

Get your finances into shape

A new year inevitably leads to thoughts of resolutions. With rising taxes, record low interest rates, the NHS Pension Choice Exercise and public sector pensions high on the government's agenda, resolve to make 2011 the year you get financially fit by following our 10-step plan.

1. Deal with any debts

This should be your first priority. It is easy to build up an unauthorized overdraft, or debt on store and credit cards. Not clearing this type of debt will prove costly over time. For example, if you owe £5000 on a credit card that charges 4% of the money owed, it will take 12.5 years to repay the £5000 in full if you make only the minimum payment (initially a payment of £200) each month. Clear the balance off store or credit cards each month to avoid unnecessary interest charges.

If you can not clear your credit card balance, shop around. Consider transferring the debt to a cheaper card. You can find zero interest rates for 6 months or more, but always be aware of the interest rate the card is charging on new purchases.

2. Save tax free: use your individual savings account allowance

With taxes rising, it is more important than ever to shelter your savings and investments from tax. Within an individual savings account, you can save up to £10 200 each year (£10 680 from April 2011) with no tax to pay on any growth or income. You can invest the full amount in stocks and shares, while up to half can be invested in cash.

3. Check your investments regularly

Capital gains tax is now 28% for higher (40%) and additional (50%) rate taxpayers. The annual tax-free allowance for the tax years 2009–10 and 2010–11 is

£10 100. You can not carry forward any unused allowance so it is worth reviewing your investments regularly. Any realized losses can be offset against any realized gains made within the same tax year; and where losses are greater than gains, the balance can be carried forward to offset against future capital gains.

4. Make full use of your pension allowance

From April, the level of annual pension savings on which tax relief can be claimed will be £50 000 (previously £255 000). If you are not going to reach this limit within the NHS Pension Scheme, you could make additional pension contributions via a personal pension and receive tax relief. If you are going to exceed the annual allowance, you may be able to carry forward unused allowance from previous tax years. This is a complicated area and you may want to take financial advice to understand your position.

5. Review your mortgage

With interest rates at historic lows, there are good mortgage deals available. If you have a long time left on your mortgage, you may well benefit from a cheaper rate. Alternatively, if you have used all your tax-free savings allowances, consider paying off part of your mortgage, or look at an offset mortgage, which sets your savings against your mortgage debt. By giving up earning interest on the savings, you do not pay it on the same amount of your mortgage debt.

6. Protect your income from ill health

As well as saving and investing for your future, it is worth protecting your income. Permanent health insurance and critical illness cover will help with an ongoing income and lump sum payments if you are diagnosed with particular conditions such as cancer, or are incapacitated.

7. Get the best deal on your insurance policies and utilities

Check that your home and car insurance policies are up-to-date and cover everything they need to. Insurance is highly

competitive and it is worth shopping around to see if you can get the same level of cover for less, or superior cover for little, if any, additional cost. At the same time, check out the competitiveness of your utilities provider.

8. Reduce your inheritance tax liability

Check the value of your assets, that is savings (including tax-free savings such as individual savings accounts), investments, properties and other personal possessions, every few years. While inheritance tax is paid at 40% above the threshold of £325 000, there are simple steps you can take to make sure you do not leave any more than is necessary to the taxman.

You can, for example, gift up to £3000 a year, or £6000 if you have not used this allowance in the previous tax year, and this will be free from inheritance tax. It is now also possible to pay into a pension for your children or grandchildren which will attract tax relief at 20% on the contribution. So a £3600 contribution costs just £2880.

9. Make a will

It is important to have a will, even if you do not have any dependants, to ensure your assets are distributed as you would wish. Ideally, your will should be updated after any major life changes (e.g. children, marriage or divorce) or at least reviewed every few years. It may seem depressing, but it could take a big burden away from your family when they need it most.

10. Seek professional advice

If you are unsure about any of your finances, investments or tax issues, professional financial advice from a company that understands the medical profession will help you understand your position and make the right decisions for you. This may include understanding your options regarding the NHS Pension Scheme and the Pension Choice exercise. **BJHM**

Wesleyan Medical Sickness provides specialist financial advice for doctors

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The above information does not constitute financial advice. For further information please speak to your financial adviser.