Taxman sets up secret unit to probe IHT avoidance

HMRC has created a secret unit to investigate the use of family investment companies (FIC) by the very wealthy to avoid paying inheritance tax.

It puts family offices with a combined total of more than $1tn in assets within its sights.

The tax authority set up the team in April last year amid growing concern that the wealthy avoid paying tax through sophisticated legal loopholes and was first reported by the Financial Times.

The unit is targeting FICs, which are increasingly being used as vehicles to hold stocks and other assets. It means the tax on dividends is paid as corporation tax instead of personal income tax, which means lower rates according to lawyers.

If children are brought in as co-shareholders, then inheritance taxes can be reduced in some cases.

HMRC told the FT that the Family Investment Company team was established in April 2019 to look at FICs and do a quantitative and qualitative review into any tax risks associated with them with a focus on inheritance tax implications.

HMRC defended its position not to reveal details about the new team because doing so “would allow opportunistic individuals and would-be avoiders [to] identify where HMRC is devoting resources and arrange their activities to escape challenge”.