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Private Wealth

Family Investment Companies

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If you have funds that you wish to invest and grow for the benefit of your heirs, but want to retain some control of how that investment is managed and distributed, a Family Investment Company might be the right structure for you. Here we summarise the benefits of a Family Investment Company, as well as the tax implications.

Family Investment Company

- A Family Investment Company (FIC):
  - is a tax efficient vehicle in which to accumulate wealth
  - should be considered as a long-term investment strategy
  - can hold any asset class.
- If the FIC is UK tax resident it will be taxed in the same way as any UK company, so all income and gains are subject to UK corporation tax at 19% - compared with the top individual tax rate on income of 45% and on gains of 28% and the trust rate of 45%. This can mean that the FIC potentially has over 20% extra income to reinvest compared with an individual investor.
- Gains arising within the FIC will be subject to tax at 19%.
- The rate of UK corporation tax is due to increase to 25% from April 2023 but dividends received by the FIC from other companies will in any event in most cases be exempt from corporation tax.
- Investment management fees will be a deductible expense in calculating the FIC's taxable profits. An individual investor cannot deduct such fees in calculating their taxable income.
- If property is held, rental losses can be set off against other income; individual investors can only set rental losses against profits from their property business.

Loans

- If a family member makes a loan to the FIC the loan repayments will be free of UK tax.
- The loan can be interest free and repayable on demand.

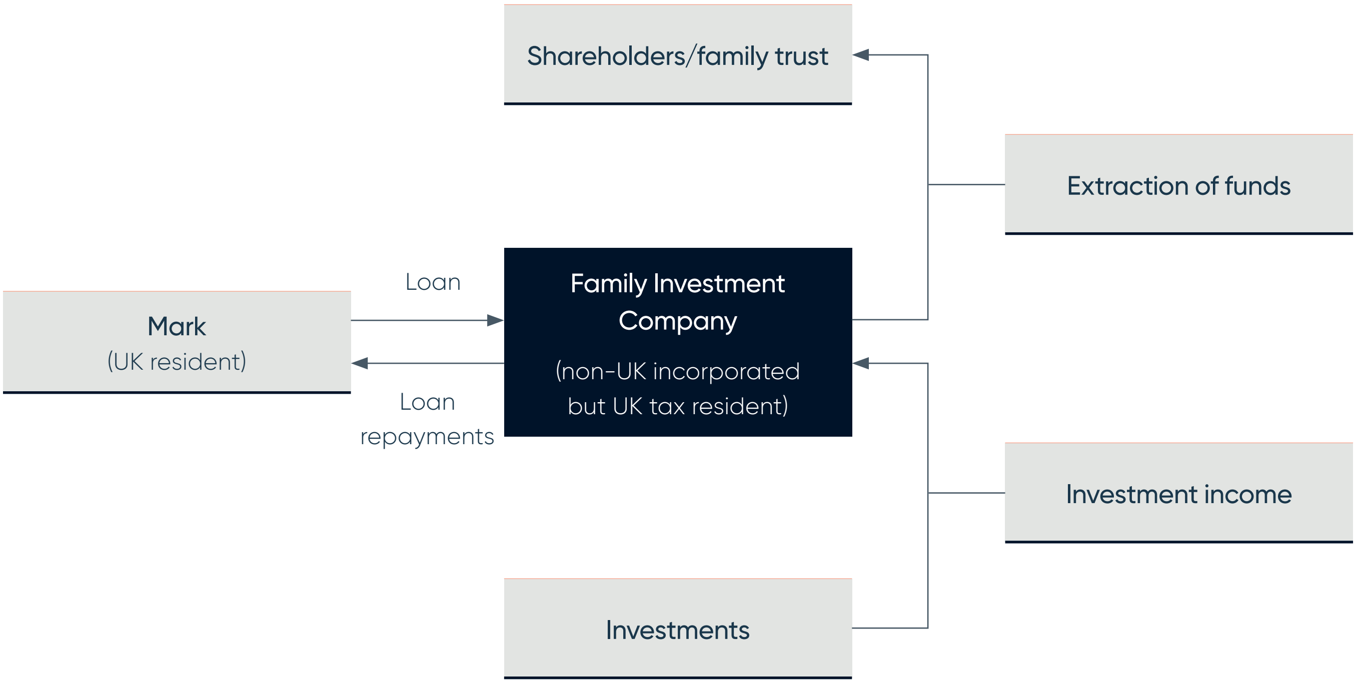
Extraction of funds

- Dividends paid to shareholders will be subject to income tax in their hands. Non-UK resident shareholders will have no liability to UK income tax on dividends.
- On liquidation the shareholders will be subject to capital gains tax. Non-UK resident shareholders will not be subject to UK capital gains tax on any gains realised on a liquidation, unless the FIC holds UK property.
- Where the FIC is held by a family trust it may be possible to make distributions to beneficiaries with no additional UK tax charge.

Shares

- Shares in the FIC can be held by a family trust or family members.
- Holding shares in trust may provide inheritance tax and succession planning advantages.
- If shares are to be held by family members different classes of shares can be created - for example, voting shares giving control; shares carrying only a right to income and redeemable preference shares.
- The Memorandum and Articles of Association can be drafted to meet the needs of the family - for example, defining how family members will benefit from income and capital, and setting out who has voting rights.
- Family members (as directors) can retain control over investment decisions and decide when dividends are paid and how much is paid. There can also be a separate Shareholders' Agreement restricting how family members can deal with their shares.
- Shares in the FIC will be non-UK assets for UK inheritance tax purposes if the FIC is a non-UK registered company, and so not subject to inheritance tax in the hands of non-UK domiciled and not deemed domiciled shareholders, unless the FIC holds UK residential property (or related loans).

Typical FIC structure



Comparison of UK tax position: FIC vs individual investor

Type of income	Family Investment Company (UK resident)	Individual investing directly (UK resident)
Dividend income	Exempt in most cases	38.1% [1, 2]
Interest	19%	45% [1]
Rental income	19%	45% [1]
Offshore fund income	19%	45% [1]
Capital gains	19%	20% [1, 3]

[1] assuming total income of £150,000+

[2] individual taxpayers have a £2,000 annual tax-free allowance for dividends. Additional rate taxpayers pay tax at 38.1% on dividends above that amount – this is due to increase to 39.35% from April 2022

[3] 28% on gains on residential property and carried interest

Let us know how we can help: **privatewealth@taylorwessing.com**