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## **MONEY BOX**

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**TRANSMISSION: 24<sup>th</sup> MARCH 2012 12.00-12.30 RADIO 4**

**LEWIS:** Hello, no sketches or stand-up here. In today's programme, the ramifications of the so-called "granny tax", which will leave one 63 year old £260 a year worse off just because of her date of birth. The new child benefit tax charge: who will it affect and can you escape it? Bob Howard's here. He's been looking at insurers getting into a bit of a muddle, Bob, over drinking and driving.

**HOWARD:** Yes, should they be able to exclude drivers even if they haven't broken the law?

**BOB:** I think this is a sledgehammer to crack a nut and it's very draconian.

**LEWIS:** And two listeners tell us about their HSBC mortgage nightmares.

But we start, inevitably, with the Budget. No, please don't switch off because three days on, we have new information and new insights: the "granny tax", which will actually affect more non-grannies than grannies; the "pasty tax", which will affect lots of freshly cooked, hot food; the storage tax, adding 20% to the cost of most self-storage units; and the cohabitation rule, which will be applied in the tax system for the first time. But we start with the "granny tax", and note the inverted commas. Here is how Chancellor George Osborne announced it on Wednesday.

**OSBORNE:** Over time we will simplify the tax system for pensioners by doing away with the complexity of the additional age-related allowances for anyone reaching the age of 65 on or after 6<sup>th</sup> April 2013, and I will freeze the cash value of the allowance for existing pensioners until it aligns with the personal allowance.

**LEWIS:** Well yesterday I talked to Barbara Mine, a 63 year old living in Sussex who has a special reason to feel peeved by this simplification.

**MINE:** My sister-in-law was born January 1948 and I was born June 1948. That means that she will receive the age-related allowance for the pension, for state pension, and I won't - which I feel is very unfair. She thinks it's unfair as well. I've paid into the system all my working life. I left school at 15 and I'm now told that the Government is changing the goalposts, so I'm now not going to get this age-related allowance but other people are that were born at a different time of the year. Any amount of money is going to affect me and I can't change my circumstances. That's what I get for the rest of my life.

**LEWIS:** Barbara Mine. Well live now to talk to John Whiting. He's Tax Policy Director at the Chartered Institute of Taxation and also Director of the Office for Tax Simplification. John Whiting, just explain first. I mean George Osborne did say there were these two groups. Barbara's clearly in one of them. How will it work?

**WHITING:** Well basically the first stage is that the allowance for the 65-plusers is going to be frozen. It's not going to go up. In other words, he envisages the main personal allowance, which is going up to £9,205 from next April, steadily catching it up, so it sort of erodes over time. But you know that I think we have to accept is a simplification. But, on the other hand, a lot of elderly people expected it would keep going up, and of course what he's doing is also putting the shutters down on people who reach 65 after next April.

**LEWIS:** Yes, I mean I suppose you can say it's a simplification and, as the Chancellor said, no-one will actually lose in cash terms ...

**WHITING:** Yes.

**LEWIS:** ... but it's seen as a tax grab on "grannies", as they're being called, isn't it?

**WHITING:** Well it is. Although let's be clear with one thing, Paul. I mean I was doing another phone-in yesterday and I had people thinking they were going to be faced with extra bills. So no, it's not an extra bill, there's nothing going to come out,

but of course ...

**LEWIS:** (*over*) You'll be taxed more than you would have been if he hadn't made the change, yes.

**WHITING:** Exactly, you're not going to get a higher allowance that well in most cases, including the clip you just played, people had probably a reasonable expectation that they would get.

**LEWIS:** Now, John, your other job, as I said, is the Office of Tax Simplification. You've pointed out the problems with this allowance. At least those have now gone. Did you think it'd be scrapped?

**WHITING:** I didn't think it would go like this. I mean we in the Office of Tax Simplification pointed out a whole load of problems - the 65-pluses' experience, and I mean, Paul, you helped us with that and pointed out a good few that you'd come across on Money Box too. So we've listed those in a report we came out with a couple of weeks ago. We're moving on to try and solve some of those. Well obviously this one has been done.

**LEWIS:** A few less problems to solve. Now the other point you made is the personal tax allowance for younger people, indeed for everyone now, will go up from £8,105 to £9,205, saving all certainly basic rate taxpayers quite a lot of money.

**WHITING:** Well yes, but you know a slight qualification in that. It does save the basic rate payers quite a useful amount - another £220. Higher rates - the higher rate threshold comes down, so they don't benefit anywhere near as much. And quite a lot of low earners - although they're paying tax, if you're getting certain benefits like council tax benefit, housing benefit, they're calculated on an after tax basis, so of course you'll lose a bit of that: as your tax bill comes down, your benefit comes down. It doesn't apply to tax credits, but it does on some benefits.

**LEWIS:** So they won't get the full amount. And John, you mentioned higher rate tax. And of course the level for paying that is coming down, so 300,000 more will pay higher rate tax.

**WHITING:** Yes, it's steadily increasing. Far more people will be into the higher tax net and I suspect we'll be looking at sort of more tax efficient benefits because it's suddenly worth more to put into your pension fund, to just generally get childcare vouchers, things like that.

**LEWIS:** We'll be coming onto those again in a minute, John, but stay with us because another great Budget controversy is over child benefit. We had been expecting it to be taken off couples and single people where one at least earned more than £42,475 a year, but then on Wednesday the Chancellor had some slightly better news for some.

**OSBORNE:** The benefit will only be withdrawn when someone in the household has an income of more than £50,000, and the withdrawal will be gradual: 1% of child benefit for every extra £100 earned over £50,000. So there's no cliff edge and only those who earn an income of more than £60,000 lose all of their benefit.

**LEWIS:** Well if you've been writing those numbers down, how will it work? There has been much confusion, I must say, among people who've been in touch with Money Box. We'll hear from a couple of them in a moment, but first Will Hadwen of Working Families explains how the rules will now work.

**HADWEN:** A simple bit is that if that income is £60,000 or more, then if they claim and are paid child benefit they'll be subject to a charge equal to the child benefit at the end of the tax year, so they'll just end up paying it back.

**LEWIS:** So one parent keeps the child benefit and the one with the higher income pays extra tax equal to the child benefit?

**HADWEN:** That's right.

**LEWIS:** So with two children, it's about £1750 a year, so they'll have extra tax of £1750 to pay?

**HADWEN:** Yeah, a tax charge as they're calling it.

**LEWIS:** So what happens between £50,000 and £60,000? That seems to be where a

lot of the confusion lies?

**HADWEN:** Yes, that's the complicated bit. Between £50,000 and £60,000, for every £100 of income above £50,000, you will be subject to a charge of 1% of your child benefit. It's easiest to give an example. If you have somebody who earns £55,000, let's say, so the charge is going to be 50%, so they will have a charge equal to half of their child benefit.

**LEWIS:** Yes. So again with somebody with two children, child benefit is £1750, so they'll be paying half of that - £875 or whatever it is - extra tax.

**HADWEN:** Yes.

**LEWIS:** Let's hear from one of the people who've been in touch who are confused about this. This is Paul from Bolton. And he earns above £50,000, but towards the lower end of £50,000 to £60,000.

**PAUL:** It's very confusing. I'd rather just have an absolute cut-off. If the Government deems that over £50,000 that you're not rich enough to do without it altogether but you know if over £60,000 you are, I don't really understand why they don't just do the cut-off at the £60,000 level.

**LEWIS:** And you understand that your wife will still be able to get the child benefit, but you will pay tax to take it away again?

**PAUL:** I do understand that. In essence it means of course we'll need to do a self-assessment, which I've never had to do before in my working life.

**LEWIS:** So Paul there clearly worried that he's going to have to not only pay more money but also fill in a self-assessment form. Is that how it's going to work?

**HADWEN:** It would appear so. The Revenue themselves have said that there's going to be half a million more people subject to self-assessment - so that presumably must mean that he's going to have to do that, as are many other people who are employees and wouldn't normally do that but whose income is over the threshold. However, it also seems to say that you wouldn't pay the tax charge directly. You would still pay it

via deductions from your earnings via Pay As You Earn. So you've got a complicated situation where you're filling out a self-assessment form as if you were a self-employed person, but you're still paying the tax charge directly from your earnings.

**LEWIS:** Let's hear from another listener now who is also concerned. He's more at the top end of the £50,000 to £60,000 range.

**RICHARD:** My name's Richard. I earn £58,000 a year. I live with my partner and we have a young daughter who's 16 months. I do have friends who earn less than me, but as a couple earn more - my brother's an example - and so they'll have child benefit and I won't. My partner earns £16,000 a year. If I earned £8 a year less and she earned £8 a year more, we'd be better off with the child benefit and that's an odd situation. Is it worth me taking the salary sacrifice for a nursery place?? Does that affect my tax position and does that affect my child benefit arrangements?

**LEWIS:** There's Richard making two points really. Well the first one of course that a couple can earn up to £49,000 each and still keep all their child benefit; but if one of them earns more than £50,000, they begin to lose it.

**HADWEN:** Yes, that anomaly remains.

**LEWIS:** So it's the higher earner? It's not the earnings of the couple?

**HADWEN:** It's always the higher earner, that's right.

**LEWIS:** And the other point that Richard makes is is there any way of reducing his pay, turning it into benefits like childcare or perhaps putting more into a pension, to reduce his taxable income and reduce the amount of child benefit tax he pays?

**HADWEN:** Yes, I think there might be. If his employer offers a childcare voucher scheme, then he could salary sacrifice up to £243 a month and that would be non-taxable.

**LEWIS:** Well that was Will Hadwen of Working Families. John Whiting is still with us. John, reducing your income to get under the £50,000 barrier. Obviously if you've got children that are young enough, the nursery is an idea. What about putting money

into a pension? Can you do that yourself or do you have to do it through your employer?

**WHITING:** Well look at the rules of the pension scheme, but basically it will be possible to put more into your pension scheme. But of course that's putting money aside that you might feel you need now, but it's of course a good thing to provide for pensions, in principle.

**LEWIS:** Yes and in effect you're getting a much higher rate of tax relief, aren't you, because you're getting the tax relief plus the extra child benefit. And if you've got a company scheme and you can't put more in, can you just set up your own?

**WHITING:** You can start looking at setting up your private pension and seeing what other provisions you can make. And of course what it's doing is adding another of these thresholds: along with the 65-pluses who have claw back, the £100,000-pluses who claw back personal allowances. It, dare I say it, will revitalise quite a lot of these little sensible housekeeping planning ideas.

**LEWIS:** Yes, I did work out if you have eight children, you'll be paying a marginal rate of over 100% on your income. Another problem people have raised is this cohabitation rule. If you live with someone who gets child benefit and you're the higher earner and get over £50,000 a year, you will pay extra tax.

**WHITING:** Indeed. And of course this is something that we're going to see the taxman having to monitor couples - in many ways something possibly social security is used to - but we are looking at the family units. There's a lot of practical issues in this. Will's pointed to some of them. You know somebody who gains or loses a job during the year may suddenly find they're losing or gaining child benefit and we're into the usual sort of things we used to have with tax credits some years ago - trying to constantly play catch-up.

**LEWIS:** John Whiting, thanks very much. And I did confirm with HMRC there will be a box on the self-assessment form where you'll have to declare if you live with someone who gets child benefit. Sorry no time to go into all those fiddly things to do with VAT, but I'm sure that we'll be coming to that later.

Now should car insurers withdraw cover from people who drink and drive even if they are under the legal limit? Money Box has learnt that over the last year the wording of some insurers' policies has the potential to exclude anyone driving under the influence of alcohol or drugs, but there are concerns that people with a minimal level of alcohol in their blood or who've just been taking prescription drugs could be caught out. Bob Howard's been investigating.

**HOWARD:** Paul, Money Box was contacted by Bob from Cheshire. Now he's been insuring his car with Zurich for many years. Recently he got his renewal quote, which came with a summary explaining recent changes to the firm's terms and conditions. One new exclusion caught Bob's eye as having potentially very wide ranging consequences.

**BOB:** It says that there will be no cover in force if at the time of an accident the vehicle is being driven by any person under the influence of alcohol or any other substance that would adversely affect a person's ability to drive. I think this is a sledgehammer to crack a nut and it's very draconian. You can still drink a pint of beer, for example, and drive within the law, but on the wording of their policy they could avoid any claim.

**HOWARD:** Bob was also afraid that people taking prescription drugs could also be caught out, so he phoned Zurich to try and clarify what the change meant and whether his fears were justified, but he says he was told the firm couldn't comment without a specific case to evaluate. Others share his concerns. Graeme Trudgill from the British Insurers Brokers Association says his broker members have also noticed the changes and are worried about their possible implications.

**TRUDGILL:** These exclusions have been creeping in to some insurance companies' policy wordings, their intention being to deter drink driving. But it's something that I think we're concerned about because it could have some unintended consequences. The exclusions weren't quite clear - did someone actually have to be convicted with drink driving or could someone be taking some sort of drugs, medication, which actually would then invalidate their insurance? So there were concerns.



**HOWARD:** In fact Graeme's members were so concerned that his association contacted Zurich to express them. And insurers are not renowned for making changes easily, but in this case Zurich decided to back down as it explained to brokers in a letter.

**ZURICH LETTER:** Our intention behind introducing the exclusion was to deter behaviour that contributes to thousands of road deaths and injuries every year. Whilst we maintain our aspiration to be a socially responsible company, we have listened to feedback provided by brokers. We will now be removing the exclusion completely.

**HOWARD:** However, although it's no longer an exclusion for policies sold through brokers, it's still there if you buy from the firm directly. But some other insurers who've tried to introduce some clauses have backed down completely. Allianz withdrew the exclusion from all its policies just 3 weeks after introducing it. Now I should stress that the Road Traffic Act states insurers still have to pay out for third party claims, but whether you and your own car are covered if you were at fault may be up to your insurer's interpretation.

**LEWIS:** Thanks Bob. Well I spoke earlier to Keith Lewis from Zurich Insurance. I asked him why his firm had introduced this new exclusion.

**K. LEWIS:** What we want to make sure of is that if anybody is out there drinking and driving and has an accident and any injury benefit that they're entitled to is only payable if they're law abiding at the time. And we accept that the wording that we've used here isn't quite as tight as we'd like. What we're absolutely doing here is making sure that people who have accidents that are perfectly legal and straightforward, there's no issues at stake; are entitled to the compensation they're entitled to.

**LEWIS:** So if you have an accident and you've had a drink or you've taken some prescription drugs but nothing you've done is actually illegal or above the limit for alcohol when you're driving, that clause won't be invoked?

**K. LEWIS:** That's absolutely right.

**LEWIS:** Yes but it doesn't say that, does it, because you've got two separate

exclusions, at least on the website? You've got one exclusion is driving with alcohol above the legal limit, which I think most people would accept. Then you have any claim caused directly or indirectly by the effect of intoxicating liquors or drugs. So that implies there's a sort of second level that you might exclude someone by.

**K. LEWIS:** It does imply that and we accept that that's not the wording we would have liked or should be there. We wanted to be explicit and we're grateful actually we've got such diligent policyholders out there who point these things out to us that we can then work on getting them absolutely right as we intended them to be.

**LEWIS:** You're saying that. It's now March and yet last year in October, having had similar complaints from insurance brokers, you changed those policies that you sold through brokers. Why didn't you change the others as well?

**K. LEWIS:** We accept that. It takes a longer time to change the direct policies ...

**LEWIS:** Why?

**K. LEWIS:** Because it takes a year to go through that process and to do it. We're looking at it. We accept that the wording's not quite right, and we're putting it right.

**LEWIS:** But you're already excluding claims when people have broken the law or they've driven recklessly. Surely that would cover all these cases too?

**K. LEWIS:** It would. What we were trying to make clear is that this is not acceptable behaviour for our policyholders to be doing. We're often criticised for being too woolly, putting lots of things in there that may not be relevant to driving. But what we're saying is if we have a car accident and the person is above the legal limit and they're convicted of that, then we don't think they should be covered, and we're explicit that that's not behaviour we want our drivers to be participating in.

**LEWIS:** Zurich's Keith Lewis agreeing to make some changes. And you can join loads of others letting us know your views on this through have your say on our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox) - coming in as I speak. Several people have already told us Admiral has similar clauses; and having looked online this morning, that does seem to be the case.

Moving house is one of the most stressful experiences, but some listeners have contacted Money Box to tell us of an extra layer of hassle imposed by their lender HSBC. Since January the bank has insisted that homebuyers with an HSBC mortgage have to get their conveyancing and other legal stuff done by one of its own panel of solicitors and conveyancers. You can still use your own solicitor if you really want to, but you'll still have to pay the HSBC person as well. Eleanor from West London says that her house purchase was put in jeopardy because of the new system.

**ELEANOR:** The whole process has just been a complete nightmare. The main concern, which hopefully won't happen now, was that we were going to miss the stamp duty deadline; and if that had happened obviously it would have cost us an extra several thousand pounds. They've lost documents and on the way they've requested things to be resent multiple times. We've had to kind of complete within a really short period of time and that's going to cost us extra from our solicitors.

**LEWIS:** Eleanor did in fact manage to complete before the stamp duty window ends. That of course happens tonight. But her frustration is shared by another HSBC customer, Tony. He's getting divorced, so he was keen to keep things simple and use the same solicitor for the divorce and the house.

**TONY:** Several weeks into the process, I was contacted by my solicitor saying HSBC require extra searches. They were insistent on having an environmental search of the area, which covers flooding, waste disposal, all that sort of stuff. I can see it's quite advantageous having that if you've never lived there before, but to me I've got a nice document, it's very, very informative, but there's no value for me at all and I thought it was a complete waste of time, but they insisted. Because all the documentation had to go through HSBC's appointed solicitor, it's caused my solicitor extra effort for which I've incurred an additional cost.

**LEWIS:** Well that was two listeners' experiences. Live now to Central London to talk to Martijn van der Heijden, Head of Lending at HSBC. Martijn van der Heijden, why can't your customers just pick their own solicitor?

**VAN DER HEIJDEN:** Good afternoon, Paul. Yeah we made the change customers

can choose their own solicitor. What we've changed in January is a bit of a follow on what happens in the industry, so the lending industry is moving to conveyancing panels to get rid of fraud for regulatory reasons.

**LEWIS:** I can understand that, but even if they do choose their own solicitor, they've got to pay for yours as well.

**VAN DER HEIJDEN:** Conveyancing consists of two parts. It's work for the borrower and work for the lender. What we've done is changed our approach to the work for us as a lender; and the bit for the borrower, that hasn't changed.

**LEWIS:** But these two listeners have both said you know the administration's bad, it's cost them more money, even delays. "Waste of time", Tony said.

**VAN DER HEIJDEN:** Well any complaint is one too many.

**LEWIS:** Well there's two too many there.

**VAN DER HEIJDEN:** I would like to point out ... I looked at our data clearly in preparation for this and over 99% of our cases since we set up has gone through without a hitch. Still if we're doing anything wrong, we'd like to put it right, but the vast majority is going through correctly.

**LEWIS:** Right, well it's not just our listeners who are concerned. Consumer groups and lawyers also say the conveyancing panel limits choice. Listening to us in Glasgow is Desmond Hudson. He's Chief Executive of the Law Society, represents solicitors of course in England and Wales. Desmond Hudson, what's wrong with this system in your view?

**HUDSON:** Well I think the system is badly thought out, somewhat disorganised, restricting freedom of choice, adding cost, and completely unnecessary.

**LEWIS:** But isn't it just that your members are annoyed they're not in the 43 people on this panel, so they're losing business, especially in Scotland?

**HUDSON:** Well yes, of course I should say I'm the Chief Executive of the Law

Society of England and Wales. Scotland is separate.

**LEWIS:** Yes, I appreciate that.

**HUDSON:** But you're right. What has happened here is this bank has done a deal with a firm of estate agents called Countrywide. Martijn is looking to manage his panel at nil cost to the bank and he's done that by giving a deal to Countrywide where they've appointed just 43 for the entire United Kingdom. There are two solicitors in Scotland, for example, for the entire country.

**LEWIS:** I think one in Wales as well.

**HUDSON:** And one in Wales. And he requires every transaction involving that branch to charge an administration fee paid to Countrywide to pay their costs. It doesn't need to be done this way.

**LEWIS:** So Martijn, the complaint is you're trying to get this on the cheap by giving someone the business and really you're limiting choice for consumers and incurring extra costs for them.

**VAN DER HEIJDEN:** I think value's very important for customers. We think that our fixed fees save an average £200 for each customer and there's no reason why solicitors not on the panel should charge more because there's less work to do.

**LEWIS:** But why so few?

**VAN DER HEIJDEN:** Well Paul, can I ...

**LEWIS:** Yes, of course do.

**VAN DER HEIJDEN:** Let me come in here. I'm very confident that on Monday morning a different bank is going to make an announcement that it is going to manage its panel by using the Law Society's conveyancing quality scheme, which is an accreditation scheme to check quality, probity, efficiency. There are 2,000 branches across the country providing that service. I will provide that service to HSBC from Monday morning free if that's what they want. It will provide a wide range of choice.

**LEWIS:** If only you were here in the studio. If only you were both here, you could shake hands on it, couldn't you?

**HUDSON:** Well I'll do that over the airwaves.

**LEWIS:** Right

**VAN DER HEIJDEN:** Can I maybe react? Thank you very much for your kind offer, Des.

**HUDSON:** Not at all.

**LEWIS:** But you're rejecting it, yes?

**VAN DER HEIJDEN:** Yes because we don't believe in restricted panels ...

**LEWIS:** *(over)* But you've got 43, 43. RBS has a panel of 13,000 and lets customers choose its own.

**VAN DER HEIJDEN:** Our customers can choose any solicitor they like.

**LEWIS:** But then they have to pay it as well as yours.

**VAN DER HEIJDEN:** I think if they use our panel, we save money; but also if the sale falls through, they don't have to pay for the legal fees. I think that's a great customer benefit that we only get in our scheme.

**LEWIS:** But isn't this really just being said to be for the customers' benefit, but really, Martijn van der Heijden, it's for HSBC's benefit?

**VAN DER HEIJDEN:** No, it's for the customers' benefit. That's why we allow choice and that's why we save so much money for the customer.

**HUDSON:** Martijn, let's be clear here. There are two winners in this deal - HSBC and Countrywide - and the people who are paying for it are people buying a house and solicitors. We can do this differently. Let's sort it out now.

**LEWIS:** We must stop there. Martijn van der Heijden and Desmond Hudson, thanks.

Perhaps you can sort it out with a phone call on Monday. We'd love to hear if you do. But that is it for today. There's more on our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox) You can look at my newsletter, read it, download the podcast, send us your views - as many of you do - and have your say this week on insurance and drink driving. And they are pouring in, I have to say. I'm back on Wednesday with Money Box Live taking your questions on benefits and tax credits. Lots of changes in April. Back next weekend with Money Box. Today reporter Bob Howard, Producer Emma Rippon. I'm Paul Lewis.