

The attractions of a Family Investment Company

Family Investment Companies (FICs) are growing in popularity as a tax-efficient way to hold, control, and pass on family assets. They are typically used to hold stocks/shares and let property, but there are in fact no restrictions on the type of investments it can hold.

The structure of the company can be fine-tuned to suit a family's particular circumstances.

A FIC can be funded without any upfront inheritance tax and there's no limitation on how much can be held in the company. This makes it an attractive alternative to a family trust although FICs are often used in conjunction with trusts to maximise the tax efficiency.

Funding can be by way of subscribing for shares and/or making loans to the company. Additionally, assets can be sold to the company in return for cash or an issue of shares (this can be done free of capital gains and stamp duty land tax in some circumstances, e.g. on the sale of a rental portfolio from a property partnership in exchange for shares in the FIC).

A FIC is taxed in the same way as other companies and currently pays 19% corporation tax on its income and gains. From 1 April 2020 the rate is set to drop to 17%. However, a major attraction of a FIC is that most dividends received (including foreign dividends) are exempt from corporation tax.

FIC dividends each can be paid to family shareholders tax free depending on the availability of their personal and dividend allowances, currently £11,850 and £2,000 respectively. Marginal tax rates starting from 7.5% apply thereafter.

For example, dividends from the FIC could be an efficient way to fund the university costs of an adult child or the private education costs of a grandchild. As with trust restrictions, the shares in a FIC can be restricted to protect those shares in the event of a later family breakdown.

A FIC is extremely flexible. Control can be handed over gradually, through share transfers and/or the appointment of younger family members as directors. Additionally, the value of particular shares can be capped resulting in further inheritance tax savings.

A FIC can serve to:

- Protect the family's wealth
- Retain control over assets
- Reduce future inheritance tax exposure
- Keep annual tax liabilities to a minimum

It therefore offers a flexible and tax efficient way of retaining control over assets whilst passing wealth on to the next generation.

Matters can be kept relatively simple, but for some, a FIC can provide an opportunity to engage the whole family with a common goal of managing the family wealth. This is particularly attractive for those who have sold their family business and are looking for a common purpose for the family.

If you would like some further information on how a FIC could benefit your family please contact Daren Peacock, a private clients partner on 01223 728222 or dpeacock@pem.co.uk.

Please note that the information contained within this factsheet is not intended to give specific technical advice nor should it be construed as doing so. Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.