

Why Use a Corporate Family Investment Structure and Why Use a Guernsey Corporation?

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Family investment companies are becoming increasingly popular as an alternative to trusts for wealth, estate and succession planning.

Why has the use of Family Investment Companies Grown?

Their use has grown significantly in recent years, particularly in instances where it is difficult for individuals to pass value into a trust, without being liable to immediate tax charges, but there is a desire to continue to have some control and/or influence over the family's wealth protection.

Benefits of a Family Investment Company include:

1. Assuming that an individual has available cash to transfer into a company, the transfer into the company is tax-free.
2. For UK deemed domiciled individuals there would be no immediate charge to UK Inheritance Tax (IHT), on a gift of shares from the donor to another individual, as this is deemed to be a potentially exempt transfer (PET). There will be no further IHT implications on the donor if they survive for seven years following the date of the gift.
3. The donor can still retain some element of control in the company, providing the Articles of Association are carefully drafted.
4. There is no ten year anniversary or IHT exit charge.
5. Family Investment Companies are income tax efficient for dividend income as most dividends will be received tax free into the company.
6. Shareholders only pay tax to the extent that the company distributes income. If the profits are retained within the company no tax would therefore be payable by the shareholders.
7. International families making direct investments into UK investment companies as individuals, are liable to UK IHT on those UK situs assets and it is also advisable that they have a UK will to deal with those assets on their death.

Making those investments through a Family Investment Company removes the liability to UK IHT and removes the need to have a UK will. This is as long as the Family Investment Company is offshore and the individuals are non-UK resident, or non UK resident non-dom (or non-deemed dom), to receive the IHT benefit.

8. Memorandum and Articles of Association can be bespoke to the family requirements. There can, for example, be different classes of shares with varying rights for different family members, to suit their circumstances and to meet the wealth and succession planning objectives of the founders.

Why Use a Guernsey Company?

There are a number of reasons why it is efficient to use a Guernsey Company in a Family Investment Company structure:

- The company will pay tax at a rate of 0% on any local profit that it generates (the Guernsey Corporate Tax Rate).
- Provided that the company is incorporated in Guernsey and the register of members is kept, as required, in Guernsey, it is possible to retain 'excluded property' status in relation to UK IHT (with the exception of UK residential property).
- The shares in the company are not a UK situs asset. If the company is a private Guernsey company it does not need to file accounts. Whilst there is a beneficial ownership register for companies in Guernsey, this is private and not searchable by the public. In contrast a UK company would need to file accounts on public record, and directors and shareholders would be listed on the Companies House website, a free and searchable website. The shareholders would, in addition, be deemed to have a UK situs asset, regardless of where in the world they live.
- The compliance and regulatory requirements for non-UK companies are often considered greater than for UK companies. However these requirements are easily and efficiently navigated with the right professional firm, and with appropriate planning.

Further Reasons Why Family Investment Companies are Increasing in Popularity

Family investment companies are also becoming very popular in the UK, particularly amongst UK residents and domiciled individuals. This is largely due to the ability to roll up income and gains, having paid only corporation tax. In addition, if all income is in the form of dividends, there should be no liability to tax.

Regardless of whether there is a UK tax position to consider, a Family Investment Company may be more familiar and better understood than a trust, for many families' wealth planning and asset protection.

Additional Information

The Dixcart Group has fifty years of experience advising clients on wealth management strategies to best meet specific circumstances and we understand the often complex issues involved.

The Dixcart office in Guernsey provides advice to several private clients and has extensive expertise in establishing and managing Guernsey corporate structures.

For additional information regarding Guernsey Family Investment Companies, please speak to John Nelson or Steve de Jersey at the Dixcart office in Guernsey: advice.guernsey@dixcart.com, or to your regular Dixcart contact.