

What is a FIC?

A FIC is a tax efficient way to hold, control and pass on family assets. A FIC holds wealth that would be deemed surplus to the everyday needs of the FIC's founder and their family. Typically structured as a UK private limited company and bespoke to the founder's needs a FIC can be flexible on asset classes held from real estate to liquid assets based in the UK or overseas.

Upon creation a FIC would not trigger inheritance tax for the founder (provided the shares are paid for in cash and the founder survives the gift by seven years) as passing assets to a Trust would. The founder can also retain control of investments and dividend proceeds and there is no restriction as to how much can be held in the FIC, therefore making it a viable alternative to Trusts.

The Process

The founder or principal owner would initially become the sole shareholder upon incorporation of the FIC and hold all the voting shares (A shares) but with no rights to the income or capital. The non-voting B shares would hold all rights to the capital and income but with no voting rights. Any sensitive provisions would be placed in to a Shareholders agreement. The founder would typically gift the B shares to family members and the gift is treated as potentially exempt for inheritance tax purposes.

Some transfers however could potentially trigger capital gain or stamp tax implications and there may be a potential double taxation charge as the FICs profits are subject to corporation tax initially and then subject to income tax when distributed to the shareholders through dividends. We therefore request that advice must be obtained prior to structuring.

FIC Key Advantages

- For the founder the FIC is flexible, allowing a controlled process of gradually handing over control by way of share transfers and the appointment of family members as directors.
- The FIC pays corporation tax on its income and capital gains. The majority of dividends received by a FIC are exempt from corporation tax regardless of UK or overseas source.
- A FIC's members receiving dividends do not pay tax on the first £2,000, any dividend amount over and above this is chargeable as income tax at the member's marginal rate of tax. For adult children dividends may be used as an efficient way to pay for higher education costs.

- As opposed to trusts, there is the ability to include controls over what happens on divorce of family members holding the B shares. This eventuality can be set out in a shareholders agreement.
- It may be possible for the founder to mitigate tax if the FIC is funded by way of a loan that is later repaid out of the FIC's profits.
- Corporation tax is applied on the income and capital gains of the FIC, a rate significantly lower than personal income (up to 45%) and capital gains (up to 28%) tax rates, therefore allowing the investments to appreciate quicker.
- Can be used for Investment Property Portfolios which allows the family members of different generations to be shareholders of the Company. The parents can retain control by having the controlling shareholding with voting rights whilst other family members can benefit from the income by holding a different class of shares.
- Profits can be reduced by paying management charges, benefits and in the case of property lending, obtain full mortgage relief.

Timing

The process of setting up a UK FIC would take between 2-3 weeks depending on obtaining advice and meeting Imperium's due diligence requirements. Full tax advice must be obtained prior to the incorporation of a FIC. Imperium work with a number of leading advisory firms that assist with the structure advice and the necessary articles and shareholders agreements.

Fees

The fees associated with incorporating a UK FIC would vary from £2,000 - £7,500 depending on the complexity and asset classes intending to be added to the FIC. On an ongoing basis annual fees would start at £4,000 and dependent on the components and size of the FIC. Please note that the tax, accounting & legal advice would be charged separately or in addition to Imperium's fees.

Please contact Grant Twine or David Gilmour to discuss on 0207 952 2924 or email: Grant.Twine@imperiumtrust.com or David.Gilmour@imperiumtrust.com