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New year resolutions it will pay to keep

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The first three months of the calendar year are usually the busiest for savers and investors, as they look to sort out their finances and maximise investment gains. The period is particularly important this year, as December 31 2012 saw the start of the retail distribution review, which fundamentally changed the way financial advice is provided and paid for. For many investors, especially those with smaller portfolios, this could be the year they part company with their adviser. Below, we outline some steps savers and investors can take to maximise returns in 2013.

Switch to a better bank

This year millions of Lloyds customers will become "TSB Bank" customers when the competition authorities forces the start of a sale of more than 600 bank branches. Royal Bank of Scotland customers should also find out who will buy 316 of the bank's branches, after the previous deal with Santander fell through. Meanwhile, private banks are "managing out" clients without sufficient assets.

Customers who are forced out or transferred unwillingly can take advantage of offers from high street banks. First Direct offers a £100 switching bonus for customers with a monthly income of £1,500. The bank pays no interest on credit but has a savings account paying 8 per cent to current account customers and scores highly in customer satisfaction surveys. Nationwide's FlexAccount offers free European multi-trip travel insurance and Santander's 123 Current Account, which costs £2 per month, offers cashback on household bills.

From September, switching banks should become easier as banks become responsible for moving across incoming payments automatically. Maximum switching times will be cut to seven days.

Watch interest rates on cash

In 2012 the best easy access and variable cash deposit rates came with a sting in the tail: short-term "bonus rates" were used by high street banks and building societies to push up advertised rates on deposit accounts. Savers who opted to put their money in a bonus rate account should note the date that the bonus runs out, as many accounts offer poor returns thereafter.

Exploit tax exemptions and reliefs

You do not need a complex and expensive scheme to reduce inheritance tax liabilities on death. Spending more, using exemptions and reliefs on a regular basis and giving away any income you don't need, are all effective ways of reducing your taxable estate without incurring significant product costs or using complicated trusts.

Lifetime gifts to reduce the taxable estate are a simple way to reduce tax liabilities. As long as you live for seven years after giving, no inheritance tax will be due.

The annual gift allowance is £3,000 per tax year per individual donor. If the previous year's exemption is not used it can be carried forward for one year.

There is also a small gifts exemption of £250 per person per tax year and a gift allowance of £5,000 by a parent to their child in consideration of marriage or civil partnership, and a limit of £2,500 for a grandparent to give a gift.

Use your CGT allowance

HM Revenue & Customs allows a tax-free profit of £10,600 each year from selling assets or investments. After this, capital gains tax (CGT) is payable at 18 per cent or 28 per cent.

If you plan to sell an asset or investment it is worth ensuring that you use CGT allowances to minimise the tax paid. For example, you can spread the proceeds of a sale over two different tax years, to utilise separate annual CGT allowances. Experts recommend transferring some or all of your assets or investments to your spouse to make use of both of your reliefs.

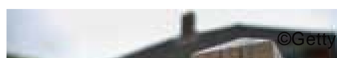
Keep cash in reserve

It is a good idea to hold cash in reserve to cover eventualities such as job loss or illness. Although returns on cash are low compared to other forms of investment, the advantage is that it is safe and can be accessed at any time. The main thing is to avoid having to sell your investments while the markets are in a bad state.

Experts say consumers should put away two or three months' worth of salary in an easy-access account. Savers looking for a safe home for cash should look for accounts that promise to pay rates in line with the base rate or are fixed for a set period. Additionally, look at a protection plan for such eventualities.

Alan Lakey of Highclere Financial Services says: "People need to put in place the infrastructure of safety that a properly designed protection programme can provide. Income protection, family income benefit and critical illness insurance are the three areas to focus on."

Review your mortgage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A mortgage will be the biggest monthly expense for most people so it

makes sense to review your deal and make sure you are not paying more than you need to.

Mortgage rates improved in 2012, with some of the lowest ever deals launched. While most of the best rates are reserved for homeowners with large amounts of equity or deposit – typically 40 per cent or more – costs have fallen across the board.

"There are still a number of people sitting on standard variable rates, mainly due to inertia," says Nigel Bedford of mortgage broker Largemortgageloans.com.

He points out that there are a number of competitive fee-free mortgage deals available at lower rates than most standard variable rates. These have no bank arrangement, valuation or legal fees, so swapping to a lower rate will result in instant savings.

Some of the best fee-free deals include a two-year fix at 2.99 per cent from Santander, for those borrowing up to 70 per cent of the property's value; 3.18 per cent from Skipton Building Society at 75 per cent loan-to-value; and 3.79 per cent from the Co-operative Bank for those borrowing 85 per cent of the property's value.

Check your interest-only plan

Interest-only mortgages have been subject to a clampdown by lenders and the financial regulator in recent years. Borrowers will in future need to prove they have a repayment vehicle in place, and lenders have reduced the number of acceptable options for repaying the capital; selling the property or using an inheritance is no longer allowed, for instance.

If you have an interest-only mortgage, look at how you plan to repay the capital at the end of the term. It will also help when it comes to remortgaging and getting another interest-only loan. "Whatever these are, it is sensible to check that they are on track to deliver the expected returns so that they will not be left with a shortfall when their mortgage finishes," says Bedford.

Beware home ownership tax

From April, owners of expensive homes held in a company vehicle will have to pay annual charges of up to £140,000 and CGT under new legislation. The annual residential property tax (ARPT) will apply to"non-natural persons" – meaning corporate vehicles – owning homes worth £2m and over.

CGT will be extended to "non-natural persons" when they sell properties worth over £2m. It will be levied at 28 per cent and there will be taper relief for homes close to the £2m threshold.

Experts say affected individuals should seek tax and legal advice. Some may choose to stay within a corporate structure and pay the annual charge and CGT, while others may prefer to transfer their home into their personal name.

Check your child benefit

Parents with children under 16 will be subject to a tax charge against child benefit on a sliding scale if anyone in the household earns more than £50,000 a year. By the time earnings reach £60,000, the tax charge cancels out the benefit entirely. It may be easier for higher earners to tell HMRC that they no longer wish to receive child benefit, and to do so by January 7. Otherwise, they will have reconcile the two through tax returns. Those who do not complete a self-assessment form will have to do so.

Use Isas to the full

The simplest savings and investment vehicles are often the best. If you don't have spare cash to commit to an Isa this year, consider switching any non-Isa holdings in Oeics (open ended investment companies), unit trusts, investment trusts or shares into an Isa," said Jason Hollands at Bestinvest. "However, take care not to crystallise any capital gains tax liabilities in doing so."

Join a pension scheme

Alistair Cunningham of Wingate Financial Planning says if your employer has a scheme where they will contribute, even if it requires a matching employee contribution, then you should join so long as you can afford it.

As a rule of thumb, if you've not made substantial contributions to a pension you should aim to pay in half your current age as a percentage of your salary to expect a reasonable level of retirement income.

Danny Cox at Hargreaves Lansdown said putting money into a pension for a non-taxpaying spouse is one of the most tax efficient ways to save. He says that a maximum of £3,600 can normally be saved each year at a cost of £2,880, the difference being the £720 tax relief paid by the government.

"The pension fund investments grow almost free of tax, and at retirement up to 25 per cent of the value can be taken as tax-free cash with the remaining part of the fund used to provide a taxable income. However, if this income falls within the personal allowance £8,105 (2012/13 rising to £9,440 in 2013/14), there will be no tax to pay."

Maximise your contributions

Jason Witcombe at Evolve Financial Planning says those with incomes over £150,000 should be aware that 50 per cent tax relief on pension contributions will disappear on April 6 2013.

"Not only do you have a £50,000 annual allowance for 2012/13 but you also have the ability to carry forward unused allowance from the 09/10, 10/11 and 11/12 tax years too," he explains. "In an extreme example, someone could put £200,000 into a pension before April at a cost of just £100,000."

Check the cost of investing

Now that the retail distribution review has finally come into effect, investors who use professional finance advice must get used to a new way of paying for it.

Instead of allowing advisers to skim a "trail" commission each year out of the charges paid to product providers, investors must agree to pay a fee direct to their adviser – either by the hour or as a percentage of their investable assets.

But not all fees will disappear. Investments sold before 2013 will keep on paying out annual commissions to advisers, as will investments sold directly from fund groups to execution-only and discount broker firms until 2014. Fund supermarkets and investment platforms will also keep on receiving the money from fund managers, at least until the end of 2013.

Investors should use the opportunity of new rules on adviser commission payments to ask exactly how much they are already paying.

Avoid overtrading

Most private investors do too much trading, which raises costs and risks. Chris Wicks of Bridgewater Financial Services Limited advises investors to adopt a long-term buy-and-hold approach to investments so that they don't waste money on charges or spend long periods out of the market. "Both of these are major reasons why so many private investors woefully underperform the markets in which they are invested," he adds.

Check your bond fund volatility

Given all the talk of a "bond bubble", bond fund investors might want to check the duration of their holdings. Duration is expressed in years, but is used as a measure of price sensitivity to interest rate movements and can provide an indication as to how funds might perform once interest rates start to rise.

The higher the duration, the greater the risk of price declines, all other things being equal. A fund's average duration, often compared to its benchmark, is usually stated in the fund's fact sheet or annual report.

Watch out for new charges

Self-directed investors using fund platforms such as Fidelity, Hargreaves Lansdown and Cofunds should watch for changes to charging structures ahead of the next phase of the retail distribution review, which will affect how platforms are paid. Already, Hargreaves has introduced monthly "platform fees" on some index-tracking funds and charging models are expected to evolve further this year as the new legislation – currently in consultation – takes shape. Those using online stockbrokers should also be alert.

Headline-grabbing offers for online or frequent share traders are common in the first quarter, but watch out for surreptitious increases in things like telephone dealing charges, extra charges for using share certificates and inactivity or account maintenance fees (which are also subject to VAT).

Balance your asset allocation

How an investor allocates his or her assets can make far more difference to overall returns than stock selection or market timing. Investors should check their asset allocation regularly as market movements may have altered it.

For instance, an investor whose allocation at the start of 2012 followed the Apcims Balanced Portfolio would have found that by the end of the year, the equity portion had risen by almost three percentage points, while the bond allocation would have fallen by almost two – even if the investor had not traded at all during the year.

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