



Myerson Wills, Trusts & Probate

A Guide to
Family Investment
Companies

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Welcome

We understand the complexities of modern life, relationships, and the importance of taking care of you, your family, and your financial interests. So, it's a deep source of satisfaction that so many families, institutions and individuals choose Myerson as an integral part of their succession strategy.

Why Myerson?

Our specialist Wills, Trusts and Probate Team are all highly experienced and knowledgeable surrounding changes to tax rules for UK trusts.

We know that many people have individual issues to consider, such as second families and family businesses, which require a tailored approach.

We are proud to be ranked as 'Top Tier' in the prestigious international directory **The Legal 500**, and commended by The Times '**Best Law Firms 2019**'. Therefore, you can be reassured you will receive a high quality and truly bespoke service.

How We Work?

Every client is different, and we are here to support you every step of the way.

Personal, Partner-led Service. We get to know you and what you and your family want to achieve.

The Highest Level of Expertise. With specialist knowledge and accreditations such as **STEP** (Society of Trust and Estate Practitioners) and **ACTAPS** (Accreditation of Contentious Trust and Probate Specialists), we use our expertise to focus on helping you and your family.

A Team You Can Trust. You're in safe hands. We help clients nationwide with simple and complex Wills, Inheritance Tax, and estate planning on a daily basis. You can rest assured that our expert team knows its stuff!



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Your Solicitors



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The solicitors that will be working with you are specialists.

All of our lawyers are experienced in advising you on the practical considerations of having a trust and tax rules surrounding Family Inheritance Companies.

The team provide practical advice and will deliver a complete service with support from specialists in our Wills, Trusts and Probate, Real Estate and Company and Commercial teams, as required.

You can find out more about Family Investment Companies and our team by clicking [here](#).



A Guide to Family Investment Companies

When the Finance Act 2006 was introduced, it brought a number of substantial changes to the tax rules for UK trusts, including, for example:

- An immediate charge to inheritance tax (IHT) at 20% for transfers made into a trust in excess of the Settlor's nil rate band (currently £325,000);
- Every 10 years, a further IHT charge (capped at a rate of 6%); and
- An additional charge to IHT if assets leave the trust (also capped at 6%).

The above changes have meant that affluent individuals wishing to pass their wealth down to their family have had to consider alternative structures, which may be more tax efficient.

One such vehicle that has become more common in recent years is the family investment company (FIC) because of the more beneficial corporation tax rate (currently 19% which is set to fall to 17% from April 2020) which a company pays compared with the income tax rates (usually 45%) payable by a trust where the income is accumulated.

What is a Family Investment Company (FIC)?

A family investment company or FIC is nothing new. It is just a company which is used for investment purposes and people have been doing this for decades. So, you may ask why has the FIC become so popular in recent years?

The reasons are twofold:

1. assets held in a FIC are outside of your estate when calculating any liability to inheritance tax (IHT) (subject to proper structuring), in which case no IHT is payable on such assets; and
2. in 2006, the government made a change to how trusts are taxed making them less attractive to hold investment assets. In comparison, corporation tax (the tax paid by companies) has reduced from 20% (in 2015) to the current rate of 19% (although is due to increase to 25% for trading companies with profits in excess of £250,000 from April 2023).

If you hold assets personally in your own name, such assets maybe subject to IHT on death as well as profits earned during your lifetime could be charged to income tax at rates of up to 45%.



Why use a Family Investment Company?

In simple terms, the reason is wealth accumulation. As a FIC pays less tax than you would if you personally invest in assets or held them in a trust, the income earned or payment received on the sale of those investments, are taxed at a lower rate, which means the FIC has more money to re-invest in further investments. Over a number of years, provided that the FIC re-invests its gains, it will accrue greater wealth faster.

Following the Budget in early 2021, it was announced that corporation tax for companies will increase from 19% to 25% (although the 19% rate will still apply to companies with profits below £50,000 and a marginal rate for companies with profits between £50,000 and £250,000). FIC's are usually split into 2 types in that they hold one or the other of the following types of investment:

1. Property – in which case, the FIC will be treated as a trading company and the 19% rate will apply for profits under £50,000 and thereafter the additional rates will apply; and
2. Stocks and Shares – such companies will be treated as “closed investment companies” and therefore will be taxed at 25% corporation tax regardless. However, if such profits are paid to the FIC by way of dividends, then such payments are exempt from corporation tax in any event.

Accordingly, even with the increased corporation tax rates from 2023, there are ways to mitigate such corporation tax which means that FIC's are still attractive for wealth accumulation, especially when compared to paying income tax.

Why use a Family Investment Company? (continued)

For these reasons, FICs are set up for the long-term and not the short-term, the idea being that the founders of the FIC, being mum and dad, set up the FIC and inject the initial funds to invest in assets. Their children (and maybe their grandchildren) will also be shareholders and benefit from the growth created by the investments held by the FIC.

Another reason is that FICs like all companies have their own legal identity separate from the shareholders that own the shares in them. This has 2 benefits in that (a) the shareholders of the FIC benefit from limited liability (i.e. losses are limited to the value of the shares held by the shareholders), and (b) as mentioned above, the assets held by the FIC are exempt from IHT (provided the FIC is properly structured).

FICs are therefore a very tax efficient company structure to maximise accumulation of private wealth whilst also ensuring that any future IHT bill is kept to a minimum.



Structure of a Family Investment Company

The structure of the FIC will vary depending on your circumstances (i.e. family and existing assets). However, there are some common elements, including:

- We regularly use trusts to hold the shares on behalf of the children and grandchildren which will not accumulate any wealth themselves but are used as a tax-efficient way of passing the wealth on to the family members, whilst retaining control.
- Limited or Unlimited? Whether the FIC is set up using a private company with limited share capital or a private company with unlimited share capital. The main difference is that unlimited companies are not required to file accounts at Companies House (retaining some of the privacy of the family's wealth). However, unlimited companies do not have the benefit of giving the shareholders limited liability which may be an issue if the FIC invests in trading businesses or the disposal of assets in the future.
- Introduction of Assets. Usually, the founder of the FIC will either gift or loan assets to the FIC, but this will depend on the nature of those assets and whether there are any tax consequences on transfer. We have seen cash, property, equity securities (i.e. shares), artwork and even classic cars being held by FICs.
- Different classes of share will be issued to the founders and their children/grandchildren. This ensures that the value arising from the growth of the assets held in the FIC are passed to the children and not retained by the founders (therefore minimising exposure to inheritance tax). The different classes also create flexibility on the distribution of income and assets. It is therefore vital that the FIC has a detailed shareholders agreement and/or articles of association to provide for this flexibility and control. Such documentation will also ensure that the only shareholders of the FIC are the intended family members.

Setting up a Family Investment Company

If you are considering using a FIC, there are a number of initial steps that you need to think about, such as how much you are going to invest in the FIC and what assets the FIC will invest in, are these existing assets or new assets?

Whilst we can advise you in relation to the legal structure of the FIC and drafting the relevant documents, you should also seek advice from your accountant or tax advisor and your financial advisor. If you don't have such advisors, we would be happy to make the necessary introductions.


How can Myerson help?

We can help you to put in place the most suitable tax efficient structures to help you with tax planning and transfer of assets. As part of this tax planning, we can identify whether or not an FIC would be a suitable vehicle for you.

If so, we can introduce you to specialist financial and tax advisors which can assist you in setting up the most appropriate structure for you.

We can then set up the FIC and prepare the proper documentation (including a shareholder's agreement and/or articles of association) to ensure that the FIC works for you.





Don't just take our word for it...

"From our first telephone conversation, Myerson dispelled any doubts with a warm and friendly approach."

"Their response time and communication are excellent, and I would have no hesitation in recommending Myerson in the future."

"The service we received at Myerson was sensitively handled, highly competent, professional, timely and efficient. The advice, guidance and support were excellent, well communicated and expertly executed."

"I would like to thank the team. I would heavily recommend them, and I have, to other friends and family. Their service has been efficient, speedy, and reliable. Myself and my family found them very understanding, kind and friendly."

"I have total confidence in the advice and support I received."

To view more Myerson reviews, visit our Review Solicitors page by [clicking here](#).

You're in safe hands!

If you would like further information about how we can help, or if you have any questions, please don't hesitate to contact a member of our Wills, Trust and Probate team today.

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Because
life is rarely
**black and
white.**



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