

Isle of Man family investment company.

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Family investment company.

1.

A FIC is a sophisticated tool for managing and controlling family wealth. It is a company that allows a family to pool financial assets and make strategic investments whilst providing a structure for transferring wealth across generations.

A defining feature of a FIC is its structural flexibility. By issuing different classes of shares, families can design tailored voting rights and income entitlements. This enables founders or senior family members to maintain strategic control while progressively transferring economic ownership to the next generation.

Bespoke articles of association align the company's governance with family objectives. Initial funding can come from share subscriptions, subsequent share issues, or loans, each with various implications for control, tax, and future wealth extraction.

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2.

Characteristics:

1. Operational structure

A FIC enables the separation of ownership from control. Founders can retain voting shares, maintaining authority over investment decisions and company strategy, while non-voting shares can be allocated to younger family members. This model facilitates a gradual transfer of wealth and long-term succession planning.

2. Bespoke share structures

Different classes of shares can be issued with distinctive rights, such as income entitlement without voting power, or vice versa. This flexibility helps align ownership, control, and family objectives.

3. Wealth continuity

A FIC provides a long-term framework for intergenerational wealth transfer. Founders retain management control while incrementally distributing shares. This structured approach reduces the risk of disputes and ensures continuity in investment strategy.

4. Asset protection

Assets held within a FIC benefit from a layer of protection, as the corporate form helps shield family wealth from personal legal claims.

5. Oversight & compliance

As a registered company, a FIC must adhere to corporate governance standards and regulatory requirements in the Isle of Man. This promotes transparency, accountability, and disciplined management.

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Advantages:

- **Control:**
Founders retain control through voting shares, even as economic ownership is gradually transferred.
- **Privacy:**
The Isle of Man offers greater privacy than the UK as it does not require public disclosure of financial information in the same way Companies House does.
- **Bespoke:**
Share classes can be tailored to distribute income selectively while retaining capital control.
- **Family governance:**
A FIC can serve as a governance platform, integrating younger family members into decision-making while maintaining oversight by senior members or advisers.

In response to the UK's redrafting of tax policy there has been an increased interest in the advantages of Family Investment Companies incorporated in the Isle of Man but managed and controlled in the UK.

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Cost efficiency:

- A well-structured FIC incorporated in the Isle of Man but managed and controlled in the UK can offer tax advantages.
- A FIC is subject to UK corporation tax on profits, which is generally lower than personal income tax rates.
- Dividends received by a FIC are typically exempt from corporation tax. While dividends paid to shareholders are subject to income tax, non-UK resident shareholders should have no UK tax liability.
- Interest-free loans to a FIC can be repaid tax-free from profits.
- Capital gains with a FIC are charged to corporation tax. On liquidation, shareholders are subject to capital gains tax; however, non-residents are exempt unless the FIC holds UK property.
- A FIC may be more cost-effective than a trust, as they do not require the appointment of trustees.

The flexibility and privacy offered by an Isle of Man-incorporated Family Investment Company is particularly appealing to clients who are familiar and comfortable with corporate structures.

FICs vs trusts.

5.

Control & ownership:

- **FIC:** Control remains with the founder or senior family members via voting shares.
- **Trust:** Control is vested in the trustee, not the settlor or beneficiaries.

Legal structure:

- **FIC:** Assets are owned by the company; family members hold shares.
- **Trust:** Legal ownership is held by a trustee on behalf of beneficiaries.

Jurisdictional recognition

A FIC may be more suitable in jurisdictions where a trust is not fully recognised or where clear legal ownership is required.

Tax considerations

Both a FIC and a trust can be tax-efficient, but outcomes depend on the family's personal tax position.

Cost & administration

A FIC can be less costly to administer, as it does not require fiduciary appointments. Trusts, by contrast, often necessitate professional trustees, incurring higher fees.

Flexibility

A FIC offers greater operational flexibility through custom share classes. Trusts, governed by the trust deed, may be harder to amend once established.

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Conclusion.

A FIC presents a compelling alternative to a traditional trust, particularly for families who wish to retain control while planning for succession. When structured effectively in a jurisdiction like the Isle of Man, a FIC offers tax efficiency, privacy, and strategic flexibility.

However, the choice between a FIC and a trust is highly situational, driven by family dynamics, residency considerations, and long-term goals. Professional legal and tax advice is essential to selecting and structuring the most suitable vehicle for managing and preserving family wealth.

The complexity of these structures necessitates ongoing professional management, and the initial setup involves legal and administrative costs. Regulatory developments must be closely monitored. While HMRC's specialised FIC investigation unit was disbanded in 2021, concerns around interest-free loans, share valuations, and future tax changes remain relevant. As such, a FIC should be reviewed regularly to ensure they continue to meet family and compliance objectives effectively.

Why Abacus?

7.

The Abacus Trust Group, is a well-respected independent provider of professional, fiduciary, and management services who work in partnership with private client advisers to establish and manage bespoke structures for HNWIs, families, and entrepreneurs.

We are very adept at working with advisers to implement structures recommended to clients.

Originally part of Coopers & Lybrand, which later became PricewaterhouseCoopers, Abacus has a 40-year history of providing technical expertise and outstanding customer service – giving our clients the peace of mind they require.

Abacus can offer an all-in service to include company formation, structuring and company secretarial services along with administrative and accounting support. We have a proven history of working collaboratively with tax and legal advisers to ensure ongoing compliance of the structures we manage.

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