, but all your management and employees are in South Africa, you're going to attract unwelcome attention.

The two good reasons for which companies should consider establishing an offshore office are: if they're genuinely expanding their activities beyond the borders of South Africa, or to meet the needs of major international investors. However, entrepreneurs should be aware that there are major costs associated with setting up offshore.

In the first case, there must be a real separation between your South African and international operations. You can't just have a postal address in Mauritius but still run everything from Johannesburg: there needs to be real substance.

You will need to prove to anybody enquiring that key management decisions are made in the offshore jurisdiction. That means local offices, resident senior staff and all your board meetings will need to be held there, just for starters. That cost will need to be weighted against the benefits of actually running a business from that office. So if you're genuinely looking for a good base from which to expand into South Asia, for example, go for it.

Rookie mistakes

Be cautious against "loop structures" in which you may have an interest in an offshore holding company that in turns owns assets in South Africa. It's a fairly obvious way to try and avoid paying tax, and it could make criminals of your entire board. It's a rookie mistake.

The second reason to consider setting up offshore is to secure a major international investor who is wary of putting money into South Africa because of currency and political risk, the tax regime and exchange control regulations.

The truth is that investors will only put their capital into a country like South Africa if they can take it out again easily. We see investors who are willing to carry the cost of moving the whole operation offshore to avoid exchange control and

political risks. Obviously that assumes underlying operations that transcend national borders.

Also, investors are likely to insist that intellectual property be developed outside South Africa. For example, IP that is developed locally will be classified as a South African asset, which is a situation that international investors may not accept. For this reason, a significant part of key development resources will probably have to be located outside of South Africa.

In summary, establishing an international office only makes sense if you're a genuinely international business. Choose your advisors very carefully, and accept that this is not a low-cost exercise. You will need a tax expert with specific experience in this area, as well as good legal advice.

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