JACKSON STEPHEN
ACCOUNTANTS / ADVISERS
A REAL ASSET

Personal investment companies

Considering the investment alternatives

There are numerous advantages of utilising a personal investment company (PIC) to retain and grow family wealth.

The main benefit of a PIC comes through using it as a long term investment vehicle, enabling it to retain higher post-tax profits (as corporate tax rates are generally lower than personal tax rates) which can be reinvested for quicker growth without any additional personal taxes applying. Furthermore, it can allow for efficient family wealth protection and planning for income and inheritance tax purposes.

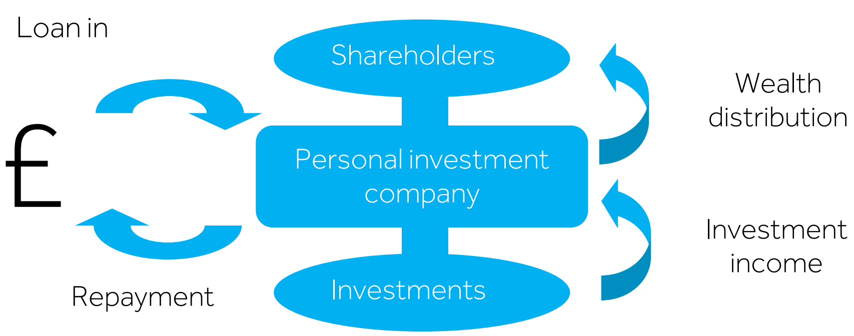
As an ordinary UK resident company, there are few restrictions on the investments a PIC can hold and these can include cash deposits, share portfolios, investment funds and even rental properties.

The tax benefits

While the rate of tax for a company is 19%, there are a number of other factors which may make a company more attractive for holding personal investments, including:

- Dividend income is generally tax free:
- Gains generally taxed at 19% with inflation taken into account;
- Rental losses can be offset against other income in the company;
- Portfolio and other management fees can be deducted for tax purposes;
- Investment income and gains generated could be paid into a pension plan.

The structure



- Dividends
- Directors' fees
- Pension contributions

- Interest on cash deposits
- Dividends from share portfolios
- Rental income from properties

Utilising a personal investment company

The following summarises some of the ways in which a PIC can be used:

Business Planning

A common problem is how to extract cash from a private trading company with the least exposure to tax. If the cash is not needed by the owner for personal spending, long term personal investment can be carried on by a PIC, with monies lent by the trading company. This retains a trading company that can focus on its trading activities and an investment company which can be subsequently used to fund retirement.

The use of a PIC may also help manage the availability of Capital Gains Tax Entrepreneur's Relief and Inheritance Tax Business Property Relief.

Retirement Planning

If income generated from a capital sum is not needed by an individual, a pool of money could be lent by the individual to a 'money box' PIC to grow. If cash is subsequently needed immediately at any time by the lender, a tax free repayment or part repayment of any money lent to the PIC can be made. However, the intention would be for the PIC to invest for the long term with income extracted via dividends, say in retirement, when the individual's income is lower and when the personal rate of tax is likely to be lower. Any additional funds previously lent to the PIC can be taken out by loan repayment until exhausted. For example, assuming no other income, under current rates net dividends up to c. £50,000 could be extracted with only c. £3,000 tax to pay. If a spouse or civil partner is also a shareholder in the PIC, this could effectively double the income to around £100,000.

Family Wealth

In the absence of a PIC, if a spouse or civil partner is subject to lower rates of tax, investments can be transferred to their name utilising their lower rate tax bands.

Alternatively if an outright gift to a spouse or civil partner is not appropriate and control of the overall investment strategy is desired, shares in a PIC could be used to optimise personal income levels whilst the donor retains control. Furthermore, the amount of personal income arising and the tax points can be controlled, potentially delaying tax liabilities by a year or more.

University Costs

Children's university costs have increased enormously over the last few years with the increases in tuition fees and rental costs. Traditionally, where parents help their children with these costs, they have had to fund this from their own net income. If annual costs are £20,000 per annum, this will equate to a gross income of around £36,000 if marginal income is taxed at the additional rate of 45%. Over a typical 3 year course, this is total income and tax of approximately £110,000 and £49,000 respectively.

However, a PIC could be an ideal vehicle to fund the university costs. Adult children could be shareholders and receive dividends from the company.

This would then be taxable on them personally and again, assuming no other income, net dividends could be taken up to c.£50,000 per annum with only c. £3,000 tax to pay.

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Inheritance Tax Planning

Income and gains that are not spent would accrue over time. Significant Inheritance Tax liabilities can arise on the accumulated investment growth especially considering the IHT nil rate band is frozen at £325,000 until 2019. Gifts can be made out of excess income but this can require meticulous record keeping and there is no certainty they are free of IHT until after death.

A PIC can allow investment growth to fall outside an estate for Inheritance Tax purposes (providing the donor is not a shareholder) therefore resulting in a 40% tax saving. The original loan could then be repaid piecemeal during retirement to fund living costs.

We can help

Due to the myriad of opportunities a PIC can provide, it is essential advice is taken to ensure such planning is suitable for your personal circumstances and meets regulatory requirements.

If you are considering your current investment ownership structure, please contact:

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