Understanding Collective Investments

Unit Trusts

Unit Trusts are open ended, collective investments, consisting of monies invested in ‘units’, by many different investors. The number of 'units' in each Trust, managed by a professional investment manager, can vary according to supply and demand. The fund manager’s job is to ensure that the money is invested properly and to deliver to investors the very best returns given prevailing market conditions.

Unit Trusts spread risk across a larger number of shares or securities than might otherwise be possible with direct share investments. Some Unit Trusts are general, holding large numbers of shares in different companies and in some cases, spreading investments into overseas companies. Other Trusts are more specialised, offering unit holders access to a particular geographic area or particular type of investment by industry sector. Unit Trusts may also invest in non-share-based assets, such as government gilts or corporate bonds.

Open Ended Investment Companies (OEICs)

An OEIC is a pooled collective investment vehicle, in company form, introduced in 1997 as a flexible alternative to established Unit Trusts.

Being ‘open ended’, OEICs can expand or contract in response to demand –similar to Unit Trusts. The share price of an OEIC is the value of all the underlying investments, divided by the number of shares in issue. OEICs provide a mechanism for investing in a broad range of shares, thus potentially reducing the risks of individual share investments. OEICS may also invest in non-share-based assets, such as government gilts or corporate bonds.

Taxation of Unit Trusts and OEICs UK Domiciled Funds

The first £2,000 of dividend income you receive each year will be tax free. Sums above that will be taxed at the prevailing rates. See https://www.gov.uk/tax-on-dividends for guidance.

Interest distributions are classed as savings interest. Basic-rate tax payers will be able to receive up to £1,000 of savings interest free of tax in any one tax year. This falls to £500 for higher-rate taxpayers and will not apply to additional-rate tax payers. See https://www.gov.uk/apply-tax-free-interest-on-savings for guidance.

Please note that TPO is not responsible for the accuracy of the information contained within the linked site(s) accessible from this page. Please be aware that by clicking on to the external links you are leaving the TPO website.

Capital gains may be realised when the Unit Trust or OEIC is encashed and will be assessable to Capital Gains Tax (CGT). A tax liability will be incurred if total gains in a tax year exceed your annual CGT allowance. Any losses previously incurred may be carried forward to offset against gains.

Financial Conduct Authority Recognised Funds

Financial Conduct Authority (FCA) recognized funds are portfolios that, although managed overseas, are permitted to market themselves directly to UK private investors. Investors in recognised funds will not be provided with protection under the UK Financial Services Compensation Scheme. For an overseas fund to be awarded the Financial Conduct Authority designation of ‘recognised’ means that the UK authorities have approved it to be marketed to UK investors.

Taxation of FCA Recognised Funds -UK Resident Investors

FCA Recognised funds which are domiciled overseas which have “reporting status” will be subject to income tax on dividends or interest declared by the fund manager in the same manner as UK domiciled funds. Capital gains may be realised when the Unit Trust or OEIC is encashed and will be assessable to Capital Gains Tax (CGT). A tax liability will be incurred if total gains in a tax year exceed your annual CGT allowance.

Important Information

Our advice has been prepared based on our company’s understanding of the current law and HM Revenue and Customs practice. Whilst we believe the interpretation is correct we cannot guarantee it.

PLEASE REFER TO OUR SEPARATE DOCUMENT ‘GENERAL AND INVESTMENT RISK WARNINGS’ FOR ADDITIONAL INFORMATION RELATING TO THE RISKS OF INVESTING.