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# A family investment company

A family investment company (FIC) is a vehicle used for estate planning, providing control and protection for family capital and an income stream for future generations. FICs offer an alternative to trusts as they enable significant wealth to be passed on to future generations tax efficiently.

## At a glance

FICs (Family Investment Companies) enable wealth to be passed on to future generations in a tax efficient way. They offer an alternative to trusts. A FIC is a tax efficient vehicle for accumulating wealth. They are controlled by a board of directors.

## Key features

- Dividend income received by a FIC is not subject to tax.
- Other income and gains are taxed at 19 per cent (rising to 25 per cent from April 2023).
- On incorporation, shares can be gifted free of any immediate tax.
- The board of directors can control the FIC - including investment decisions and distribution of profits – so it is not necessary to have any shares to maintain control.
- A FIC is an onshore structure that is not subject to Financial Conduct Authority regulations – so no third parties need be involved.
- Shareholders can receive different levels of income at different times.

## What are the inheritance tax advantages?

A FIC can help a family manage their exposure to inheritance tax in two key ways:

- When the FIC is formed, shares can be given to family members without incurring any immediate tax charges and – after seven years – the full value will pass out of the estate of the founders, avoiding any inheritance tax.
- Where shareholders have a minority interest in a FIC, the value of their shareholding will be discounted on death for inheritance tax calculations, taking into account the size of their holding and their inability to sell the shares or demand income from the company. In our experience, these discounts can be substantial and significantly reduce the inheritance tax owed.

## Accumulating wealth

A FIC is a very tax-efficient vehicle for accumulating wealth – and particularly dividend income, which is tax free (as dividends are paid by a company out of its taxed profits, it is not subject to further tax when received by another company). Other income and capital gains are subject to corporation tax at 19 per cent (rising to 25 per cent from April 2023) – which compared to a trust represents a saving of 26 per cent for income (20 per cent from April 2023). The low income tax rate means the FIC is able to reinvest more of its income, generating greater growth.

Profits are extracted via dividend payments. Although a dividend exemption of £2,000 is available over and above this, dividends paid to basic rate tax payers will attract additional tax at 8.75 per cent, those paid to 40 per cent taxpayers will attract further tax at 33.75 per cent and those paid to 45 per cent taxpayers will attract further tax at 39.35 per cent.

Overall, the effect of the two layers of tax are currently – 26 per cent for basic rate taxpayers, 46 per cent for 40 per cent tax payers and 51 per cent for 45 per cent taxpayers and trusts.

From April 2023, the combined rate will be 32 per cent for basic rate taxpayers, 50 per cent for 40 per cent tax payers and 55 per cent for 45 per cent taxpayers and trusts.

The payment of the additional tax that results in these overall rates only arises when profits are distributed – which is at the discretion of the board. Therefore, given the advantages of rolling up income at the lower tax rate (currently 19 per cent), income is only distributed as and when it is needed.

## Controlling a FIC

As with any company, day-to-day control of a FIC rests with the board of directors. The board determines what investments the company makes and what dividends it pays to shareholders.

However, a FIC also goes much further than a trading company to ensure that the board has an overall say in the structure and management of the company. For example, shareholders have to seek board approval before appointing or dismissing a director, or transferring shares.

## Protecting wealth

FICs may provide useful protection in the event of a family divorce, not least as shares cannot be held by non-family members (including ex-spouses) and the assets of the FIC are generally beyond the reach of the family court. The value of shares held by a divorcing shareholder will be taken into account as an asset, but their value is always negotiable.

## Potential for change

HMRC had a special unit looking into the use of FICs especially for estate planning. However earlier in 2021 they announced the unit had been disbanded following no evidence of non-compliance. FICs are now seen as “business as usual” by HMRC which is clearly good news. However, care is still needed when structuring a FIC as HMRC have indicated that there are still some structures that may be caught by existing anti-avoidance rules.

## Meet our experts

Our experienced team operates nationwide.
For further advice, please get in touch with your local contact below.


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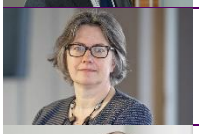

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