HANBURY
WEALTH

Hanbury Wealth Product Guide

Unit Trusts, OEIC's and GIAs

2025/26 Tax Year

CITYWIRE
NEW MODEL ADVISER TOP 100 2024 WINNER

Created April 2025

HW014/25

What are they?

Unit trusts and OEICs (Open-Ended Investment Companies) are collective investment schemes which allow individuals to participate in a large portfolio of assets by pooling their money together with other investors.

This gives the individual access to a much wider spread of holdings than can normally be achieved with smaller sums of money, which in turn reduces the risk. The fund is divided into units or shares, which are valued on a daily basis and reflect the underlying value of the fund. This value will fluctuate on a daily basis with market conditions.

Basically, Unit Trusts and OEICs are a flexible and relatively cheap way to invest in the stock market. They are run and regulated in a similar way, and you can hold them within an Individual Savings Account (ISA) or a General Investment Account (GIA).

Unit trust

A unit trust is set up as a trust and you will usually find that there are two prices – the 'bid' price which is the lower price you receive when you sell, and the higher 'offer' price you pay to invest. The difference between the two prices is commonly known as the bid / offer spread. A Fund Manager buys bonds or shares in companies on the stock market on behalf of the fund. The fund is split into units, and this is what clients buy. The Fund Manager creates units for new investors and cancels units for those selling out of the fund. The creation of units can be unlimited, hence why the fund is 'open-ended.'

The price of each unit depends on the net asset value (NAV) of the fund's underlying investments and is priced once per day. This means that the value of the units bought directly reflects the underlying value of the investment.

OEIC

An OEIC is set up as a company, there is usually a single price to buy and sell shares, so it's easier to see the actual effect of charges. OEICs operate in a similar way to unit trusts except that the fund is actually run as a company. It therefore creates and cancels shares rather than units when investors come in and go out of the fund, but they still directly reflect the value of the assets that the Fund Manager has invested in.

It can cost Fund Managers less to run an OEIC than a Unit Trust, so some companies reduced their initial charges when they converted their unit trusts to OEICs, although annual charges remain much the same.

An advantage of OEICs is that it may be cheaper to switch between an OEIC Manager's different funds than between unit trusts because of the OEIC's structure. Each OEIC may be made up of various sub-funds, and when you buy shares in an OEIC you actually invest in one or more of the sub-funds. Changing between sub-funds, for example UK for European or vice versa, is easier than switching between completely separate unit trusts. Several OEIC Managers have therefore cut switching charges or even offer free switches.

General Investment Account (GIA)

A GIA is simply an account that allows you to hold investments, such as Unit Trusts and OEICs. It is a way to buy and sell investments and there is no limit on how much you can invest in a GIA. The GIA provider will decide on the range of investments they offer. Most GIAs allow you to contribute either lump sums or regular payments and you can choose when to buy and sell the investments you hold within the account. You may also be able transfer your GIA to another provider without encashing your investments, this is called an 'in-specie' transfer.

Eligibility

To be eligible to invest in a unit trust / OEIC, an individual investor must be 18 years of age or over. An investment can also be made by a company or trustee(s).

Contribution limits

The minimum monthly contribution is normally £25-£50 and the minimum lump sum £500-£1,000. There is no maximum limit.

Taxation

Income (the yield, dividend, or interest) from these funds can be distributed or accumulated within the fund.

If you hold equity funds, you'll pay dividend tax on any distributions you receive over £500 at the following rates:

- **8.75% on dividend income within the basic rate band**
- **33.75% on dividend income within the higher rate band**
- **39.35% on dividend income within the additional rate band**

If you hold interest bearing funds, for example a fixed interest fund or a fund holding a substantial proportion of interest-bearing assets such as corporate bonds, any distributions will be paid to you gross of tax. Any interest received that exceeds your Personal Savings Allowance (PSA) will potentially be taxable at 20%, 40% or 45%. Basic rate taxpayers have a PSA of £1,000 and higher rate taxpayers £500 (the PSA is not available to additional rate taxpayers). Non-taxpayers or those whose interest income is covered by the starting rate band will have no further tax liability.

When the holding is surrendered, if there is a gain, this is subject to capital gains tax. However, each individual has an annual exempt amount (currently £3,000) and as long as the gain together with any other gains you may have in the same tax year is less than this amount, there is no tax to pay.

Any gain in excess of the annual exempt amount will be taxed at a rate of 18% if, after adding the net taxable gain to your taxable income in the relevant tax year, the total falls within the basic rate income tax band. A tax rate of 24% applies to gains or parts of gains which exceed the upper limit of the basic rate income tax band.

Many unit trusts / OEICs can be held in an ISA, this means your income and capital gains will be tax free.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- Governments can and do change the rules on tax in respect of investments such as unit trusts / OEICs.
- If growth is low, charges may eat into the capital invested.
- If withdrawals taken are made at a rate which exceeds the net growth of the fund, capital will be eroded.
- Income generated from investments held in unit trust / OEICS is variable and is not guaranteed.
- Past performance is no guarantee of future returns.
- The price of units and the income from them can fall as well as rise.
- The investment can grow but depending on market conditions you may not realise the initial sum invested. There is no guarantee that you will get more out of a unit trust / OEIC investment than you have paid in.
- If upon realisation your total gains (from all sources) less any allowable losses are greater than your annual Capital Gains Tax allowance, there will be tax to pay at either 18% (basic rate band), 24% (higher / additional rate band) or a mixture of both rates depending which tax band(s) the gain falls into after adding to total taxable income for the tax year.
- Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance.

HANBURY
WEALTH

hanburywealth.co.uk