Personal Perspectives

Fuelling today's growth, forging tomorrow's legacy

South Africa Edition
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KPMG Private Enterprise

Fuelling Today's Growth, Forging Tomorrow's Legacy

Welcome to our 2025 edition of the KPMG Private Enterprise publication, Personal Perspectives. As with our prior editions, Personal Perspectives is a publication dedicated to providing insights and guidance to business families in Southern Africa, helping them navigate the unique challenges and opportunities they face.

The key question currently on many South African's minds is, "What next?".

The last few years have shown us that uncertainty is firmly a certainty in life, along with death and taxes. Another certainty for KPMG Private Enterprise is that the contribution of business families to the South African and global economy[1] will continue to be a driving force. The long-term view of business families drives the resilience of the family and their business during uncertainty, and importantly they have the ability to respond and rebound from a crisis stronger and more resourceful than before. This contribution is not only from a financial capital perspective, but also highlighting the importance of human and social capital.

In this edition we consider how legacy is a key factor in the long-term financial performance of family businesses, as well as their sustainability practices. There is a key complimentary consideration, being the need for transgenerational entrepreneurship, and to be forward looking when it comes to the business's strategy, as well as the family's shared purpose. The article, "Unlocking Legacy for South African Business Families" shares some guidance for business family leaders to find a balance between tradition and innovation, and in turn to create a legacy that ensures the success of their business(es) across generations. This question lies at the heart of the recent STEP Project Global Consortium and KPMG Private Enterprise's comprehensive study on family business legacies (the study).

What is clear is that there is an evolution in the definition of legacy, to a more future-centric definition, where legacy is about preserving tradition while embracing change and ensuring continuity while charting new paths forward and sustaining the business family's relevance and impact for generations to come and society at large. The article also reveals the Legacy Matrix, enabling business families to assess where they currently find themselves in the matrix, and shares guidance as to how to move toward, and/or maintain, a more dynamic legacy.

For the business to be future-fit, it needs to consider its business transformation journey, considering the key risks and opportunities

1 Family-owned businesses contribute more than half of the world's GDP and account for over 65% of its employment.- Economic Impact of Family Businesses – A Compilation of Facts, Tharawat Magazine (2023-10-12)

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business families need to consider – what is evident is that it is no longer a choice to transform the business and use technology to enable the transformation. This is where a continuous transformation mindset is required, first and foremost driven by the family's purpose and values. Next-generation leaders, particularly young women, who are digitally savvy, with 39 percent of female CEOs in a KPMG Private Enterprise and STEP Project Global Consortium survey[2] recording high levels of digitalization in their companies, compared to 32 percent of their male counterparts.

Growing a family business and implementing a transformation strategy often requires some form of financing. In a closely-held, family-owned business, seeking external funding can often be daunting and is a crucial decision which involves assessing the various financing options and understanding the implications of the choice made. Often, we find, the financing can be as simple as reducing the dividend policy, which comes with potentially family relationship ruining consequences, if the expectations of the family shareholders are not appropriately managed.

This highlights the unique aspect of a business family, where it not only has to manage the technical considerations of growing a successful business (or the family wealth), but also to consider the family dynamics which impact the business and the family.

One key consideration for South African families at the moment, is how to plan for the future of the family members – especially given the uncertainty of the South African landscape. Historically, the average net outflow of millionaires from South Africa[3] has been 300-400 per annum. However, the projected number for 2024 is around 600. This is a significant increase, impacted by several "push" factors, particular to South Africa. What is important is that emigrating is not as easy as buying a plane ticket, packing your bags and moving. There are a multitude of considerations to factor in, starting with how to formally emigrate, navigating citizenship requirements, the different definitions of resident and then add the additional paperwork required following South Africa's grey-listing.

Reiterating the significant contribution business families make to the South African and global economy, from a financial human and social capital perspective, we trust the articles shared in this edition will support the contribution you make as a business family.

I hope you enjoy this edition of Personal Perspectives.

If you have any comments, feedback or suggestions of what you would like us to cover in future issues, please do get in touch. ”

Creagh Sudding

Lead: Business Families
KPMG in South Africa

2 https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2022/05/regenerative-power-of-family-businesses-report.pdf - at page 7

3 Top 10 Country Outflows | Wealth Migration 2024 | Henley & Partners (henleyglobal.com)

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Unlocking legacy

for South African Business Families

Alan Barr
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Current business family leaders often say, “I can’t sleep. I don’t know who is capable of taking over the business and managing the wealth. And frankly, I don’t know what else there is to do.” The next generation of business family leaders, say “I’m tired of waiting. I’ve done everything I’ve been asked to do. Business cannot carry on as it has up to now. Why are they not considering my new ideas and how to grow the business. I don’t have a voice. There is a perception I still need approval from my parents or the owners.”

Unlocking legacy for South African Business Families

It is well publicised that business families are in the midst of the largest wealth transfer in recent history, with over USD 84 trillion being transferred from older to younger, next-generation, rising leaders over the next 20 years.[1]

Through discussions with business family leaders there is a lot of uncertainty regarding family matters and outside (economic, political, social etc.) factors, which combined is causing confusion mixed with impatience regarding the next steps required to sustain and grow the family business, the family wealth and the family legacies.

South African business families are part of the great wealth transfer and are as concerned about getting it right with the generational leaders are sharing the same thoughts and frustrations.

With this in mind, business family leaders need to find a balance between tradition and innovation, and in turn to create a legacy that ensures the success of their business(es) across generations. This question lies at the heart of the recent STEP Project Global Consortium and KPMG Private Enterprise's comprehensive study on family business legacies (the study). Through a global survey and regional roundtable discussions with family business leaders, the study delves into the essence of legacy and its impact on business performance.

This article identified some of the pertinent takeaways for business families to consider.

[1] The Great Wealth Transfer Is Happening But Not In The Way You Think - The Great Wealth Transfer Is Happening But Not In The Way You Think (forbes.com), accessed 26 July 2024.

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The drive for sustainable business practices and financial results

Legacies are not merely relics of the past; they are tangible and intangible assets that drive strong financial results and sustainability performance. They reinforce the emotional bond that forms the family's identity, serving as a source of inspiration and innovation.

The study reveals a compelling link between the depth of a business family's legacy, its financial performance, and the strength of its sustainability practices. The study also confirms that businesses strong legacy is best fuelled by trans-generational entrepreneurialism, to achieve sustainable business practices and financial results.

The study also highlights that businesses which prioritize legacy, weaving the family's values and history into the business fabric, excel in sustainability performance. The business family's stories serve as a foundation for continuous progress in sustainability initiatives.

However, legacies may also be liabilities if they become too entrenched in tradition, hindering the family's commitment to innovation and agility of the future generations. This "legacy paradox" presents a key consideration for business families.

The Interdependency of legacies

How can families balance tradition with innovation to ensure future success?

The journey a business family undertakes requires focus on the different components of legacy, which may shift across the generations. In the early stages, the emphasis may be on material and biological legacies, such as wealth and bloodline. As the business matures, social aspects and storytelling gain importance, while an entrepreneurial legacy weaves its way through the entire journey.

It is evident that for this journey to be a success, the intra-generational leaders should continuously assess their strengths, prove/enhance their capacity, drive succession and continuity decisions, support the multi-generation leaders, model the family values, and celebrate innovation, profitability and legacy without conflict.

Why now?

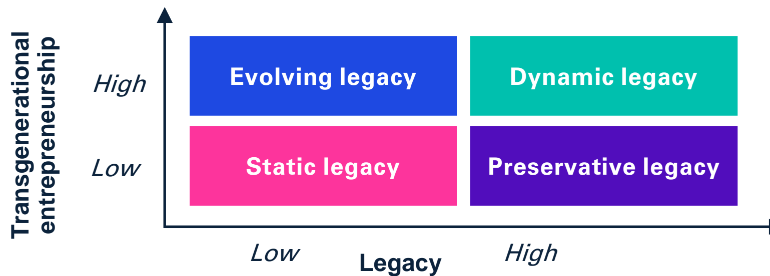
As many South African business families have entered (are entering) into a phase of inter-generational transition, and with the younger generations being more concerned with social and entrepreneurial legacies, open dialogue and collaboration is imperative across generations, enriching the family business legacy by incorporating diverse perspectives and approaches. It is important to recognize that change can be embraced without losing sight of the foundations that the business has been built upon.

Do you understand your family's legacy and where it could lead you?

The study introduced the legacy matrix, a tool for understanding the strength of your family business legacy and its potential impact. By exploring the matrix, family businesses can identify themselves in one of four legacy types: static, preservative, evolving and dynamic.

Each of these legacy types differs in terms of the level of transgenerational entrepreneurship and legacy score of the family business. The matrix is designed to help family businesses reflect on their current legacy and understand where it may lead them in the future, individually and as a family, moving towards a "Dynamic Legacy".

The legacy matrix – a guide to transitions among four legacy types



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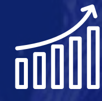
Key insights

Legacies contribute to families' socioemotional wealth

Deep connections to the family's history fosters a sense of pride and dedication to the business and is a key ingredient in family members' socioemotional wealth.



Legacies can be essential for future-oriented, long-term growth

Family business legacies are building blocks that will help to shape the future for generations to come.

Legacies connect the present and the future

Legacy not only creates bonds between generations, it also shapes the vision and strategic decisions for the future that foster sustainable business performance.

Legacy and transgenerational entrepreneurship can have an impact on performance

Family businesses that report high financial performance and sustainability practices also tend to have strong legacy and transgenerational entrepreneurship scores.

The family's accumulated wisdom can be a priceless asset

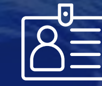
The knowledge, expertise and skills passed from generation to generation can help give family businesses a unique competitive edge.

The family's legacy influences important decisions

The shared purpose and values of the family act as a compass for guiding decisions that may affect the family, the business, customers, employees, suppliers and local communities.

Adhering to tradition and embracing innovation

One of the most common challenges facing family businesses is the need to balance tradition and changed to adapt to changing market dynamics ad business conditions.



It's important to recognize and confront the legacy paradox

Legacy is a source of identity and inspiration, but it can also be a liability if it is so entrenched in tradition that it stands in the way of innovation, change and agility.

A new way for family businesses to assess the strength of their legacies and transgenerational entrepreneurship

The introduction of a new legacy matrix helps family businesses identify themselves in one of four legacy types based on their transgenerational entrepreneurship and legacy scores.

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Conclusion

The journey a business family undertakes requires **focus on the different components** of legacy, which may shift across the generations. In the early stages, the emphasis may be on material and biological legacies, such as wealth and bloodline. As the business matures, social aspects and storytelling gain importance, while an entrepreneurial legacy weaves its way through the entire journey.

It is evident that for this journey to be a success, the intra-generational leaders should continuously assess their strengths, prove/enhance their capacity, drive succession and continuity decisions, support the multi-generation leaders, model the family values, and celebrate innovation, profitability and legacy without conflict.

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Digital transformation for business families

Thriving in the Digital Age

In today's rapidly changing business environment, digital transformation is no longer an option but a necessity for business families seeking to remain competitive and sustainable.

With the continuous emergence of new technologies and evolving customer expectations, it's crucial for business families to embrace digital transformation to secure their success for future generations.

This article explores the latest trends and developments in digital transformation, along with strategies to help business families navigate the digital landscape effectively.

What sets business transformation apart in business families?

Business families, like most other business types, had to react quickly to the sudden impact of the recent pandemic and other global and local disruptive events. Necessary changes were made, but the kind of change that is truly transformative is proactive, not reactive. A continuous transformation mindset is driven, first and foremost, by the family's purpose and values, their continuous search for new opportunities, and their agility to mitigate potential threats.

This mindset is also reflected in the resolve of business families to focus on the long term; to keep finding new ways to adjust their businesses in tune with the evolving needs and priorities of their stakeholders.

Digital transformation as an enabler for business families

Another distinguishing factor for business families is that business transformation includes everything that is important to the business family and the business family which includes — but is not solely focused on — its technology and operating systems. What is important to the leaders of business families is that digital transformation is an enabler of change from the broad transformation that might be required across most of the business itself.

The question is what the benefits of such an enabler are for a business family, or any business.

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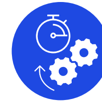
The benefits of a digital transformation for a family business

Innovation boost

Digital tools (3D printing, virtual reality, and artificial(AI) can open up a world of possibilities for innovation and new product development, which can empower business families to experiment, create unique offerings, and stay ahead of the competition.

Expanded market reach

With digital transformation, business families can break free from geographical boundaries (online marketplaces, e-commerce websites, and digital marketing campaigns) opening doors to new markets and help grow their supplier and customer base worldwide.



Efficiency Upgrade

Digital technologies can streamline operations, cut costs, and boost productivity, to help business families optimize processes, make better decisions, and gain a competitive edge.

Stronger customer connections

Digital channels are like bridges that connect businesses with customers, and can empower business families to build stronger relationships, provide personalised experiences, and foster long-term loyalty.

Smarter decisions

Data analytics and business intelligence tools are like crystal balls that provide business families real-time insights and help you make data-driven informed decisions, allocate resources wisely, and adapt quickly to market changes.

How does a business family unlock these benefits?

It is evident that this is where the skills and passion of the upcoming generations can be harnessed, as they have been brought up in a world of technology. It may not even be a family member, what is important is that there is a transformation strategy in place to drive the transformation journey, enabled by technology, where appropriate. This process then needs to be driven/led by the best person for the job, be it the upcoming generation within the family, or a non-family specialist.

There is evidence that next-generation leaders, particularly young women, are digitally savvy, with 39 percent of female CEOs in a KPMG Private Enterprise and STEP Project Global Consortium survey[2] recording high levels of digitalization in their companies, compared to 32 percent of their male counterparts.

[2] KPMG Private Enterprise and STEP Project Global Consortium survey

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Challenges of Digital Transformation

Based on our survey data, it appears the strongest legacy components that contribute to good business performance and sustainability may be ranked in the following order:

Cybersecurity Threats

Digital transformation comes with increased cybersecurity risks, such as data breaches, cyberattacks, and unauthorised access. To stay protected, business families need robust cybersecurity measures, regular security audits, and employee training. This is not only required for the business, but also the family, as social media enables anyone to be located and subject to kidnapping if there are no guidelines in place. This is an extreme, but without guidelines (e.g., a social media policy), reputational damage can also be inflicted by a family member acting against the family values on social media.

Data Privacy Concerns

Handling sensitive customer data requires strict adherence to data privacy regulations, and failure to comply can lead to legal issues, damage your reputation, and lose customer trust. The family's sensitive personal data needs to also be protected, with the current FICA requirements being enhanced by the grey-listing, the institutions that are entrusted with such information also need to ensure they have controls in place to protect the sensitive information.

Resistance to Change

Some family members and employees may resist adopting new technologies, which can make implementing digital transformation challenging. This can be overcome by change management strategies, clear communication, and training programs being implemented to overcome resistance and

Create a culture of innovation within the business and the family. Although a challenge, this is also an opportunity for the upcoming generation to add value to the business family, and step into a role to drive/lead the digital component of the transformation journey.

Lack of Digital Expertise

Business families may not have the necessary digital expertise to drive transformation effectively. Again, engaging with the tech-savvy upcoming generation within the family, investing in training and upskilling programs for employees, as well as partnering with tech providers, can help address this challenge.

Financial Investment

Digital transformation requires significant investment in technology, infrastructure, and resources. Any form of transformation requires capital investment, and the principles of careful planning, budgeting, and return on investment analysis are unchanged.

For a business family these risks run across the family and the business. When managing a risk register, it's important to also factor in all key stakeholders working with both the family and the business.

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Strategies for success

With the above considerations in mind, it is important to develop a digital transformation strategy, which considers as a base the following:

- **Clear Digital Strategy**
  Define the goals for the business and the family, creating a roadmap for transformation. This strategy should align with the overall vision, values, and long-term objectives of your business family.
- **Culture of Innovation**
  Encourage a mindset that embraces change and experimentation. Create an environment where family members and employees feel empowered to explore new ideas, take calculated risks, and learn from failures.
- **Invest in Digital Infrastructure and Cyber Security**
  Ensure you have adequate infrastructure, including hardware, software, and connectivity, to support digital initiatives. This must include prioritizing cybersecurity measures to protect sensitive data and mitigate cyber threats.
- **Upskill the family and the workforce**
  Provide training and development opportunities to equip the family and your employees with digital skills.
- **Partner with Technology Providers and Experts**
  Identify who is the right person (family or non-family) to collaborate with reputable technology providers to access expertise, resources, and support. These partnerships can accelerate the transformation efforts and give access to cutting-edge technologies.
- **Embrace Data-Driven Decision-Making**
  Leverage data analytics and business intelligence tools to gain insights into customer behaviour, market trends, and operational performance. Use data to make informed decisions and optimize business strategies.
- **Enhance Customer Engagement through Digital Channels**
  Utilize social media, e-commerce platforms, and CRM systems to connect with customers, provide personalized experiences, and build long-term loyalty.

This is an opportunity for the current generation to engage with the upcoming generation to add value to the business family, and where appropriate step into a role to drive/lead the digital component of the transformation journey.

Final thoughts

Digital transformation continues to evolve at a rapid pace, and business families must stay abreast of the latest trends and developments to remain competitive. It is both an opportunity and a challenge for business families seeking to ensure their sustainability for future generations.

Embracing digital transformation is not just a technological shift but a mindset change that empowers business families to thrive in the ever-changing digital landscape and pass on a thriving legacy to future generations.

By understanding the risks and benefits, and implementing effective strategies, business families can successfully navigate the digital landscape, enhance their competitiveness, and build a strong foundation for long-term success.

Embracing digital transformation is not just an option, it's a necessity for business families that want to thrive in the digital age and pass on a thriving legacy to future generations.

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Navigating growth

choosing the right financing option

Mohammed Rawat
Lauren Tuchman

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Navigating growth: choosing the right financing option

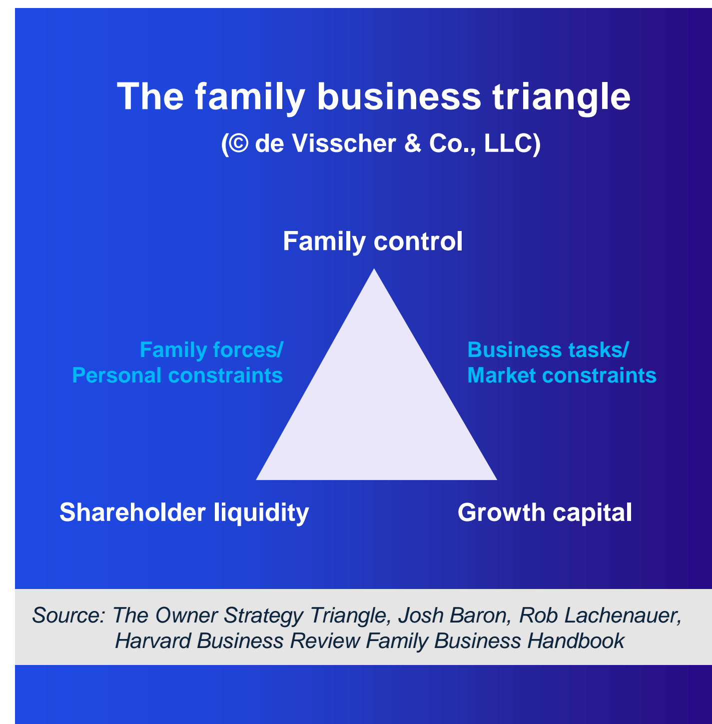
As part of a family business's growth journey, there often comes a time when an injection of cash is needed – whether it be to fund capital investment or to drive an expansionary initiative.

In a closely-held, family-owned business, seeking external funding can often be daunting and is a crucial decision which involves assessing the various financing options and understanding the implications of the choice made.
These considerations include the selection of the type of funding (debt vs equity), nature of funder (private vs institutional) and manner of repayment along with other broader strategic considerations such as relinquishing a portion of control, preserving the family legacy and managing specific family dynamics. Unlike public companies or non-family private business, family-owned enterprises have unique considerations.

de Visscher and Co have also explored this in more detail in what they refer to as the "Family Business Triangle", which considers the impact of financing decisions on the ownership and family. The long term sustainability of a family business is dependent on balancing the need for reinvesting to finance growth of the business while still ensuring a level of liquidity is maintained for shareholders for dividends (and possibly buy-back shares).

This is where a family business will need to evaluate between reinvesting profits to finance growth or obtaining external financing.

Obtaining a balance requires long-term planning as it impacts the family business in respect of the ownership and family control of the business.



Source: The Owner Strategy Triangle, Josh Baron, Rob Lachenauer, Harvard Business Review Family Business Handbook

In this article, we explore some of the options and considerations around the various financing options available.

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Equity funding

One of the main concerns when considering a new equity investor is often the loss of control. While this could be the case, it can also be managed (and mitigated) through your legal agreements and the rights assigned to the shares issued or sold. There are potentially several benefits which an equity investor may bring to the business, which include involvement in the business and acting as a strategic counsellor or advisor.

The extent of such benefits can however depend on the nature of the equity investor as summarised below:

	Financial investor	Strategic investor
Description	Invests with the expectation of earning a return.	Invest with the goal of gaining strategic advantages.
Level of involvement	Often willing to be a silent partner with a lower need to influence the business. Less likely to have a clash of views and would support autonomy of the family. Would prefer more professional management set-up and governance structures in place.	More involved in the business, which often includes a seat on the board and involvement in decision-making. The right investor will add expertise and bring valuable skills, networking opportunities and experience to the business.
Return expectations	Dividends, though no obligation.	More likely to support reinvestment of surplus cash into the business, with a view of long-term capital growth
Term of investment	Often fixed with a defined exit strategy.	Could be longer term and flexible.

In terms of finding a **strategic investor**, the option also exists to partner with a family office as they would generally have a longer term investment horizon. This could provide additional synergistic benefits especially if the family office that is chosen to partner with shares the same, or very similar, values and vision.

A more involved strategic investor could be initially disruptive, but also has the potential to result in new skills and perspective being brought into the business. A strategic investor will also likely be entering into the investment in order to take advantage of synergies with their existing businesses / investments. In itself, this could open new growth opportunities, but also may take the business in a direction which differs to what the family is comfortable with.

An **equity investment** brings potential flexibility in respect of the term of such investment. Whilst this flexibility may be a benefit to some family business, the uncertainty regarding how long the investor will stay may not appeal to others. This too can be managed through various legal options available including: (i) a right of first refusal which gives the family the first option of purchase at the point at which the investor wishes to exit; or (ii) a call option which gives the family the ability to repurchase the shares at certain points in time.

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Debt funding

One of the main differentiators between debt and equity funding is that debt funding is typically more structured, with defined interest payments and a term during which the capital must be repaid.

Whilst this certainty can be a benefit, there is the risk of repayment pressures and potential cash flow implications during leaner times.

Banks are one of the most common providers of debt funding, although fund managers and other private sources may be an alternative. The sources available to the business will be driven by the amount of funding required, affordability of repayment terms and ability to provide collateral.

Lenders may require surety from the family members personally, which creates a risk to the personal wealth of the family should the business encounter tough times. To manage such a risk, it is important to ensure that the family's wealth is protected and that appropriate structures are in place and that there is an adequate separation between the family and the business.

The recent rise of private credit as an alternative source of funding is also noteworthy. This source becomes more relevant should funding through a traditional financing institution prove to be challenging or scarce, since private credit institutions are willing to lend to borrowers considered higher risk.

The scarcity of funding availability becomes more relevant during periods of economic slowdown, or when interest rates are relatively high or when the borrower does not meet the strict criteria that lenders may impose (usually stricter during challenging economic times).

However, when evaluating where to source debt funding, a holistic analysis needs to be considered of the source of funding including flexibility of terms, average financing costs, speed and certainty of execution and discreetness offered by the lender.

Though the terms can differ by lender, typically private credit offers more flexibility, higher financing charges, quicker decision making and more confidentiality, while traditional financing institutions typically offer less flexibility on terms, lower interest rates, longer turnaround times but would traditional financiers have the ability to provide longer repayment terms and larger loan amounts.

On an overall basis, the benefits to choosing debt funding include the lender having no day-to-day involvement in running the business, although the terms of the funding may include restrictions on the business (such as limitations on new ventures and various covenants). The term of the debt is known, and the repayments can be budgeted for and are predictable, with such interest repayments most likely resulting in a tax saving.

Making a choice

Choosing the right type of funding and nature of funder are dependent on the objectives and financial strength of the family as well as the business, while delicately balancing the need for raising capital with the need to maintain family control and values. It is imperative that there is a full understanding of the available options as well as the potential impacts on both the business and the family, and more long-term implications on the family, the business, the family/business legacy and the overall strategy.

It is advantageous to consult with an advisor who would be able to provide support in such a decision-making process to ensure that the option selected is the best one for all stakeholders and provides the required funding to grow while staying true to core principles and overall vision.

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Leaving South Africa:

considerations for a smooth emigration journey

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Having made the decision

to emigrate, it's essential to gain an understanding of the compliance requirements and complexities of emigrating. This article aims to highlight the key considerations as you navigate this intricate process.

While the average net outflow of millionaires from South Africa has historically been 300-400 High net worth (HNW) individuals per annum, the projected number for 2024 is around 600.[1] This significant increase is driven by several "push" factors specific to South Africa.

Concerns regarding potential new policies of the Government of National Unity, potential wealth taxes aligned with the G20 discussions, the introduction of the National Health Insurance model, and high crime rates are adding to the pressure.

Additionally, the recent grey listing by The Financial Action Task Force has also increased scrutiny on the government to address shortcomings on money laundering and the financing of terrorism.

This has resulted in financial institutions requiring more information from clients, adding further complexity to the emigration process.

Personal considerations for emigration

Beyond the political and financial aspects, numerous personal factors influence the viability of relocation.

Individual

Age, desired retirement location, affordability of desired retirement location.

Family

Definition of "family" i.e. who is considered family for emigration purposes, current and future family members, location of family members, age of family members, expected financial support for family members, school-going children (education system in potential new location, school fees, tertiary education fees, quality of education), divorced parents (consent to take minor children).

Employment

Current job market for your age and industry, employment opportunities for your skills in potential new location, need to expand on current qualifications and/or experience.

Immigration

Multiple passports, relocation options with additional passport, visa requirements for spouse and children, residency, citizenship, or golden visa options in potential new location.

Cost of living

Housing, transport, and daily living expenses, cost of favourite meal in new location compared to South Africa.

Other factors

Availability and accessibility of public transport, safety and security, medical care and social security, cultural and social factors (language), retirement savings, legal considerations (taxation, exchange control, wills, estate planning), family wealth, local and foreign trusts, moving logistics.

Carefully assessing these personal factors is crucial for determining the feasibility of relocation now or in the future.

[1] Footnote: Top 10 Country Outflows | Wealth Migration 2024 | Henley & Partners (henleyglobal.com)

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Legal and regulatory considerations for emigration

Common legal questions regarding emigration include **citizenship**, **tax considerations** including tax residency, and **exchange control** regulations. These 3 concepts exist independently of each other. Understanding the key differences between these concepts is essential for making informed decisions about emigration and managing your legal and financial affairs effectively.

Citizenship

South Africa allows its citizens to hold dual citizenship, which means that you can be a South African citizen and a citizen of another country simultaneously. However, you must apply to the Department of Home Affairs for permission to retain your South African citizenship prior to applying for citizenship of another country. For individuals over the age of 18 years, failure to do this may result in you losing your South African citizenship.

Income tax

Tax residency

Your tax residency status determines your tax liability. It is therefore important to have an awareness of not only your South African tax residency status on emigration but also your tax residency status in the country you are moving to.

South African tax residents are taxed on their worldwide income and capital gains, while non-residents are only taxed on South African-sourced income.

When you emigrate from South Africa, your tax residency status will still determine how you are taxed. It is therefore imperative to determine whether you cease to be a South African tax resident to avoid double taxation.

If you are likely to be considered tax resident in both countries, you will need to consider the following:

- Whether there is a double tax agreement (DTA) between SA and the country to which you are relocating to
- In which country you will be deemed to be "exclusively tax resident"
- Whether in practice it is possible to claim double tax relief

South Africa distinguishes between two types of tax resident. Ordinarily resident, typically, those born in South Africa and Physical Presence Resident (PPR), usually foreign nationals who spend five or six South African tax years in the country. If you intend to visit South Africa regularly after emigrating, you will need to monitor your days of presence, as you may trigger PPR tax residence.

Exit tax

Capital gains tax is triggered on the growth of qualifying worldwide assets (excluding some assets like South African immovable property) up to the date of breaking tax residence.

The effective tax rate is based on your top marginal tax rate, with a maximum of 18%. Typically, but not always, there is an uplift in the "base cost" of such assets in the jurisdiction of your new tax residence. It is essential that you plan for this step in advance of relocating – planning is difficult to do once you have already moved.

Formal process to cease tax residence

Specific declarations must be made to SARS via eFiling to enable SARS to evaluate and confirm that you are no longer considered to be tax resident.

Ongoing tax obligations

You are still required to assess your South African tax compliance obligations annually, as South African sourced income earned post-departure will remain taxable.

Deregistration for tax purposes

Deregistration is possible, provided there will be no further South African-sourced income earned after becoming non-resident.

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Exchange control

Exchange control residence is different to tax residence. An exchange control resident is a natural person who has taken up permanent residence or is domiciled in South Africa.

If you are an exchange control resident planning to emigrate you need to bear in mind that you are currently subject to certain calendar year limitations on the transfer of funds out of South Africa namely:

- an annual Single Discretionary Allowance of R1 million; and
- a Foreign Capital Allowance of R10 million, subject to SARS clearance.

The good news is that the previous restriction on blocking assets upon emigration was lifted in 2021 following changes to the South African exchange control regulations. This means that on emigration, you are no longer required to keep your assets in these restricted accounts, allowing for greater flexibility in managing your finances abroad. This shift aims to facilitate smoother transitions for South African emigrants and to enhance their ability to access and utilise their funds without the previous limitations.

Also worth noting is that it is no longer the South African Reserve Bank that administers this process, but the South African Revenue Service. SARS now confirms tax residency cessation and tax compliance before they will allow the repatriation of funds from South Africa on emigration i.e. your tax affairs needs to be in order.

To transfer your funds out of South Africa, you will need to apply for an Approval for International Transfer (AIT) and obtain a Tax Compliance Status (TCS) confirmation from SARS. This confirmation will enable you to move all of your funds offshore.

Transferring of retirement funds

A 3-year restriction applies to the transfer of retirement funds for those not yet at retirement age, when emigrating. The new Two-Pot System will further complicate the process of removing future retirement funds from the country.

Estate Duty considerations

Emigrating from South Africa has significant implications for estate duty. South African residents who are considered ”ordinarily resident” are subject to estate duty on their worldwide assets, while others are only taxed on their South African assets. Similar legislation may exists in the country you are moving to.

Estate Duty Agreements preventing double tax, entered into between South Africa and other countries, are limited. These agreements ensure that assets in both countries are not subject to estate duty in both jurisdictions. It is important to understand the potential implications for you, based on your own personal circumstances.

Maintaining accurate tax residence and exchange control status with SARS and SARB is crucial for ensuring that you can freely move funds if you choose to emigrate, your heirs receive the intended inheritance, and your estate is taxed correctly.

Some reassurance

Navigating South Africa's intricate regulatory landscape can be daunting. Overlooking legal requirements and processes can lead to substantial financial repercussions for you and your loved ones.

If you are contemplating emigration, seeking professional tax and exchange control guidance before taking any action is paramount. This ensures informed decision-making and safeguards against unforeseen legal, financial and administrative burdens.

KPMG's global network of experienced professionals is available to assist you with your emigration journey.

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Additional publications

Access to previous publications referred to in the articles.

Unlocking legacy in family businesses ((clickable)

Discover how leading family businesses are balancing tradition and innovation to achieve superior business performance.

Venture Pulse Q4 2024 (clickable)

A global overview of key findings uncovered from the Q4'24 Venture Pulse Report.

KPMG 2024 CEO Outlook (clickable)

More than 1,300 global CEOs share their views on geopolitics, return-to-office, ESG and generative AI.

POPIA Data Privacy Governance Structures - KPMG South Africa (clickable)

Gain key insights

Global family business tax monitor (clickable)

Branching out, building up, giving back

Disruptive philanthropists in Africa Webinar Series (clickable)

How a new wave of modern philanthropists are shaping tomorrow. Three-part webinar series

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