Factsheet – General Investment Account (GIA)

A General Investment Account allows you to invest tax efficiently in a broad range of stock market-linked assets such as unit trusts, OEICS as well investment trusts, exchange traded funds (ETFs) like iShares and individual shares.

Unit Trusts and Open-Ended Investment Companies (OEICs) are a good way for smaller investors to invest - your money is put into a fund, along with money from other investors. This pooled fund is then invested across many different shares /investments by the fund manager. The fund manager looks after the money in the fund, making regular adjustments depending on the performance of individual holdings, market conditions and the fund's objective.

Taxation

The General account will be subject to taxation at 3 levels. These are:

- Dividend allowance - first £2,000 (2019/20) of dividend income is tax free; there is no longer a 10% tax credit. Above the tax free allowance, basic rate pay a tax charge of 7.5%, higher rate taxpayers pay 32.5% whilst additional rate taxpayers have a tax liability of 38.1%.

- Personal Saving Allowance – basic rate tax payers have a saving allowance £1,000 and higher rate get an allowance of £500 against the interest from cash savings and fixed interest funds (e.g. corporate bonds and gilts, or cash).

- Capital gains tax (CGT): No capital gains tax is paid on the growth from the investments held within the funds, but when you sell a fund, you may have to pay capital gains tax. Everyone has a personal capital gains tax allowance and gains up to this limit are free of CGT. For individuals, personal representatives and trustees for disabled trusts, this is £12,000 in the 2019/20 tax year. Any gains over this allowance are taxed at 10% for basic rate tax payers and at 20% if a higher or additional rate taxpayer. There is no CGT on death.

- The table below shows how the income in treated for tax purposes:

Taxpayer	**Tax payable on Dividend Income**	**Tax payable on Interest**	**CGT**
Basic Rate	£2000 free then 7.5%	£1000 free then 20%	£12,000 tax free then 10%
Higher Rate	£2000 free then 32.5%	£500 free then 40%	£12,000 tax free then 20%
Additional rate taxpayer	£2000 free then 38.1%	All at 45%	£12,000 tax free then 20%

Death

Your General Investment Account(s) will terminate on death with immediate effect (unless it's held in joint names). On written notification of death, all non-cash assets are sold and the proceeds are transferred to your personal repetitive on receipt of the appropriate documents.

What can you invest in

There are a number of different collective investments which can be held in the General Investment Account, such as:

Unit Trusts: are open-ended investments and as such the price moves in direct proportion to the variation in value of the fund's *net asset value*. Each time money is invested new units are created to match the prevailing unit buying price; each time units are redeemed the assets sold match the prevailing unit selling price. In this way there is no supply or demand created for units and they remain a direct reflection of the underlying assets.

Many unit trusts have a difference between the purchase price and sale price - this difference is known as the bid–offer spread (bid is the sale price). The bid–offer spread will depend on the type of assets held and can be anything from a few percentage points on cash and government bonds, to 5% or more on assets that are harder to buy and sell such as property. The trust deed gives the manager the right to vary the bid–offer spread to reflect market conditions, with the purpose of allowing the manager to control liquidity.

OEICs (Open-ended investment companies) or ICVC (Investment Company with Variable Capital: these are another type of open-ended collective investments. In the UK OEICs is the preferred legal form over unit trust. Like a unit trust, an OEIC/ICVC manager must create shares when money is invested and redeem shares as requested by shareholders. An OEIC/ICVCs may be single-priced (there is one price at which shares may be bought or sold) or dual-priced like a unit trust with a bid-offer spread.

SICAV (Société d'Investissement À Capital Variable) is another type of open-ended investment fund in which the amount of capital in the fund varies according to the number of investors. Like OEICs and unit trust, shares in the fund are bought and sold based on the fund's current net asset value. SICAV funds are some of the most common investment vehicles in Europe.

What's the difference between a unit trust and an OEIC?

Although fundamentally they offer the same benefits, there are a few key differences between Unit Trusts and OEICs:

- Unit Trusts issue units, while OEICs issue shares.
- Unit Trusts generally have two prices: a bid price at which you sell and an offer price at which you buy. OEICs have one price, called the single price at which you buy and sell.
- Both Unit Trusts and OEICs are overseen by an independent body. For Unit Trusts this is called the Trustee and for OEICs it is the Depositary.

Investment Trusts - an **Investment trusts** are a form of closed-end funds which are constituted as public limited companies (PLCs) and its shares are traded are quoted on the stock exchange. The easiest way to understand investment trusts is to think of them as a company. This is because that is exactly what they are. Just like any other company, they issue shares to raise money from shareholders and then invest that money. The difference between investment trusts and normal 'trading' companies is that they invest their money in the shares of other companies, rather than in physical assets such as factories or mobile phone networks. Since they are like a company, they are also able to borrow money to invest (which is not allowed for unit trusts or OEICs).

The share price of an investment trust does not always reflect the underlying value of the share portfolio held by the investment trust. In such cases, the investment trust is referred to as trading at a discount (or premium) to its net asset value.

One of the key differences between an investment trust and a unit trust, is that an investment trust manager is legally allowed to borrow capital to purchase shares. This debt may increase investment gains but it also increases investor risk.

Provided that it is approved by HM Revenue & Customs, an investment trust is taxed in the normal way on its investment income, but its capital gains are not taxed. This avoids the double taxation which would otherwise arise when shareholders sell their shares in the investment trust and are taxed on their gains.

ETFs (An **exchange-traded fund**) is an investment fund traded on stock exchanges. An ETF holds assets such as stocks, commodities, or bonds, and most ETFs track an index, such as the L&G FTSE 100. An ETF combines the valuation feature of a unit trust/OEIC, which can be bought or sold at the end of each trading day for its net asset value, with the tradability feature of a closed-end fund, which trades throughout the trading day at prices that may be more or less than its net asset value. Please see Factsheet on ETFs for further information.

Some index ETFs invest 100% of their assets proportionately in the securities underlying an index offering full "replication". Other index ETFs use "representative sampling", investing 80% to 95% of their assets in the securities of an underlying index and investing the remaining 5% to 20% of their assets in other holdings, such as futures, option and swap contracts, and securities (not in the underlying index), that the fund's adviser believes will help the ETF to achieve its investment objective.