

# Family Investment Companies (FICs)

## What is a Family Investment Company?

A Family Investment Company (FIC) is a private company used primarily for the purpose of managing and growing family wealth. It is typically structured to allow family members to hold shares, receive dividends, and benefit from the company's assets in a tax-efficient manner. FICs are often used for asset protection, wealth transfer, and estate planning.

## Key Features

**Ownership Structure:** FICs are usually structured with multiple classes of shares, allowing the family to retain control while distributing economic benefits among family members.

**Tax Benefits:** FICs can offer significant tax advantages, such as:

- **Income Tax:** FICs can pay dividends to family members which are taxed at lower rates than.
- **Capital Gains Tax:** By holding assets in a FIC, the family can control how gains are realised minimising exposure to Capital Gains Tax.
- **Inheritance Tax (IHT):** A FIC can help reduce IHT liability by structuring ownership in a way that allows for tax-efficient wealth transfer.

**Control:** A FIC allows parents or grandparents to retain control of the company, even if they transfer a significant portion of the shares to next generations. This control is maintained through share classes with different voting rights.

**Asset Protection:** Assets held within a FIC are generally protected from individual creditors, offering a level of protection from personal liabilities.

## Advantages

- Profits are subject to corporation tax rates, which are generally lower than the higher rates of income tax.
- The initial gift of any shares to family members are potentially exempt transfers (PETs). If the donor survives seven years from the date of the gift, the value of the gift falls out of their estate for IHT purposes.
- FICs enable the founders to manage the investments and income stream while gradually passing control to the next generation.
- FICs can be structured to spread shares among many family members and possibly family trusts. This allows for the investment to be passed down on a fair basis.
- When valuing a family member's shares for IHT purposes, a discount may be applied to reflect the size of the interest.

## Disadvantages

- If all profit is paid out, the tax will be inefficient and can potentially create a double tax charge.
- Assets other than cash transferred trigger a CGT charge, and a transfer of property will trigger a SDLT charge.
- More administrative and expensive system.
- Potential family conflict.

## Tax Implication & FIC used for Estate Planning

The profits accumulated within a UK FIC are subject to UK corporation tax rates. The transfer of an asset other than cash will be subject to capital gain tax.

FICs can be particularly useful in estate planning as there is a separation between ownership (via shareholdings) and control (via the board of directors and shareholders agreement).

## Funding a FIC

The FIC may be funded in a number of ways. The main options are summarised below:

- Loan – funds may be lent to the FIC by the founder(s). The benefit of this method is that there is not usually a transfer of value for IHT purposes, and the founders can fund their ongoing personal income needs by drawing down on this loan without paying income tax.
- Share capital – an existing business may be incorporated in exchange for shares issued by the company. Provided conditions are met, it may be possible to achieve this with no immediate CGT or SDLT charges. This may include unincorporated businesses, shares of another company, or property portfolios.
- Any assets sold to the FIC must be done at market value (usually creating a loan due to the transferor) to ensure there are no lifetime IHT charges.

## Limited vs Unlimited FIC

The decision between an unlimited and a limited company depends heavily on the family's needs for privacy, liability protection, and potential future changes. Limited companies tend to offer better protection for shareholders, especially in scenarios where business risks or debt might be a concern. An unlimited company, on the other hand, offers greater privacy but comes with the risk of personal liability for the family members involved.

# Get in Touch



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As a member of the ICAEW and CIOT Nick specialises in technical corporate tax planning and company reorganisations advising on a variety of projects from mergers and acquisitions to company incorporation, management buyouts and demergers. Nick is a regular writer for various tax journals with articles published in Taxaction, Tax Advisor and ICAEW Taxline. Presenting regular lectures to fellow professionals through various CPD providers including MBL, CPDStore and a variety of CIOT branches.



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Pete began his career with the Inland Revenue in 1988 with roles in tax districts in Birmingham and London before spending several years in head office, culminating as the Inland Revenue's expert on the rules for company distributions and advance corporation tax. Since going into private practice 25 years ago, Pete has worked for Big 4 firms and run his own business for 11 years, advising a wide range of clients from owner managed businesses to the largest corporate groups. Pete is Chair of the CIOT's Owner Managed Business Tax Technical Committee, as well as being a member of the Tax Policy and Oversight Committee and of the Education Committee.

## Client Testimonials

★★★★★

Our company Emerald Associates met with Nick who was courteous and helpful from the outset. It was also very reassuring to have our accountant, who was present at the Teams meeting, say that he had used their services and that they were indeed the experts in the field of Tax. Nick provided great clarity.

★★★★★

I've worked with Pete Miller and Nick Wright from Jerroms Miller on a few projects and each time have found their assistance and expertise invaluable. They and their team have a wealth of expertise and experience across a broad spectrum of taxes, in particular corporate reorganisations.

★★★★★

Jerroms Miller have provided specialist tax support on a number of transactions and reorganisations for our clients. As well as being technically very good Pete and Nick provide excellent ongoing support to clients both during and after the transactions which is both valuable and reassuring.

★★★★★

Jerroms Miller are a fantastic resource for dealing with our complex tax issues or when we need a second opinion on a technical query. Pete, Nick and the rest of the team are always quick to respond with clear and concise advice.



Nick Wright is joined by leading industry experts on the **@TheTaxHour** Podcast.

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