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Family Investment Companies Factsheet

A Family Investment Company is an entity used as a vehicle to hold, protect and invest family wealth and provide for flexible extraction of funds.

Family Investment Companies are an increasingly popular alternative to trusts, enabling family wealth to be passed to younger generations whilst allowing the founders to retain control of the assets.

A Family Investment Company can also offer increased asset protection with respect to creditors and on divorce.

What is a Family Investment Company (FIC)?

- A UK resident private limited company
- The shareholders are family members
- A company that generally invests rather than trades

Tax benefits

- Inheritance tax – shares in the **FIC** can be subscribed for on creation, meaning there is no transfer of value.
- Inheritance tax – alternatively shares in a **FIC** can be given to family members and, after seven years, the value of the gifts will fall outside of the founder's estate for inheritance tax purposes.
- Inheritance tax – FICs are not subject to the **20%** entry charges and **10-yearly** charges for inheritance tax that are applicable to trusts.
- Any increase in value of the investments held by the FIC can arise outside the estate of the original founder as value accrues to shares held by the other family members.
- Tax efficient accumulation of wealth – income and gains are taxed on the FIC at the corporation tax rate (currently **19%**). This rate is much lower than the current rate of income tax for trusts of **45%**, and the higher and additional rates of income tax for individuals of **40%** and **45%** respectively.

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- Income tax - income tax liabilities are only incurred when funds are distributed to family members. This permits shareholders to control income flow and utilise tax reliefs effectively.
- Dividend income – there is no tax payable on UK, and most overseas, company dividends received by the FIC.
- Capital gains – gains on investments within a FIC will be subject to corporation tax at **19%** rather than the **20%** or **28%** personal capital gains tax rates.
- Expenses incurred by the FIC in managing its investments and running its business will be eligible for corporation tax relief. An individual investor cannot obtain tax relief on the expenses of managing his or her share portfolio.

Flexibility

- It is possible for each family member to hold a different class of share with different voting rights, rights to income and rights to capital on a winding up. This allows the payment of dividends in line with individual income requirements.
- The FIC may be funded partly or wholly by way of loan and this will allow the individual founder to withdraw capital from the FIC tax-free.
- The Articles of Association (and Shareholders' Agreement) can be drafted to meet the precise needs of the family.

Asset protection

- FICs can take advantage of case law which provides that family courts cannot seize the assets of a company on a divorce.
- The Articles of Association of the FIC can provide restrictions on the transfer of the shares to spouses and to non family members.
- Additional protection can be achieved by using a separate Shareholders' Agreement in addition to the Articles of Association. This also has the benefit of being private whereas the Articles are public documents.

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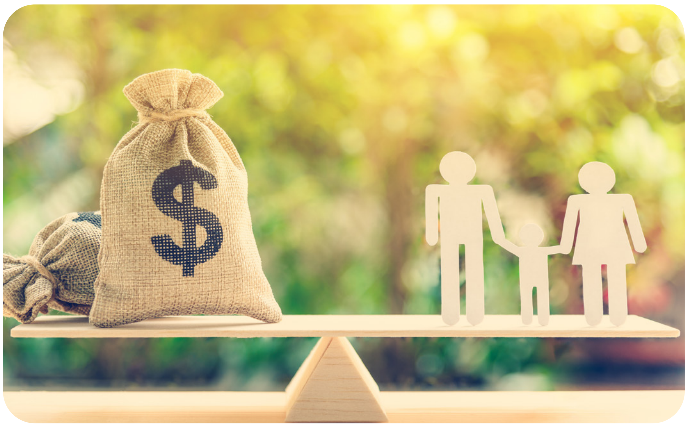
Maintenance of control

- The directors have the power to decide the level and timing of any dividends.
- The directors have complete control over investment decisions.
- The structure can require approval of the board before directors are appointed or removed.
- The founder can retain voting shares if appropriate and give away non-voting shares. Alternatively, non-voting shares can be issued to other family members.

Extraction of funds from the FIC

- The FIC shelters the investments from income tax until the funds are extracted from it.
- When profits are extracted the shareholders will be liable to income tax on the amounts received – this does not apply to loan repayments.
- For children over the age of **18** the payment of a dividend can be an efficient way of extracting funds to help with university living costs and fees.

This factsheet has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The factsheet cannot be relied upon to cover specific situations and you should not act upon the information contained therein without obtaining specific professional advice.



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