Planned Succession
Personal Estate & Business Succession Planning

Family Investment Companies

Trying to cascade wealth down the generations should be the easiest thing in the world; unfortunately, the State has a nasty habit of first wanting its share by way of a bit of grave robbery otherwise known as Inheritance Tax (IHT) which, at current rates, is levied at 40% on everything above £325,000 (the Nil-rate Band (NRB)); you can find out more about IHT by visiting the fact sheets page of our website.

Meanwhile, one of the most effective legal and moral ways to pass on your head-earned wealth as intact as possible to those you love and care about is via a Family Investment Company (FIC) which, in broad terms, is a UK-resident private limited company whose shareholders are family members. FICs can be extremely tax-efficient, especially where an individual transfers cash into them, which in turn can be invested to generate income for your family.

The main benefits of a Family Investment Company are: -

- The transfer of cash into a FIC is usually IHT free.
- There is no immediate charge to IHT on the gift of shares from the donor to another individual or a Trust, albeit it is still a Potentially Exempt Transfer (PET) and only fully IHT free if the donor survives for seven years following the date of the gift.
- With the correct Memorandum and Articles of Association, the donor still retains an element of control in the company.
- The FIC would only pay tax at a rate of 20% on the profits it generates in the 2015/16 tax year.
- Shareholders only pay tax to the extent the company distributes income and, if the profits are retained within it, then no further tax would be payable.

As always, there are disadvantages, being: -

- If non-cash assets are transferred into the FIC, the donor may be incur a Capital Gains Tax (CGT) charge based on the market value of assets that are transferred into it.
- There can be an element of double taxation in using company structures, in that profits are subject to corporation and income tax.
- The FIC will have to comply with the prevailing company filing regulations.

How are FICs taxed?

- In essence, they are taxed in the same way as other companies and pay corporation tax on their annual income and gains.
- Corporation Tax rate is currently significantly lower than the top rates of income tax for individuals and trustees, which in the 2014/15 tax year are 45% for savings income and 37.5% for dividend income, which can leave up to 25% of extra income to be reinvested in the 2015/16 tax year.
- From April 2015 capital gains realised by FICs are taxed at 20%, which is significantly lower than the current rate of CGT for individuals and trustees. In addition and unlike for individuals and trustees, FICs still benefit from the indexation allowance which takes account of inflation when calculating capital gains.
- Dividend income received from other UK companies is free of corporation tax in the FIC.
- Investment managers' fees should be tax deductible which is not the case for directly held investments.

Setting up an FIC is not an easy matter and requires the services of legal and tax specialists, neither is it particularly cheap; that said, the IHT savings alone will more than pay for any upfront costs and, best of all, you'll be laying the foundations for a tax efficient and long-lasting property business without having to worry about what will happen when you die.

You should please note that this fact sheet is based upon our understanding of current legal and HMRC practice and you should not proceed with first taking specialist advice.

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