

Wealth Owner Summary

If you have a sum that you wish to invest and grow for the benefit of your heirs, but want to retain future control of how that investment is managed and distributed a Personal Investment Company (PIC) might be the right structure for you. Here we summarise the benefits of a PIC, including the tax implications.



PERSONAL INVESTMENT COMPANIES

PERSONAL INVESTMENT COMPANY (PIC)

- > is a tax efficient vehicle in which to accumulate wealth;
- > a PIC should be considered as a long-term investment strategy;
- > can hold any asset class;
- > taxed in the same way as any UK company so all income and gains subject to UK corporation tax at 20% (falling to 19% from April 2017 and 17% from April 2020) - compared with top individual tax rate on income of 45% and on gains of 28% and trust rate of 45%. This can mean that the PIC potentially has over 20% extra income to reinvest compared with an individual investor;
- > gains will be subject to tax at 20% but PIC can claim indexation allowance when calculating gains;
- > investment management fees will be a deductible expense in calculating the PIC's taxable profits. An individual investor cannot deduct such fees in calculating his taxable income;
- > rental losses can be set off against other income.



A PIC is a tax-efficient way of growing wealth for your heirs while retaining control.



EXTRACTION OF FUNDS

- > dividends paid by the PIC to shareholders will be subject to UK income tax in their hands;
- > on liquidation the shareholders will be subject to capital gains tax. Non-UK resident shareholders will not be subject to UK capital gains tax on any gains realised on a liquidation;
- > where the PIC is held by a family trust it may be possible to make distributions to beneficiaries with no additional UK tax charge.

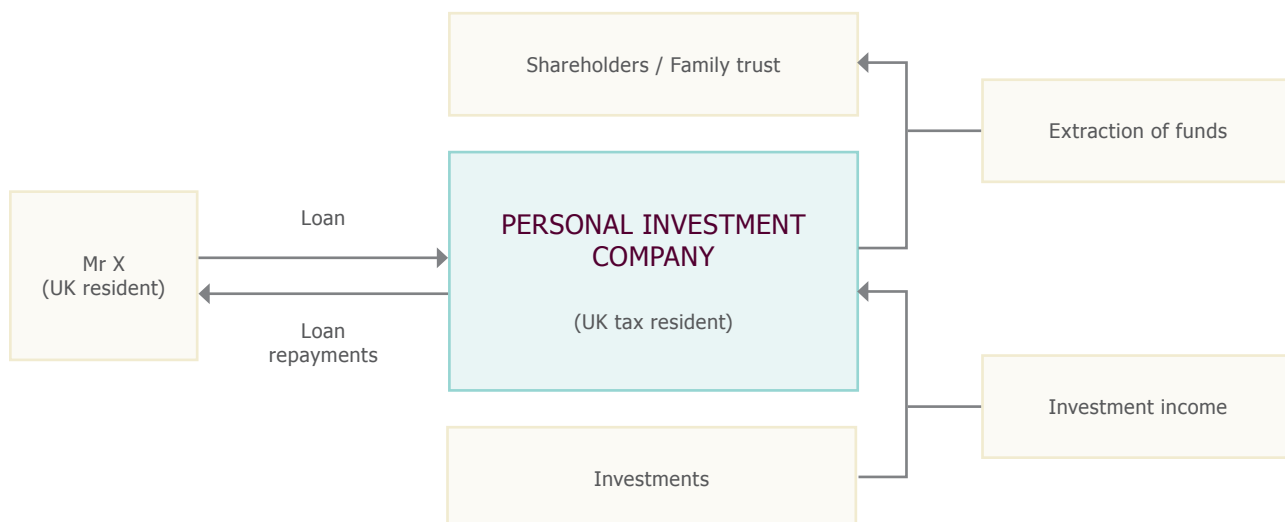
LOAN

- > if a family member makes a loan to the PIC the loan repayments will be free of UK tax;
- > the loan can be interest free and repayable on demand.

SHARES

- > shares can be held by a family trust or family members;
- > holding shares in trust may provide inheritance tax and succession planning advantages;
- > if shares are to be held by family members different classes of shares can be created - for example, voting shares giving control; shares carrying only a right to income; redeemable preference shares;
- > Memorandum & Articles of Association can be drafted to meet needs of family – for example, defining how family members will benefit from income/capital, setting out who has voting rights. Family members (as directors) can retain control over investment decisions and decide when dividends paid and how much. There can also be a separate Shareholders' Agreement restricting how family members can deal with their shares;
- > shares will be non-UK assets for UK inheritance tax purposes if the PIC is a non-UK registered company.

TYPICAL PIC STRUCTURE



COMPARISON OF UK TAXATION: PIC VS. INDIVIDUAL INVESTOR

TYPE OF INCOME	PERSONAL INVESTMENT COMPANY (UK TAX RESIDENT)	INDIVIDUAL INVESTING DIRECTLY (UK RESIDENT)
DIVIDEND INCOME	Exempt in most cases	38.1% ^{2, 3}
INTEREST	20% ¹	45% ²
RENTAL INCOME	20% ¹	45% ²
OFFSHORE FUND INCOME	20% ¹	45% ²
CAPITAL GAINS	20% ¹	20% ^{2, 4}

¹ falling to 19% from 1 April 2017 and to 17% from 1 April 2020

² assuming total income of £150,000+

³ from April 2016, all taxpayers a £5,000 annual tax-free allowance for dividends. Additional rate taxpayers pay tax at 38.1% on dividends above that amount

⁴ 28% on gains on residential property and carried interest

This note is a general guide only and is not a substitute for proper legal and tax advice.



CONTACT US

Please get in contact with any of our lawyers for further information

MURRAY NORTH
Partner
Private Client
Tel: +44 (0) 3400 4545
murray.north@blplaw.com

DAMIAN BLOOM
Partner
Private Client
Tel: +44 (0) 3400 2262
damian.bloom@blplaw.com

GEOGINA JAMES
Partner
Private Client
Tel: +44 (0) 3400 4469
georgina.james@blplaw.com

PAUL WHITEHEAD
Partner
Private Client
Tel: +44 (0) 3400 2332
paul.whitehead@blplaw.com

BUSINESS WEALTH

Building a successful business is a lifetime's investment. We will help you protect your legacy, now and for your successors.

Personal WEALTH

Substantial wealth, substantial risks. We will help you protect and pass on your personal wealth.

PRIVATE WEALTH INSTITUTIONS

Advising the industry that advises the wealthy; you can rely on us as your trusted legal partner.

EXPERTISE

- > Corporate > Dispute resolution > Family businesses & family office > Fiduciaries > Philanthropy
- > Privacy & reputation protection > Private equity > Real estate > Succession planning, wills & probate
- > Tax planning, disputes & compliance > Wealth management institutions > Wealth structuring