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MONEY BOX LIVE

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LEWIS: Hello. A week on from the chancellor's pre-Budget report, the effects are already being felt. From today, VAT on many goods and services should fall from 17.5% to 15% - a cut not of 2.5% but in fact of 2.13% in the price we pay. But how will shops and other suppliers pass it on? Indeed, will they pass it on at all? What goods won't it apply to? And what about items we ordered before today but were delivered after? Other tax changes will take longer to arrive: some start in April, others in 2010; and some of the most far-reaching will wait until 2011. Cuts in tax will in many cases be matched or overtaken by rises in national insurance, which start in 2011. And of course those on £100,000 income or more a year will find their tax going up from April. Well working out whether you will benefit or not is highly complex, and of course with at least three Budgets, two pre-Budgets, and not to mention one general election before April 2011, things may change before they happen - if that makes sense. The other side of the pre-Budget - well I call it that, but in fact it was more like an emergency autumn Budget - was raising some benefits and pensions. The full details for most benefits are not out yet, they're expected in the next week or so, but the chancellor did announce the new rates of state pension and pension credit and of child benefit and child tax credit from April. And there'll be £60 for all those who receive a retirement pension and some other benefits, which will be paid hopefully in January. Whatever your question, you can call Money Box Live now - 03700 100 444. With me today to answer your questions are John Whiting, a tax partner with PricewaterhouseCoopers; Jane Moore, the tax faculty technical manager at the Institute of Chartered Accountants in England and Wales; and Eddy

Graham, a welfare rights expert from Child Poverty Action Group. And our first question is from Frances in Brighton. Frances, your question?

FRANCES: Hi. Yes, I'm buying a new car. I ordered it at the end of September and it's due to be delivered later this month. Can I ask them for a reduction in the VAT? It's about £1,700, the VAT.

LEWIS: Right, so that would be 2% of that, so...

FRANCES: Yes.

LEWIS: ... 340 odd quid. John Whiting?

WHITING: Yes, you can pay the lower rate of VAT because the delivery is going to take place *after* the new rate has come into play today. You're going to get the car when the supply is due to have VAT charged at the 15%, so you're looking at small discount here, Frances.

FRANCES: Fantastic!

LEWIS: Let's just take a couple more on the same kind of topic. Heather from Chelmsford?

HEATHER: Oh hi. I ordered some blinds. It's not a lot of money and I phoned up to enquire. I've agreed a price, including VAT. I paid £200 deposit and they haven't yet arranged to have them fitted. But I've enquired and they said the new rate of VAT does not apply because I ordered it before December 1st.

LEWIS: Okay. Nicky from Canonbury as well.

NICKY: Hello. I'd like to know whether my UK summer holiday... I'm renting a cottage. The figure is sort of in four figures and I'd like to know whether I will be

eligible for a reduction in VAT.

LEWIS: Okay - so cars, curtains and cottages. Jane?

MOORE: Well I think the key issue with all of these is when the thing that you've ordered is actually going to be supplied to you; and then a second question is whether you've paid for it yet. And the basic rule is really if it's going to be supplied to you after the date when the rate changes, which I think will apply to all three of the callers we've just listened to, then you should get the 15% rate of VAT.

LEWIS: And what can Heather do though? She's been told she *won't*.

MOORE: I suppose she could tactfully point her supplier to the things on the HM Revenue & Customs website and the tax authorities also writing to all businesses to explain to them what they need to do, so that might put the position clearer.

LEWIS: Yes, particularly paragraph 14, annex C, which was helpfully pointed out to me earlier this morning. (*laughter*) John, it does seem though that if you've issued the invoice, there is a bit of fiddling about to change the VAT rate. You've got to issue a credit note or something on the VAT, which I didn't fully understand.

WHITING: Yes, indeed. I mean, as Jane says, the fundamental thing is in effect has the supply been completed before the change of rate. So if it's all been done, passed, etcetera, and particularly if it's 14 days before today, then the old rate would have to apply. A number of people will be caught in the situation where they've perhaps had the invoice at 17.5%. Perhaps the goods haven't moved, so they can actually apply for the new rate of VAT. The supplier can in principle sort of tear the invoice up and re-invoice it at 15% and doesn't necessarily have to go through the credit note procedure. But the basic thing is, and the sort of examples we've heard just now, I agree with Jane - all these C's, it sounds like a few of my favourite things sort of thing - can all be supplied at this new favourite thing of a 15% rate of VAT.

LEWIS: Yes. I mean to be fair to everyone, I suppose I should say these are special rules and the Revenue is making that clear because we've never had a cut in VAT before - at least not of the main rate, have we? *Have we?*

WHITING: I'm trying to think.

MOORE: Isn't it something like 17 years since we've had a change in VAT rate?

WHITING: Well VAT went up.

MOORE: It changed the other way.

LEWIS: So they have had to introduce these special rules. But I think it is worth pointing out to retailers the information is on the website, but of course some retailers are already giving you a discount over the weekend on some of the goods you buy.

WHITING: And HMRC proudly told me on PBR Day that there would be a letter going out to every VAT registered trader - retailers, suppliers, etcetera - to tell them what the basic rules are.

LEWIS: So, Heather, it does sound as if you should go back to the shop and either print off or point them to special rules, paragraph 14, annex C, and see if they'll give you the discount.

HEATHER: Thank you. You said paragraph 14. It was the next bit I didn't catch.

LEWIS: Annex C - special rules that apply on 1st December.

HEATHER: That's lovely.

LEWIS: Though I suppose they could say, John - as many retailers are and we've had an e-mail about this from one of them - that they see this as simply something that is

going to boost their profits rather than cut the VAT?

WHITING: Yes. And I have a degree of sympathy with that because a lot of retailers will say well we have set our prices and very often to a price point - you know the sort of £4.99 or £6.95 or £25 or whatever. They've set all their prices and they are quite possibly discounting already to get there - so the fact that the VAT is coming down a touch, they will adjust some prices but not all.

LEWIS: Yes, it was Nick actually who e-mailed us to say, "VAT is not for customers. It's for retailers to survive. We're regaining some of the margin we've lost over the last few months."

WHITING: They've probably done a lot of discounting.

LEWIS: So there's no obligation to pass it on, though all the big retailers are. But you see we've had another e-mail from somebody who said, "The milk I bought this morning was 5p more expensive and the chips I bought for lunch" - no diet advice here (*laughter*) – "were the same price as last week, not 5p cheaper."

WHITING: Which is fascinating as milk doesn't have VAT normally.

LEWIS: No. So food doesn't have VAT, but hot takeaway food does have VAT.

WHITING: Well careful, careful. Hot takeaway food does.

LEWIS: Yes, it's the Jaffa cakes argument, isn't it - whether they're a cake or a biscuit? So some retailers... I mean if you're charging, I don't know, £1 for a bag of chips, it's quite hard to suddenly charge 98p.

WHITING: What it comes down to is of course if somebody has charged x pounds, plus VAT, they undoubtedly should be using the new rate of VAT. Where it's a little more blurred is if they are just charging you x pounds, including VAT, they may be

just charging you a price. They will have to account to customers for the appropriate amount, of course.

LEWIS: But they could be pocketing the rest. Anyway, thanks to Frances, Heather and Nicky for your questions. It looks as if you can get it back, but you might have to do a bit of work. Jane?

MOORE: I just wanted to add, just thinking of the businesses who are struggling with this, if you make mistakes on your VAT return, you can get into penalty problems sometimes, but Revenue have actually said that they will apply what they call a “light touch” about people who make mistakes implementing these new rules and that’s on their website.

LEWIS: Right.

MOORE: So it’s worth bearing that in mind if you’re a business.

LEWIS: Yes, so as well as running a business, setting your prices, printing a catalogue and dealing with customers, a good morning spent on the Revenue website should sort this out. (*laughter*) James is calling us from Penrith with another VAT question. James?

JAMES: Petrol and diesel came down this morning with VAT, but the chancellor put a duty on equivalent. Is there any risk that the duty will be forgotten and left where it is when the special period finishes in January?

LEWIS: Yes, this was the rather complicated thing, John, whereby VAT was cut - and obviously that would normally bring the price of petrol down - but then the duty was raised. Was there an exact balance between them?

WHITING: That was the principle. And of course the same thing in principle applied to alcohol and tobacco; that the VAT would bring a price reduction. But duties were

raised equivalent, although there was a slight muck up on the duty on spirits. There had to be a late adjustment. James' point of course is in 13 months time, the VAT goes back up. Logicians might feel that the duty should therefore come down, but I'm afraid the logicians are dreaming a little. Sadly, James, I think the duty is going to stay as it is, so in effect these things will go up. And of course in the interim people who recover the VAT - hauliers and the like - are actually seeing their costs go up because they've got less VAT to recover.

MOORE: Right. And just before I bring you in, Jane, let's go to Jay in Ammanford who I think has a similar point. Jay?

JAY: Yeah, hi. I mean it's come to my notice - and I think to nearly every other publican in the UK ...

LEWIS: So you run a pub, Jay?

JAY: Yeah, that's right. Yeah, we're all under a lot of pressure at the moment and this hike in duty has been a death blow to a lot of pubs. You know looking at it, what we see is you know duties going up as of today. It's going to go up again in the Budget in March of next year. Because of the VAT returning to its 17.5% rate in January of 2010, we're going to have another price hike. And then we're having another price hike because of the escalator in the March Budget of 2010. So we're actually going to be paying duty on duty.

LEWIS: Yes, I mean there's been quite a lot of pubs getting into trouble over various things. I mean I suppose the credit crunch means people are spending less and the cost of what you're selling is put up by the government.

JAY: Exactly. I mean with the VAT dropping, we're not able to claim so much back. Because the duty's gone up, we're actually paying more for our product.

LEWIS: Yes. So Jane?

MOORE: Well I can't really add anything to help Jay. I wish I could. I think he's right there. I was going to mention though on the fuel duty, that at the pre-Budget report they did actually say that it would go up by 1.84p a litre next April, and then over... 0.5p per litre above indexation on April the year after that.

LEWIS: Yes. So I mean James and Jay, I suppose the points are yes, you're absolutely right - VAT's coming down but the duty both on alcohol and the petrol we buy is going up, so we'll see no benefit. But of course the people who have to pay the duty but then can't reclaim the VAT, such as publicans and hauliers, are in a difficult position.

WHITING: Well the hauliers will have less VAT to recover, so their point is that immediately their costs go up because they're paying the higher duty but they've got less VAT to recover. So they don't see the compensation that in many ways you and I see as we drive in to fill the car up or fill ourselves up at the off-licence or pub.

LEWIS: There's a slight suspicion, isn't there, with petrol prices coming down because of the oil price falling that the chancellor hopes no-one will really notice?

WHITING: I think that was part of the justification for slipping through the 2p a litre increase.

LEWIS: Yeah. Well as long as oil prices stay low, which of course we don't know. Right, well that's been a lot on VAT and various things. James and Jay, thank you very much for the points you made. We're now going to move onto something rather different. Irena is calling us from Durham. Irena?

IRENA: Hello. Why are people over 60 and have deferred their state pension not getting the £60 that was announced in the Budget because we don't get the £10 Christmas bonus either?

LEWIS: Right, well let's bring Eddy Graham at last into this. Eddy from Child

Poverty Action Group. I mean just explain to us first this extra £60. What is it and who's getting it, and then what if you are deferring your pension as Irena is?

GRAHAM: Well the £60 is an extra payment, which the logic behind it is that it's a payment equivalent to bringing forward the increases in retirement pension to January, as there has with child benefit. So it's an extra amount for pensioners but, as Paul said, it's linked to people who are entitled to the Christmas bonus. So unfortunately, Irena, if you're not actually in receipt of your retirement pension during the qualifying week, which for this payment is the week beginning 22nd December, you won't actually be entitled to receive it. I mean the other benefits which will enable a person to get this payment are things like attendance allowance, disability living allowance, carer's allowance, contributory earnings related benefits. So unfortunately for you, your only way out would be to now claim your retirement pension so that you are actually in receipt of it or entitled to it in the qualifying week in December. But obviously that may well upset all the plans you've actually made for your retirement planning and it will only entitle you to the £60 payment.

LEWIS: Well the £70 because you get the £10 as well, don't you? But I mean when it was £10, I suppose no-one worried about this, but now it's 70 quid people are thinking, gosh, is it worth deferring because I'm doing without my £70 Christmas bonus?

GRAHAM: Well presumably there'll be a lot of people in the process of doing that at the moment and for them it's clearly in their interest you know to either claim it or to delay what they're going to do because people who have already claimed their retirement pension can do what's called "de-retire". They can opt to then defer it and then sort of reclaim it again at a later date.

LEWIS: Yes. I did talk to the Department for Work and Pensions, the Pensions Service this morning, Irena, and they confirmed what you suspected and Eddy's said. And they did point out that there was still time to claim your pension if you are deferring because the qualifying week, as Eddy's said, has been put back to 22nd December. But then of course that would mean you either got the lump sum or the

increments to your pension and then if you wanted to in January you could de-retire, get rid of your pension and go back to deferring it. But then you'd have to start all over again, so it's a messy process to think about. They also warned me that if many people did this, there'd be huge delays. (*laughs*) So I think there's a lot to think about. What's your inclination, Irena? I mean obviously you feel cheated out of the 70 quid?

IRENA: Well, yes, I mean because I am entitled to a pension now, so I can't see why you know we can't have the £60.

LEWIS: Yes, well I must say I tend to share your view, but that is apparently how the law works. And, as Eddy said, it's how it has always worked with the £10 as well, and it's because this is being added onto that, that you can't get it. I mean would you consider giving up your deferment to get the £70?

IRENA: Well I might do because you're losing £10 Christmas bonus as well each year and that might be increased and we would obviously lose that as well. I mean on the website, it says anyone who's "*entitled*" to a state pension. Well we *are* entitled to a state pension. We're just not taking it at the moment.

LEWIS: Well it shouldn't say that. It should say "*receiving*" because that's what the law is.

GRAHAM: It should. Yes, it would make it a lot clearer for people if they knew it actually had to be in payment or was due to be paid for that relevant week.

LEWIS: Yes, if the website says "*entitled*", then it's simply wrong and misleading, so that may be something we'll take up with them later to see if they're going to change it. Anyway, thanks for your call, Irena. We put Irena on air, but I must say we've had loads of e-mails about this this morning. I think it was possibly... Well that and VAT have been the two things exercising people. Thank you very much for your call and I'm sorry we haven't got better news for you and difficult choices there for everyone to make. Elizabeth now is calling us from Colchester. Elizabeth, your question?

ELIZABETH: Yes, in the pre-Budget report and the graphs, when they're rising pension, they always give married couples as a group - 74 to 75 in age. But I'm 69, my husband is 90, so how do we fare in the increasing pension?

LEWIS: Right, Eddy?

GRAHAM: Well, Elizabeth, I mean pensions have generally, the state retirement pensions will be up-rated by 4.8% in April, so for example the basic state retirement pension for a single person would go from £90.70 to £95.25. But how much you actually get depends on your contribution record and how much you're actually getting at the moment, whether you are both individually entitled to retirement pension or whether one of you is claiming and the other one getting a dependent's addition.

ELIZABETH: I get the dependent's allowance of £56.77.

GRAHAM: Okay, well the standard amount that's going up for one person claiming and the other partner claiming the dependent's addition is going up from £145.05 to £152.30.

ELIZABETH: Right. And we both qualify, do we, for the £60 in January?

GRAHAM: Yeah. Well this is yes because it's based on entitlements to the Christmas bonus and both members of a couple can receive the Christmas bonus. So you can both get it and you will also, obviously you will benefit from the extra increase in the winter fuel payment, which was previously announced for this year.

ELIZABETH: Yes, that was another thing that was made, that wasn't clear. They talked about 80 year olds and over getting £400...

GRAHAM: Yes.

ELIZABETH: ... but it's *not* that. It's if an 80 year old has a spouse, then all the 80 year old is going to get is an extra £75 and the spouse will get £25 because the £400 is for the household. Because I rang up the social security about this.

LEWIS: That's right, yes. It is for the household, not for each individual - that's right, yes. So you'll get that extra between you, the extra £100 between you.

ELIZABETH: Yes, that's right.

LEWIS: That is right, yes.

ELIZABETH: Thank you very much indeed.

LEWIS: Okay, thank you very much for your call, Elizabeth. Derek now is calling us from Cleethorpes. Derek?

DEREK: Yes, thanks Paul. There are two aspects to my enquiry. The first one was a tax one. I am a totally blind person and I believe the blind person's allowance at the moment is £1,800 a year. I wonder if somebody a) could confirm that that is the case; and b) could let me know when this took place from; and c) are there any plans to increase this in the latest statement, please?

LEWIS: John Whiting?

WHITING: Yes, Derek, it is £1,800 at the moment. It tends to go up every year at least in line with inflation. Not necessarily terribly generously, but it did go up to £1,800 from £1,730 *last* tax year.

DEREK: Did it?

WHITING: And the proposal from next April is that it will go up to £1,890. Actually going up by 5%, which I suppose is in line with inflation...

DEREK: Yes, it is.

WHITING: ... although not as much as the main personal allowance went up by.

LEWIS: No because that went up ahead of inflation, didn't it?

WHITING: Yes, by about 7.3%, something like that.

LEWIS: Jane Moore, there was a purpose behind that, wasn't there? Apart from trying to give people more money to spend in the shops, there was a purpose behind that?

MOORE: The personal allowance going up? Yes, that was to compensate at least some of the people who'd lost out when the 10% income tax rate was abolished in April this year. It still applies, but only to savings income, so some people lost out and didn't get the benefit of age allowance or higher tax credits, so the chancellor decided he would hike the personal allowance for everybody to compensate some people and also give a lot of other people who hadn't suffered a bit more money.

LEWIS: Yes, that was the change originally in May and now there's been another increase above inflation and there'll be a further one in the following tax year, 2010.

MOORE: A further £130. Well the £130 above inflation rise is going to be maintained for next year as well as... Well for two years in fact.

LEWIS: Yes. And will that finally put the 10p tax fiasco, if I can use that word, to rest? Will that mean everybody will no longer be any worse off?

MOORE: I think there are still some older pensioners, pensioners under 65 who still haven't been wholly compensated. And of course the other group that didn't really benefit was people of working age who couldn't get working tax credit.

WHITING: The extra personal allowance should just about clear it. And I think ... I mean you're right, of course - the cadre who are currently out of pocket after the May hike in personal allowances are the early retirees and very part-timers. There's a cadre on incomes between about £8,000 and £10,000. They still lose out. With this extra personal allowance, I think it's just about in credit or, well at worst, level. Of course people may still reflect that well that's for the future, I've still lost out *this* year.

LEWIS: Well, yes, they've still had two or three years when... I think the chancellor said there were about 1.1 million who weren't compensated by the May changes. He said another half million *would* be compensated by...

WHITING: He's slowly getting there.

LEWIS: So maybe another half million by next April.

WHITING: And of course some people's circumstances will have changed. But I'm afraid this is I think intended to put it behind us.

LEWIS: And Derek who just called us, Derek who's blind, he will get the increase in the blind allowance but also of course he will get the personal allowance rise, so he will end up a reasonable amount better off in terms of tax.

WHITING: (*over*) Yes, personal allowance... I'm not sure of Derek's age, but I mean you know if he's under 65, it's going up from £6,035 to £6,475. If he's over 65, £9,030 going up to £9,490, plus the blind person's allowance.

MOORE: And just a very quick thing on blind person's allowance. It's actually one of the allowances you can transfer to your spouse even if your spouse is not blind. If you can't use it all yourself, if your income is enough, you can transfer it.

LEWIS: And Eddy Graham, we mentioned tax credits. That's another thing that the chancellor was making much of. He was putting those up faster than he'd said he was.

What sort of difference is it going to make to people who don't have much money?

GRAHAM: Well yes, you're right. Previously the chancellor announced there would be above indexation increases in child tax credit, in the child element, both from April '09 and April '10; and he's rolled them all up and brought them in in April '09, so there's going to be an increase of £150 in the per child element of child tax credit. But I mean the amount... he didn't really announce anything extra in the PBR to help the government hit its child poverty targets, for example, and so it was a bit really of a missed opportunity to combine a fiscal stimulus with sort of working towards a goal of eradicating child poverty.

LEWIS: And of course you talk about child poverty, which is obviously very important, and these changes will benefit people with children the most. We've had a couple of e-mails, one from Jane - single, 49-years-old, no children, earns £22,000 a year. Another from Peter - 30, single, earns about £19,000 a year. They're saying what do *we* get out of this Budget? I suppose they get a slight increase in tax allowances, John?

WHITING: The higher personal allowance is the basic thing that they will get.

LEWIS: But they don't, Eddy, really qualify for working tax credit, which is much lower down the pay scale than that.

GRAHAM: Yes, their incomes are probably... If they meet the sort of quite restricted eligibility conditions. Their income is probably going to be too high to enable them to any working tax credit.

WHITING: Dare I say it, they've got the prospect of higher national insurance in the future like most people.

LEWIS: In the future. Though I think everyone agrees people *under* £20,000 are going to be net gainers. There's some argument about whether that goes up to

£40,000, isn't there? But, as I said earlier, that's a long way off and things can change. Let's go back to a call now. Mary from Lancashire, what's your question?

MARY: Oh good afternoon. My daughter has a very small business, very small retail, and she actually pays for her stock and pays VAT. But she isn't VAT registered. She can't claim anything back. She's already paid VAT at the higher level. Does she have to reduce it...

LEWIS: Because she's...

MARY: ... and pass it onto her customer?

LEWIS: Right, John?

WHITING: If she's not VAT registered, she can't recover it. She's obviously not charging her customers VAT; she's just setting her prices...

MARY: That's right.

WHITING: ... so I'm afraid this is something that'll just pass her by. If she's got the stock and paid for it, she's paid at 17.5%; she buys some stock let's say today, she'll pay at 15%. Apart from that, noting how much she's paid, she doesn't have to adjust prices or anything. She sets her prices accordingly, but she's not of course recovering or charging VAT to her customers.

LEWIS: I suppose the problem is though, Mary, for your daughter that customers will come in... And you know you go into a small shop. You don't know if they pay VAT or not, do you, or charge VAT?

MARY: No.

LEWIS: So the customers will be expecting a price cut and it's going to be quite

hard, Jane, to explain why there isn't one.

MOORE: I think it's going to be *very* hard unless you want to take them through the mechanics of VAT, which is probably not a good selling point.

LEWIS: Not what people go into shops for generally. So I mean she doesn't have to do anything, Mary, but I think she does have a kind of psychological problem, if you like, with customers just to make sure that they fully understand it.

MARY: Yes, they're usually the parents of small children. It's dancewear. So most of her stock doesn't have VAT on because it's for children, but the fancy goods and the older, higher sizes, larger sizes, you know she does pay it.

WHITING: There will be some VAT on those.

LEWIS: Yes, I think that is a problem. I think many small retailers and businesses are going to have problems even though it should be relatively straightforward. Right, I'm just going to give you a couple of figures because we didn't give them earlier. This is the state pension. It's actually going up, the basic one, to £95.25 for a single person on their own contributions in April, and £57.05 for a married woman. They're both going up by 5%. And pension credit is £130 and £198.45 for a couple. Again that's from April.

And I think, I'm sorry to say, that's all we have time for. Lots of calls, lots of e-mails. We have to stop there. My thanks to Eddy Graham from Child Poverty Action Group, Jane Moore of the Institute of Chartered Accountants, John Whiting of PricewaterhouseCoopers. Thanks to you for all your calls and e-mails. Find out more about the pre-Budget - BBC Action Line, 0800 044 044. Our website is bbc.co.uk/moneybox. Listen again, download a copy, read a transcript in a couple of days. And on Wednesday watch our video update of money news with my colleague, Samantha Washington. I'm back at noon on Saturday as usual with Money Box and here to take more of your calls on Money Box Live next Monday afternoon when the subject will be carers and caring.