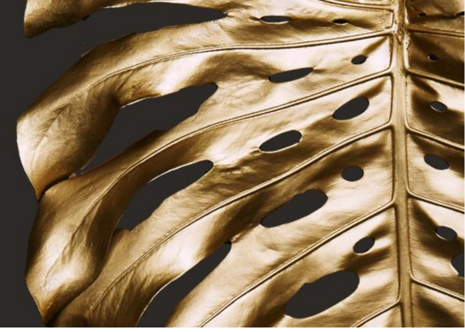

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UNIQUE, BOUTIQUE WEALTH MANAGEMENT

Family Investment Companies

Trusts can be a useful estate planning tool. However, if you want to put more into them than your inheritance tax (IHT) nil-rate band (NRB) allowance of £325,000 per person, you have to pay 20% tax on what is paid in above the NRB immediately.

What do Family Investment Companies do?

Family investment companies (FIC) offer a different structure enabling individuals to pass on wealth while maintaining control of assets, as well as offering potentially greater tax efficiency. If you set one up you can make yourself the director, and control what assets the company invests in and when dividends are paid. The company can also have non-voting share classes, for example for children who could own the majority of the shares, offering an element of control. Additionally, if you live for seven years after setting up the company the assets you put into it will not be subject to IHT.

There are two main ways of funding a FIC: the simplest way is to place cash into the company in return for shares or gift the money to your children and ask them to subscribe for shares.

Another option is to lend money to the company. This means you are sharing the growth of the company with shareholders whilst retaining the nominal amount that you put in.

You can lay out the terms for the company when you draw up the shareholders' agreement. This means that parents can have controlling rights over the company, and choose when dividends are paid and to whom, and where the company's money is invested.

When you set up a family investment company you will have to pay fees to lawyers, accountants and possibly financial advisers, which can add up to more than £10,000. FICs are generally most cost-effective if a sum of at least £1m is subscribed.

FICs can also be used in conjunction with trusts. Whereas shares in a FIC have to belong to someone, a portion of the company's shares might be held in trust for the benefit of future grandchildren.

Taxation

If you set up a FIC and gift shares to your children, they will not have to pay IHT on the value of their holding if you live for seven years after gifting the company shares to them.

The tax treatment of FICs can vary. Generally speaking, rather than paying dividend and capital gains tax on investments held within the company, you pay corporation tax on company profits and shareholders are liable to tax on the dividends they receive. In some cases, you might pay a shareholder a salary out of the company, which would be subject to income tax and national insurance.

Not all assets held within a family investment company are exempt from dividend tax, but most UK share investments are. This makes reinvesting dividends within the company tax efficient. With some assets, corporation tax is paid when they are sold, while the value of others is marked to market and you pay tax on any profit on them every year.

FICs are private limited companies whose shareholders are family members. The structure enables parents to keep control over the assets while growing wealth and facilitating tax-efficient succession planning.

Who are they suitable for?

Family investment companies are most often used by people with relatively large sums of money as a form of succession planning. They have become increasingly popular since regulations in 2006 made trusts less attractive, and corporation tax had gradually come down in recent decades. They are particularly attractive to business owners who are familiar with the processes of running a company.

Parents or other family members can hold voting shares with no or little economic value, and children/grandchildren hold non-voting shares with an entitlement to income and capital.

Downsides

There are no guarantees that an individual will have lower annual tax charges by running a FIC relative to, say, a General Investment Account. However, they are useful if your main objectives are succession planning, protection (keeping wealth within your family) and IHT planning.

FICs are susceptible to rises in corporation tax, as is currently mooted (an increase from 19% to 25%).

There are considerable reporting standards to adhere to, including the preparation of accounts, annual confirmation statements, accounts to file at Companies House, and submission of tax returns to HMRC.

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