Client guidance note

Guidance note for Family Investment Companies – Creation and use

This publication gives general guidance only. It may not always apply and should not be relied on in place of specific legal advice.

There are a number of options to be considered when creating a Family Investment Company (FIC). This guidance note explains a number of options to be considered when creating a FIC.

FICS – Creation

The first question to ask therefore is for what purpose is the FIC being created?

Inheritance tax planning

If the primary reason for creating the FIC is for IHT planning, the funding and make up of the FIC is all important.

Share transfers

It is important to decide how to deal with share rights and the transferability of shares – thinking of the FIC as an alternative to a trust.

The transferability of shares must be considered on creation, to ensure that any disputes around share transfers are looked at at the outset. This way we can avoid complications for the future.

Funding of the FIC

For IHT planning, the initial investment is structured as share capital. This makes it possible to transfer the rights to capital to one or more beneficiaries, whilst retaining the voting and income rights.

Use of a trust

Often, we find that a combination of trust and FIC is a useful hybrid.

A trust can be used to own the voting shares and therefore avoid the implications of how voting is handled on incapacity or death.

Income tax planning

Where income tax is a bigger concern, we also have to consider issues surrounding the transferability of shares, although this does not necessarily need to be done at the outset. Of greater concern is how the company is to be funded.

When using a FIC to help with income tax planning, we would normally advise that the company be funded by way of a loan. One of the benefits of using loan funding is that it is then possible to withdraw profits from the company by way of repayment of the loan, which is tax free.