etfSA RA Research

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Financial emigration vs. Tax emigration

August 2023

Prior to the changes implemented on the 1st of March 2021, formal or financial emigration was the only way used to emigrate and was the official process by which individuals could wrap up their financial affairs in South Africa. Once this process was complete, they would have their status changed from resident to non-resident. This change would also give them immediate access to their retirement funds.

The process of emigration was initially handled by the South African Reserve Bank, and your bank would usually do the application for you but now with the change, this process is handled by the South African Revenue Services, as leaving any country has tax implications that are important from an income perspective for the country.

Taking the decision to financially emigrate was never compulsory in South Africa but tax emigration will be advisable for most individuals who wish to avoid paying tax on their worldwide income. If you find yourself working overseas and you are still reflected as a resident of South Africa, any income you earn will be taxed again in SA as your taxable income, if it exceeds the R1.25 million threshold. This means that if you are planning on emigrating, you will need to follow the process of tax emigration so you can avoid potential double taxation.

Tax emigration will also now be the only way to gain access to your retirement funds before the retirement age of 55 years. Once you have applied for this and your application is successful, you will need to wait 3 years after the application is completed or provide proof of your non-resident status for a minimum of 3 years before the funds can be released.

While tax emigration gives you access to your retirement funds, it is important to remember that you cannot access your living/life annuity products upon emigration therefore indirectly requiring you to have an active non-resident bank account and tax number in South Africa because this annuity will need to be paid to you until the funds in the policy are depleted. Once you receive your pension in your bank, you can apply with SARB to use your SDA (Single Discretionary Allowance – R1 million) or FIA (Foreign Investment Allowance – R10 million) allowances to transfer the funds abroad.

It is important to understand the differences between these two concepts and how the changes affect you in order to assist you in making informed decisions and understanding the implications thereof.

Below are the main differences between financial (before 1 March 2021) and tax (after 1 March 2021) emigration:

	Financial emigration	Tax emigration
Governing Authority	South Africa Reserve Bank (SARB)	South African Revenue Services (SARS)
Effective date	Before 1 March 2021	After 1 March 2021
Effect	Changes tax residency from resident to non-resident	
Paperwork	Form MP336 (b)	Tax Compliance Status Pin (only valid for a year)
Purpose	• Wind up all financial affairs in South Africa • Immediate access to retirement funds	• No tax liability on worldwide income. • Access to retirement funds after 3 years
Implications	Triggers withdrawal tax and CGT in certain circumstances (e.g. investments)	
Result	No longer an exchange control resident of South Africa	No longer a tax resident of South Africa

Source: FinGlobal