



Family Investment Companies

A popular vehicle for succession planning

Family Investment Companies (FICs) offer a flexible and tax-efficient way to transfer wealth to future generations while retaining control over assets.

Below is an overview of their structure, benefits, and considerations:

What is a Family Investment Company?

An FIC is a private company established to manage and hold investments, typically for the benefit of a single family. It allows the founders to hold involvement in the company while shifting investments to their children or grandchildren. FICs are often favoured over trusts due to their familiarity and flexibility.

Key Features and Benefits

1. Inheritance Tax (IHT) Planning

- FICs enable the transfer of assets out of the founder's estate, reducing the Inheritance Tax (IHT) liability. For example, property portfolios moved to an FIC can be structured to deliver an income stream for the original owners while sheltering future growth from IHT
- Shares in the FIC can be gifted to family members, often utilising annual IHT exemptions. This circumvents chargeable transfers and pre-owned asset charges

2. Control and Flexibility

- Founders can hold control over the company through adapted articles of association, which may limit share ownership to family members. This ensures that the company remains within the family
- Directors' loans can be used to fund the FIC, providing a flexible mechanism for withdrawing funds when needed

3. Tax Efficiency

- FICs are subject to corporation tax on profits, which is often lower than personal income tax rates. This can result in significant tax savings over time
- Unlike individual ownership, FICs are not subject to restrictions on mortgage interest deductions, making them beneficial for property portfolios

4. Succession Planning

- FICs allow for the gradual transfer of wealth to younger generations. For instance, issuing growth shares to children ensures that future value accrues to them without triggering immediate capital gains tax (CGT) or IHT liabilities



Family Investment Companies

Practical Considerations

1. Setup Costs

- Establishing an FIC may involve significant initial costs, including CGT on the transfer of assets and Stamp Duty Land Tax (SDLT) on property transfers. However, these costs may be offset by long-term IHT savings

2. Administrative Requirements

- Running an FIC involves compliance with corporate governance rules, which can be onerous. This includes maintaining statutory records, filing annual returns, and preparing financial statements

3. Double Taxation

- Extracting profits from the FIC may result in a double layer of taxation - corporation tax on company profits and income tax on dividends received by shareholders. This should be carefully planned to minimise tax exposure

4. Anti-Avoidance Rules

- You need to be aware of the general anti-abuse rule (GAAR) and the Disclosure of Tax Avoidance Schemes (DOTAS) provisions when setting up an FIC. Transactions in securities and settlements legislation may also apply, particularly where loans are involved

Example of an FIC in Practice

Jack and Diane set up an FIC with £100 share capital, gifting 25% to each child under the annual IHT exemption. They transfer a property portfolio worth £3 million to the FIC in exchange for a loan account, incurring CGT and SDLT.

The FIC generates profits, which are used to repay the loan over time, reducing their estates' value for IHT purposes. Future growth in the property portfolio is sheltered from IHT as the company is owned by their children

Conclusion

FICs offer a robust solution for families looking to manage wealth across generations while optimising tax efficiency. However, their setup and operation require vigilant planning to navigate tax implications and compliance requirements successfully.

Seek professional guidance for your specific circumstances. Contact us for further advice.