

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 controlled and tax efficient way. They provide a vehicle to involve and educate the next generation on how to manage family wealth. A FIC is also a vehicle for accumulating wealth tax efficiently. Control is typically given to the board of directors.

Key features

- On incorporation, shares can be gifted free of any immediate tax.
- Dividend income received by a FIC is generally not subject to tax.
- Other income and gains are taxed at most at 25 per cent.
- 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 tax-efficient vehicle for accumulating wealth, particularly dividend income, which is generally tax free. Other income and capital gains are subject to corporation tax at 25 per cent. A property owning FIC might also benefit from the small profit rate of 19 per cent or marginal relief. Given trusts pay 45 per cent on all their income, these lower rates represent a significant tax saving. The lower tax rates mean a FIC is able to reinvest more of its income, generating greater growth.

Profits are extracted via dividend payments. Basic rate tax payers will pay tax at 8.75 per cent, those paid to 40 per cent taxpayers will attract tax at 33.75 per cent and those paid to 45 per cent taxpayers will attract tax at 39.35 per cent.

Overall, the effect of the two layers of tax is currently 32 per cent for basic rate taxpayers, 50 per cent for 40 per cent taxpayers 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 rates, income is only distributed as and when it is needed.

Alternative ways to extract profit can also be adopted, such as the payment of interest or salaries by the FIC.

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 must 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.

Furthermore, the rules around share ownership of a FIC can include the requirement for all shareholders to have a marital agreement. Setting out family expectations around protecting wealth through a marital agreement can be really useful and help to make raising a tricky topic easier and less personal.

Educating the next generation

One of the less obvious benefits of a FIC but one that is emerging as really valuable, is the opportunity it provides to educate the next generation. Introducing a FIC and inviting adult children to engage in the management and investment strategy, even on an informal basis, can be both fun and really worthwhile, helping to ensure they will be ready to take on the management of the family wealth when the time comes.

Potential for change

HMRC had a special unit looking into the use of FICs especially for estate planning. However, 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.

Mills & Reeve LLP is a limited liability partnership authorised and regulated by the Solicitors Regulation Authority (SRA authorisation number 464604) and registered in England and Wales with registered number OC326165. Its registered office is at 7th & 8th floors, 24 King William Street, London, EC4R 9AT, which is the London office of Mills & Reeve LLP. A list of members may be inspected at any of the LLP's offices. The term "partner" is used to refer to a member of Mills & Reeve LLP. The contents of this document are copyright © Mills & Reeve LLP. All rights reserved. This document contains general advice and comments only and therefore specific legal advice should be taken before reliance is placed upon it in any particular circumstances. Where hyperlinks are provided to third party websites, Mills & Reeve LLP is not responsible for the content of such sites.

Mills & Reeve LLP will process your personal data in accordance with data protection and privacy laws applicable to the firm (including, as applicable: the Data Protection Act 2018, the UK GDPR and the EU GDPR), and you can find out more about our processing of your data, including in relation to marketing communications, at [Information and Privacy | Mills & Reeve](#). You can unsubscribe from marketing communications by emailing preferences@mills-reeve.com T +44(0)344 880 2666
