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Family Investment Companies (FICs) Guide

Family Investment Companies (FICs): Tax Advantages and Strategic Features

What Is a Family Investment Company?

A Family Investment Company (FIC) is a private limited company used to hold and manage family wealth—typically cash, property, or investments. Unlike trusts, which often involve relinquishing control, FICs allow founders (usually parents) to retain control via voting shares while transferring value to family members through non-voting or growth shares.

Key tax advantages of FICs

1. Inheritance Tax (IHT) Planning

- Gifting shares in the FIC can reduce the value of the founder's estate for IHT purposes.
- Future growth on gifted shares accrues outside the estate, helping mitigate IHT exposure.

2. Corporation Tax Efficiency

- Profits within the FIC are taxed at 25% Corporation Tax (2025/26 rate), which is lower than personal income tax rates (up to 45%) and the 40% IHT rate.
- Dividend income from UK shares is often exempt from Corporation Tax, allowing reinvestment and compounding within the company.

3. Capital Gains Tax (CGT) Deferral

- Gains on investments are taxed at corporate rates, not personal CGT rates.
- Extraction of profits (e.g. via dividends) can be planned to minimise personal tax exposure.

4. Asset Protection

- Assets held by the company are less vulnerable to divorce or personal claims, offering a layer of protection for family wealth.

Strategic features of FICs

- Alphabet Shares: Different classes of shares can be used to tailor income and capital rights across generations.
- Freezer & Growth Shares: These allow founders to fix the value of their interest while passing future growth to heirs.
- Control Retention: Founders can remain directors and manage investments even after gifting shares.

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Family Investment Companies (FICs): Key Considerations & Transferring Property

Considerations of FICs

- Setup Complexity: Requires legal, tax, and accounting input. Not a DIY solution.
- Ongoing Compliance: Annual accounts, tax returns, and statutory records must be maintained.
- Extraction Tax: While profits are taxed at 25%, extracting them may trigger personal tax liabilities.
- Limited Reliefs: Some trust-based reliefs (e.g. Business Relief) may not apply to passive FICs.
- **FICs and HMRC:** There is no specific FIC legislation, but they are standard UK companies. HMRC accepts them, though it may review structures where tax avoidance is the primary driver.

Transferring property into an FIC: key tax considerations

1. Capital Gains Tax (CGT)

- Transferring property into an FIC is treated as a disposal for CGT purposes.
- CGT is calculated on the market value of the property at the time of transfer, minus its original purchase price.
- Residential property CGT rates: 18% for basic rate taxpayers and 28% for higher rate taxpayers.
- No uplift in base cost on death if the property is held within a company.

2. Stamp Duty Land Tax (SDLT)

- SDLT is payable on the market value of the property transferred to the FIC.
- If the property is mortgaged, SDLT is calculated on the outstanding mortgage balance.
- SDLT applies even if the transfer is between connected parties or family members.

3. Corporation Tax

- Rental income and capital gains are taxed at corporation tax rates (currently 25% for profits over £250,000).
- Companies do not benefit from the annual CGT exemption available to individuals.

4. Inheritance Tax (IHT)

- The value of the company shares, not the underlying property, is included in the estate for IHT.
- Business Property Relief (BPR) is generally not available for property investment companies.
- Gifting shares in the FIC can be a Potentially Exempt Transfer (PET) if the donor survives seven years.

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Family Investment Companies (FICs): Comparison to Trusts, Structuring, & Suitability

Structuring strategies for FICs

Director's Loan Model

- Property is transferred into the FIC in exchange for a director's loan, which can be repaid tax-free over time.
- This depresses the company's net asset value, making gifting shares more tax-efficient.

Share Class Design

- Use alphabet shares to separate control (voting rights) from economic benefit (dividends).
- Parents retain control via A-shares, while children hold B-shares with dividend rights.

Trust Overlay

- Shares can be settled into a trust for children, with no immediate IHT value if the director's loan equals the company's asset value.

Who are Family Investment Companies suitable for?

FICs are generally most appropriate for high-net-worth individuals who want to pass wealth to children or grandchildren in a controlled and tax-efficient way. They are also attractive to families looking for an alternative to trusts but who still value the ability to guide investment decisions and distributions over the long term.

A comparison: FICs Vs trusts

Trusts remain useful in some circumstances, but they carry disadvantages such as higher rates of income tax and capital gains tax on retained income and gains, as well as potential upfront inheritance tax charges when transferring significant sums.
An FIC can also offer more flexibility and lower rates of tax on retained profits. Unlike trusts, FICs do not incur an upfront 20% IHT charge, and there's no cap on how much can be transferred. However, the trade-off is additional company administration, and extracting profits may create a double layer of taxation — once in the company and again on the individual.

How Kirk Rice can help with Family Investment Companies

At Kirk Rice, our tax and financial planning specialists have been advising families since 1989. We:

• Assess whether an FIC is right for your family circumstances
• Work with you on the structure and Articles of Association
• Advise on tax efficiency and long-term planning
• Coordinate with investment managers and legal professionals where needed

If you're considering a Family Investment Company as part of your estate or succession planning, our team can help you assess the options. Contact us at info@kirkrice.co.uk

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