



FAMILY INVESTMENT COMPANIES A POWERFUL TOOL OF UK ESTATE PLANNING

A Family Investment Company (FIC) is a sophisticated tax-planning vehicle designed to manage and protect wealth across generations. While it functions much like a standard private company, its added value lies in its share structure and the strategic use of trusts.

1. FREEZER AND GROWTH SHARES

One of the main aims of establishing an FIC is to "cap" the value of the older generation's estate while directing future wealth to the younger generation. This is achieved by splitting the company's equity into two distinct classes:

FREEZER SHARES (THE "FLOOR")

These are the shares retained by the founders (parents/grandparents). They represent the current value of the company at the time of setup (the "hurdle"). The FIC's Articles of Association are drafted so that these shares are entitled to the current net asset value of the company but **do not** participate in any future appreciation. The value of the founders' estate is "frozen" for Inheritance Tax (IHT) purposes. If the company grows from £2m to £10m, the founders' shares remain worth £2m.

GROWTH SHARES (THE "CEILING")

These shares have no value at the outset because they only entitle the holder to capital growth above the hurdle rate. As they have little to no value initially, they can be gifted to children or trusts with minimal Capital Gains Tax (CGT) or IHT implications. All future capital appreciation belongs to the growth shareholders, effectively shifting wealth out of the founders' taxable estates without them losing immediate control.

2. USING TRUSTS AS SHAREHOLDERS

While shares can be gifted directly to family members, many FICs use Discretionary Trusts as the holders of the growth shares.

The Pros:

- **Control & Protection:** Trustees (often the parents) decide when and how much a beneficiary receives. This protects assets from "spendthrift" heirs, or in the event of a beneficiary's divorce or bankruptcy.
- **Flexibility:** A trust can benefit future generations not yet born. You don't need to decide today exactly how much each grandchild will eventually get.
- **Income Splitting:** Dividends can be paid to the trust and then distributed to beneficiaries (like adult children in lower tax brackets), potentially utilising their personal tax allowances.
- **Tax Deferral:** Gifting growth shares to a trust allows for "Holdover Relief," meaning any initial CGT on the gift can be deferred.



The Cons

- The "Relevant Property" Regime: Unlike the FIC itself, trusts are subject to ten-yearly IHT charges (up to 6%) on value exceeding the Nil Rate Band (£325,000).
- Higher Tax Rates: Trusts pay the highest rates of income tax (currently 39.35% on dividends and 45% on other income), though beneficiaries can often reclaim this if they are lower-rate taxpayers.
- Administrative Burden: You effectively double your paperwork, requiring both company accounts and trust tax returns.

3. COMPARATIVE SUMMARY: FIC VS. TRUST

Feature	Family Investment Company (FIC)	Discretionary Trust
IHT on Setup	None (Potentially Exempt Transfer)	20% on amounts over £325k
Ongoing IHT	None (no 10-year charges)	Up to 6% every 10 years
Tax on Income	25% (Corporation Tax)	45% (Trust Rate)
Dividends	Usually tax-free into the FIC	Taxed at 39.35%
Privacy	Public (Companies House)	Private (HMRC Register)

4. WHY USE THEM TOGETHER?

By having a Trust hold the Growth Shares, the family gains the corporate tax efficiency of the FIC (where profits can roll up at 25% rather than 45%) combined with the long-term flexibility and asset protection of a trust.

When issuing growth shares, it is vital to have a professional valuation. HMRC may argue that growth shares have "hope value" even if the hurdle hasn't been met yet. Setting the hurdle slightly above the current market value (a "premium hurdle") can help mitigate this risk.

5. STRATEGIES FOR EXTRACTING CASH

The efficiency of an FIC is only as good as its extraction plan. In 2026, we are looking at a landscape where dividend taxes have increased, making traditional "profit-taking" more expensive.

A. REPAYMENT OF DIRECTOR/PARTICIPATOR LOANS

Where the FIC is initially funded by the founders lending cash to the company, repaying these loans is **tax-free** for the founders. Since it is a return of capital, there is no Income Tax or National Insurance. Founders can live off these loan repayments for years while the company's investments grow internally. Loans can be gifted without Capital Gains Tax (as a Potentially Exempt Transfer for Inheritance Tax though), which allows the founders' children to benefit from tax-free withdrawals too, which can aid in managing marginal income tax rates.



B. DIVIDEND DISTRIBUTIONS

Once the director's loan is fully repaid, dividends become the primary tool. As of April 2026, dividend tax rates have risen. The tax-free allowance remains a modest £500.

- Current Rates (2026/27):
 - Basic Rate: 10.75%
 - Higher Rate: 35.75%
 - Additional Rate: 39.35%

It is common practice to implement the issue of different classes of shares (Class A, B, C, etc.). This allows the directors to pay different dividend amounts to different family members. For example, a grandchild at university can be paid a dividend to utilise their £12,570 Personal Allowance and the £500 dividend allowance, essentially extracting cash at a 0% effective tax rate.

C. SALARIES AND BENEFITS

Salaries are a deductible expense for the FIC, reducing its Corporation Tax bill. However, salaries attract National Insurance Contributions (NICs) for both the company and the individual. It is therefore usual for directors to take a small salary (often up to the NI Primary Threshold) to maintain their State Pension record, with the balance taken as loan repayments or dividends.

D. THE EXIT STRATEGY

If the family decides to close the FIC, the remaining assets are distributed as capital. This is subject to Capital Gains Tax (CGT). The rate is currently 24% for higher-rate taxpayers.

Summary of Tax Efficiency (2026)

Extraction Method	Recipient Tax	Company Tax	Best For...
Loan Repayment	0%	None	Founders' living expenses.
Dividends	10.75% – 39.35%	Paid from post-tax profit	Adult children/grandchildren.
Salary	20% – 45% + NICs	Deductible (saves 25%)	Maintaining pension records.
Liquidation	Up to 24% (CGT)	None on distribution	Final exit or major capital needs.

6. CONSIDERING ANTI-AVOIDANCE

While FICs are legal and highly effective, they must be navigated with care to avoid falling foul of specific UK tax laws.



THE SETTLEMENTS LEGISLATION (ITTOIA 2005)

This is a common pitfall for FICs involving minor children. If a parent creates a "settlement" (like gifting shares) from which their minor child benefits, any income (dividends) over £100 per year is taxed as the parent's income. This rule ceases to apply once the child turns 18. This is why many FICs use a Discretionary Trust to hold growth shares. The income can be "rolled up" inside the company or trust until the children reach adulthood, at which point it can be distributed using their adult personal allowances.

For a gift of shares to be valid for tax purposes, there must be an "element of bounty", however, if the structure is deemed purely an artificial tax-avoidance scheme without commercial merit, HMRC can implement the General Anti-Abuse Rule (GAAR) to counteract the tax advantages. It is therefore important to ensure the FIC has a clear "Statement of Intent" or "Family Constitution" documenting its purpose as a long-term succession and investment vehicle, not just a temporary tax shelter.

7. STRATEGIC SUMMARY

The table below summarises the current optimal setup for a modern family.

Component	Strategic Purpose	Tax Impact
Founder Loans	Initial Funding	Allows tax-free cash extraction later.
Freezer Shares	Value Retention	Fixes IHT value at today's prices.
Growth Shares	Future Wealth	Passes all future growth to heirs at 0% initial IHT.
Trust Wrapper	Asset Protection	Prevents "bloodline leakage" (divorce/creditors).
Alphabet Shares	Flexible Dividends	Allows income to be "dialled up or down" for different heirs.

CONCLUSION

The Family Investment Company continues to be a powerful tool of UK estate planning, however, its efficient use moving forward is dependent on tailoring to the perceived needs of the family and to the desired outcome for the founders.

What is always of key importance is that any structure must be funded and managed with professional precision to ensure it stands up to the increasingly robust scrutiny of HMRC.

WE CAN HELP

If you require further assistance with any issues raised in this article, please contact us on **01753 888 211** or email info@nhllp.com, we are here to help.