

Accounting resource: Family investment companies (FIC).



In brief:

The Generation Gain: A Family Investment Company (FIC) can provide a tax efficient investment solution for family succession planning. A FIC is a simple to manage, cost effective vehicle which allows the founder(s) to retain control over the assets whilst distributing wealth within the family in a tax efficient manner.

“For anyone looking to protect and enhance the wealth for themselves and future generations, a FIC can offer an excellent way of doing so. The ability to maintain control and secure an efficient tax treatment means a FIC may well provide an ideal solution for wealthy families over the longer term. The exact benefits will depend on circumstances. We’d be delighted to help you explore your options and look at the Generation Gain as part of your family financial planning.”

Alan Ross, Tax Director, Wilson Partners

Family investment companies (FIC)

Key features of a FIC:

- A UK-resident and incorporated company.
- Family members are directors/ shareholders.
- Carefully drafted Articles of Association to suit needs of founder and their family.
- Ideally funded by cash through an equity subscription and/or loans.
- Holds and manages investments, probably by engaging an investment manager(s).
- Pays tax at the corporate rate as profits are earned with shareholders only paying tax when the company distributes funds. There can be a double charge to tax (in the company and on the individual) on profit extraction but this can be managed.

Benefits:

- Straight forward, simple to administer and non-tax contentious.
- No IHT on the growth in value as it is outside the estate of the founder.
- No immediate charge to IHT on funds loaned to the company, nor on funds invested in the company, but they do remain in the founder's estate.
- No IHT on shares gifted to other family members provided the founder survives for 7 years.
- The founder has control of the company, including investment and distribution decisions.
- Tax on retained profits at 19% (25% from 1 April 2023) allowing greater growth.

- Tax deduction for investment management fees.
- A tax efficient and flexible alternative to trusts - trusts generally suffer 45% income tax and 28% CGT on retained income and gains as well as an immediate 20% IHT charge on funds put in the trust.

Meteoric growth in the later years:

The significant long-term benefits of a FIC is best illustrated by an example. Some years ago Bob and Susan formed an IT company. After a lot of hard work, they have sold their company and each has received proceeds of £5m (after tax). Both are aged 55 and married with two children at university. They both felt that they would like to invest £3m for future generations of their family. Both Bob and Susan wanted to retain control of these funds for the time being.

Bob set up a FIC with his wife and they introduced £3m as an interest free loan to the company. Bob and his wife subscribed for 'control' shares in the FIC

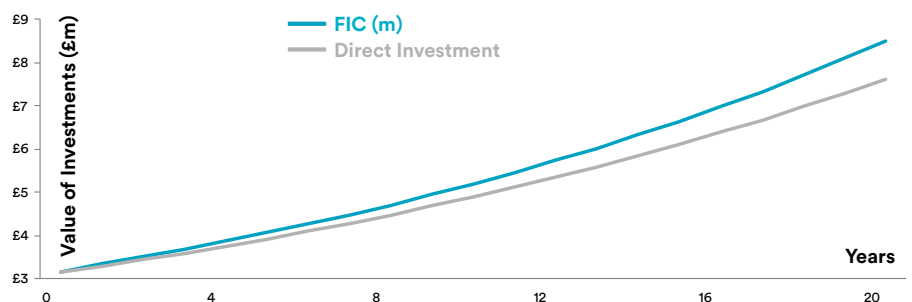
giving them control of the investment strategy, the repayment of loans and the distribution of income/ capital. Their children subscribed for 'equity' shares which will participate in any distributions of income/capital. The funds are then invested by an investment manager.

Susan decided to retain the funds and invest them with her husband with the same investment manager as Bob.

Assuming that both investment portfolios generate annual capital growth of 5%, income return of 2% and suffer management fees of 0.65%, the graph below illustrates the substantial difference in Bob's accumulated funds as compared to Susan's. Assuming both portfolios remain intact, by the time Bob and Susan are 75 Bob's portfolio will be worth £8.54m whilst Susan will have £6.84m - Bob has achieved a 25% increase against Susan, that's an extra £1.7m. In addition, the whole of Susan's portfolio remains in her estate for IHT purposes whereas only the original £3m loan remains in Bob's estate. This means that even though Susan's portfolio is worth substantially less, her estate on death will suffer substantially more IHT than Bob's.

In numbers:

The illustration shows the effect of investing £3m through a FIC versus a direct holding. A number of assumptions are made as outlined in the example.



Family investment companies (FIC)

In our opinion:

A FIC can provide a highly effective vehicle for passing wealth down to future generations whilst allowing control and securing tax efficiency. For wealthy individuals wishing to consider succession planning for their families over the longer term, a FIC may well provide the perfect solution. The benefits of a FIC will depend on individual circumstances and we recommend that all options are considered as part of an individual's overall strategy. We'd be delighted to help you explore your options.

Note: Certain assumptions made as to tax rates.

This is a brief summary of the position at 10/05/21. Professional advice should be taken before any FIC investments are made.