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MONEY BOX

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LEWIS: Hello. In today's programme, as you've been hearing, the Revenue has admitted taking the wrong amount of tax off millions of people. Would you like £10,000 a year for 3 years for doing nothing and at no risk? We examine the new product that claims to offer just that. Bob Howard's here. He's been hearing about one listener's battle to get her bank to carry out her simple instructions.

HOWARD: And how it's cost her tens of thousands of pounds in losses on her investments.

APPLEYARD: He said to me, "If I was advising my own mother, I'd give her this advice".

LEWIS: And one prize-winning comedian asks for our help.

KANE: We need Money Box Live actually on Radio Four for that. It depends whether I've got tax on it.

LEWIS: But no laughs, I'm afraid, in the answer.

First though, nearly 6 million people will be told over the next few months that they've paid the wrong amount of tax in the last 2 tax years. The letters will start

falling on doormats this week, but there are so many the exercise will go on all year. Most people will be told they've paid too much tax and they'll get a cheque for an average of £400 - though of course many will be more and many less than that. But the Revenue has taken too little tax off one and a half million people and they'll now be told they have to pay on average £1,400 extra tax. Not all at once; it'll be deducted from their pay or pension next tax year by changing their tax code. It's all done through Pay As You Earn. That allows the Revenue to help itself to the tax it says we owe. But it's a way of collecting tax, not assessing it, so it's always approximate. There have been problems identified over the years by the National Audit Office; and now a new computer, which cost £389 million, has in fact made the problem worse, not better. We've reported on these problems before. Angela from Hertfordshire is just one of the listeners who've contacted us again this morning to say she wasn't surprised to hear about the latest fiasco.

ANGELA: This year, I was sent an incorrect tax coding in May. I phoned their helpline, with great difficulty. They agreed it was incorrect, but I heard nothing else. When I came to do my self-assessment online in July, I realised it was wrong, so I phoned them again. They agreed it was wrong and they sent me a new one and it's actually worse. They've now agreed that's wrong and I'm still waiting to hear. I do rather worry that the underpayments have been calculated by the same computer that keeps getting my tax code wrong.

LEWIS: Well that was one listener's experience, and I must say we've had many emails like that. Live now to talk to Paul Franklin who's Head of National News at HM Revenue & Customs. Not great news, is it Paul - making 6 million mistakes in the money you take off us and then demanding it back from those you've undercharged?

FRANKLIN: Well good afternoon. The first point I need to make is about 40 million people are taxed through the PAYE system, and the good news is the vast majority of those people are accurately taxed. But that isn't good enough. If a single person is wrongly taxed, then we're not happy about that. And we've introduced a new computer system ...

LEWIS: But it's got things worse, hasn't it? It's made more mistakes and charged the wrong amount of tax to more people.

FRANKLIN: Well what's happening is it raises the bar on accuracy. This is all about a drive towards greater accuracy. And what the new system does is it's very sensitive to any mismatch in data; and if there is a mismatch, it says this has to be resolved.

LEWIS: Yes, but the National Audit Office very clearly says that the underpayments are much more in the latest year than they were the year before, and the overpayments are more. It's worse.

FRANKLIN: Well we have to drive those down. We have to improve accuracy. There's no argument about that. And what this approach is about is improving accuracy - making sure that the tax that is taken from people's salaries and pensions during the year is spot on. Not a little bit over or a little bit under, but spot on.

LEWIS: I mean we're talking about large sums of money. But it's just the start, isn't it, because again the National Audit Office, looking back over more years, says there's another £3 billion you've got wrong over the last years before 2008/9?

FRANKLIN: Well we're not happy with how PAYE has functioned. We're happy with the fact that it taxes most people correctly. We're not happy with the fact that some people are wrongly taxed. The roots of this are in the fact that PAYE came in in 1944, during the Second World War - a time when people, many people stayed with the same employer for their whole working life. It's not like that anymore. We have to reflect that in our new systems.

LEWIS: (*over*) Let me put another point to you. This is an email that's come in this morning from one of our listeners, Nick, who says he has no control over ... He says, 'I have no control over my PAYE contributions. If there's a mistake made, it's either HMRC or it's my employer. Let them argue it out and they should pay the money, whoever it is'.

FRANKLIN: Well indeed. If the employer's made a mistake, we will talk to the employer about that. And in fact ...

LEWIS: But it's still the employee who will have to pay the extra tax.

FRANKLIN: Oh well if it's a Revenue mistake, if we had all the information we needed - and in many cases we will have had all the information and it was our mistake and the taxpayer could have reasonably thought that they were being correctly taxed - we will look at that as a piece of legis...

LEWIS: (*over*) But surely that's most people, Paul? Most people when they get their PAYE on their monthly tax, they think oh that's the tax, I'm sure the Revenue is right, you know and they don't check it. So all those people who might be the whole of the 1.4 million can challenge this, can they?

FRANKLIN: Well first of all the vast majority of cases, they're right - they are being correctly taxed. However, we do encourage people to check. We do send out a form which sets out how the allowances are set out, and we do ask people to check that and make sure they're comfortable with that. And if they're not, to contact us; and if it is wrong, we put it right. So we do ask people to take a proactive approach to the information.

LEWIS: Sure. But if your £389 million computer can't get it right, what hope do we have?

FRANKLIN: Well we think it can get it right. And we've just switched ...

LEWIS: Well it doesn't always, does it?

FRANKLIN: Well no computer system is always right. But we think this will be a lot more right more times than the previous systems.

LEWIS: Paul Franklin, thanks very much.

FRANKLIN: Thank you.

LEWIS: Well let's talk now live to John Whiting from the Chartered Institute of Taxation. John, this is going to be a great shock - I mean not if you get a nice cheque from the Revenue, but if you're told you owe several hundred pounds. Who's it going to affect?

WHITING: Well of course it's basically affecting people who don't fill in tax returns because those who struggle through self-assessment get their tax affairs sorted. What we're talking about here is the great majority of people who the Revenue of course say don't worry, PAYE will sort your tax out. As we've heard from Paul Franklin, it doesn't always get it right and that is evidenced here. And of course that means average people, earners and pensioners.

LEWIS: Pensioners indeed, and many low income people because tax is paid pretty low down the income scale. And what about people who were claiming benefits, means tested benefits like pension credit or jobseeker's allowance? They're taxed, are they not, on their net income after tax, so their benefit will have been wrong as well?

WHITING: That is exactly a point we've picked up. Our Low Incomes Tax Reform Group arm have already highlighted that, and we are trying to pick it up with the Department for Work and Pensions, the benefits agency, to say well what is the position? We understand they didn't know about this either because of course it's very difficult to go back, almost impossible to go back and claim benefits that you under claimed; whereas of course, as is demonstrated, if you owe tax, it is possible for the Revenue to back claim there.

LEWIS: So there could be people expected to pay back tax, but unable to claim back the benefits they would have got?

WHITING: Indeed. And ...

LEWIS: And sorry, just one more brief point John because we are a bit tight for time. Paul Franklin said oh check your tax.

WHITING: Yes.

LEWIS: How can people do that? Is there an easy way?

WHITING: Well bear in mind if you do get one of these demands, Paul, it isn't actually a demand for payment. It is the Revenue's notice calculation. For heaven's sake, have a look at it. Try and check through. Obviously look, see what they're doing. Any doubt, we're putting up information on litrg.org.uk, our information website there, which will contain some information to help people check.

LEWIS: John Whiting, thanks. Stay with us. We have a slightly lighter tax item later. And may I give one final warning: the Revenue will be writing to people with a paper letter in an envelope. It will not email you. If you get an email or a text about a tax refund, it's a scam. Don't reply. Delete the message. And let us know your experiences of Revenue PAYE. Our website, bbc.co.uk/moneybox.

Now how would you like to get an income from your home without giving up any of its value or taking in lodgers? That's the offer from a new company called Equity IQ. Its Property Income Plan is due to be launched in a few weeks, but it seems some financial advisers are already trying to sell it to their customers. Money Box listener Mike from East Yorkshire got in touch to tell us he's been offered it.

MIKE: I was approached by my financial adviser who explained to myself and my wife that there was an opportunity to make some money in the form of monthly payments from a company who wanted to use the equity in our house to support insurance companies, and this was all to do with some new regulations that were being brought in by the European Union. It sounded like it was money for nothing and

that we didn't have to do anything, we didn't have to make any payment to them. Our house was not at risk, which was one of our immediate priorities. Generally speaking, it sounded too good to be true.

LEWIS: Well it's perhaps not surprising that financial advisers are interested. Money Box has seen materials sent to IFAs by Equity IQ, which says selling less than one plan a week might generate fees of nearly a quarter of a million pounds a year. Homeowners do well too. They get 5% a year on half the value of their home, so a home worth £400,000 would generate £10,000 a year. In exchange they let the company have a legal charge on half the value of the home. After 3 years the charge is taken off and then it's as if it had never happened. So you're sort of renting out half the capital value of your home for a fixed period and insurance companies seem to want that, as Mike explained. Charlotte McDonald's been looking into this curious product. What can you tell us about how it actually works, Charlotte?

MCDONALD: Well my understanding is that in order to be eligible in the first place, you need to have paid off your mortgage completely. Then you have to sign up to it for a minimum of 3 years. After that time has passed, you can choose to either continue for another 3 years or you can withdraw from it. It's also clearly stated in their brochure that if you die within that 3 year period, it does not mean that the company gets half your house. Your executors can either terminate the contract early or stay in it for the remaining time left.

LEWIS: And so what are the risks?

MCDONALD: Well according to the company's brochure, they are required to take a charge of 50% of your property. This means that you are giving up some of your rights over your home for 3 years. You wouldn't be able to sell it or take out a second mortgage on it during that period.

LEWIS: And what about after that?

MCDONALD: Beyond that, we simply don't know what the full risks are because

we haven't been able to see any of the legal paperwork. So what we would recommend is that if you are offered this product and are seriously considering it, you need to show all the paperwork to your own solicitor and get their independent view on it before you go any further.

LEWIS: And just to be clear, this product hasn't been launched yet, but independent financial advisers have been offering it, haven't they?

MCDONALD: Right now we understand that up to 200 IFAs have said they're interested in selling the product or have been to training sessions. And some IFAs have been getting customers to sign declarations of interest in it.

LEWIS: And insurers obviously on the other side of this, as we've heard. Have you found any who are on board with it?

MCDONALD: Well a spokesman for Equity IQ has confirmed to us that no insurance companies have signed up to this, but he insists that they are in talks with all the AA rated insurance companies in the UK. I've also spoken to four of the top insurers in the UK and none of them could confirm to me whether anyone in their company is talking to Equity IQ.

LEWIS: Well thanks, Charlotte. Well we did invite Ian Hill, the Managing Director of Equity IQ, to be interviewed on the programme. He told us he doesn't want to do anything until the product is formally launched and he wouldn't explain how it worked beyond what was in the leaflet we've seen. He did say Equity IQ is working with IFAs and other reputable parties to develop an innovative product. "However we've not launched any product and have not finalised details". Money Box though does have presentations and a booklet which are being used to train IFAs and to get interest from customers, and we showed those details to actuary David Lechmere. He's an expert on insurance law and regulation. He's at the consultants OAC. I asked him to explain the changes for insurance companies and whether they would find this scheme attractive.

LECHMERE: It is quite likely that some categories in insurance policy will need more capital than they have in the past. It will apply to some groups of policies where the capital clients are likely to be higher.

LEWIS: So some insurers with things like annuities and some kinds of long-term policies will need more capital. So that is true?

LECHMERE: Annuities is certainly one of the categories where it is almost certain that the new requirements will be tougher than the old in terms of capital requirements.

LEWIS: And this scheme that's been devised, would that give insurers capital that they could put on their books to satisfy those requirements?

LECHMERE: In my opinion, no, certainly not UK companies. Assets are allowed to be taken at market value and, as far as I can see, this scheme gives the insurance company no title to the properties and, therefore, I don't think it has a market value to the insurer.

LEWIS: That's what puzzled me and certainly puzzled people at the land registry, I spoke to. That the company or a special sort of middle company is taking a charge on the property; but that actually gives you no rights unless the person who's let you have that charge defaults in some way, but they're not gaining anything to default on.

LECHMERE: No. It's possible that there are some other European countries where the current rules are more lax in that respect and they might be possibly be thinking of allowing this in countries other than the UK.

LEWIS: If I was to ask you in summary will this scheme work for insurance companies, what would you say?

LECHMERE: I would doubt that any UK insurance company would touch it. I can't

really comment on insurers in other countries, but I rather doubt that it would work for them either.

LEWIS: Consultant David Lechmere. Well when we hear more and if anyone from Equity IQ will be interviewed, we will of course return to this story.

Now when people need financial advice, the first place they think of going is often their bank. And you might expect that if you told the bank what you wanted it to do with your money, it'd follow those instructions and fairly quickly. But one Money Box listener contacted us to say her bank, HSBC, took almost a year to follow her instructions. As a result, she says she's lost tens of thousands of pounds. Bob Howard's been investigating.

HOWARD: Paul, I've been speaking to Hazel Appleyard, a retired actress from Surrey, who wanted advice on how to invest £450,000 left to her by her husband 3 years ago. She was 75 and was looking for something that would be very low risk, so she went to her local branch of HSBC to speak to one of its financial advisers.

APPLEYARD: Well I wanted someone to advise me how to make the best of my money for my old age. I can't afford to lose money, and they advised me to take out a portfolio. I was reluctant and he said to me, "If I was advising my own mother, I'd give her this advice".

HOWARD: Now Hazel agreed to split her money between shares and bonds, but as the stock market dived throughout 2008 she quickly became concerned about whether she'd done the right thing. The adviser tried to reassure her, but she kept phoning the bank to try and find out whether she needed to make changes. And 11 months after setting up the investments, she met the adviser again with her sister to witness what was said.

APPLEYARD: I said, "You know I'm really concerned", and he said, "Well it has gone down. You've lost £20,000". And I was absolutely horrified because in January he said, "Stick with it." And he said, "We could sell the shares and convert them to

bonds”, and I said “Well if that will save me from losing any more money, do that now”. So we left the bank just thinking that that’s what would happen.

HOWARD: And you’re absolutely certain that you gave clear instructions at that meeting to …

APPLEYARD: Well my sister is clear. She knows. And I said to my sister, “Don’t you think that’s the best thing to do?” She said, “Well I certainly do. You can’t afford to lose any more money”.

HOWARD: As she was then seriously ill, Hazel also instructed an independent financial adviser to make sure her wishes had been carried out. Then before going into hospital, she sent two letters to be doubly sure. But still HSBC failed to act. In all, Hazel estimates she contacted the bank at least nine times either by phone, letter or meetings. But only in June 2009, 11 months after she says she first instructed HSBC to sell, was she finally informed the shares had been sold - but along with some of the bonds and her ISAs, which she’d given no instructions about and intended to keep. She says the delay in selling meant she lost around £46,000.

APPLEYARD: I don’t understand how they could just not follow somebody’s simple instructions to sell. I’m very, very angry indeed. I just feel that they’ve treated me with such disdain and contempt. That just doesn’t make me go away and creep away. It makes me mad.

HOWARD: Hazel decided to take her case to the Financial Ombudsman Service’s adjudicator. It found that HSBC had made serious mistakes, but would only recommend the bank pay her back just over half of what she’d lost from the delay, which she’s rejected. HSBC wouldn’t give an interview to Money Box, but gave a statement.

HSBC STATEMENT: We’re sorry that we caused Mrs Appleyard such concern by failing to encash her portfolio at such a traumatic time in her life. We have reviewed the circumstances which led to the delayed encashment of her portfolio and its causes

were a combination of communication failure and our inability to clarify her exact wishes, both unique to her personal situation.

HOWARD: So Paul, I asked HSBC if it had implemented any changes in the way its advisers liaise with customers. It didn't tell me of any, but said the relevant issues would have been "flagged up" to the advisers concerned.

LEWIS: Thanks, Bob. And Hazel Appleyard is just one of hundreds of customers who end up in dispute with their bank each year over investment advice. The Financial Ombudsman Service says it received more than 1800 complaints against the big five banking groups in the 6 months from July to December last year. Well that came as no surprise to the consumer organisation Which? It did a mystery shopping exercise earlier this year to check on how well banks were advising customers about investments, and it scored each visit and the quality of the advice given. Here are the results.

RESULTS: Here are the Which? mystery shopping for investment advice at high street banks results. Britannia visits 3 - good advice, nil; Halifax visits 3 - good advice, nil; Barclays visit 4 - good advice nil; HSBC visits 4 - good advice1; Lloyds TSB visits 4 - good advice nil; Nationwide visits 4 - good advice 2; NatWest visits 4 - good advice 1. And finally Santander visits 11 - good advice nil.

LEWIS: Well that was the voice of BBC's football results, James Alexander Gordon. Dominic Lindley is the Editor of Which Money? And I asked him what he found in these surveys.

LINDLEY: We found that many banks are extremely poor at giving financial advice. In our survey where we visited 37 advisers, we found that just four of the advisers in the major banks gave good advice. Now it's not rocket science. We expect a bank adviser to disclose the services they're going to offer, to carry out a thorough fact find and find out all about your circumstances - your incomings, your outgoings and your attitude to investment risk - and then to recommend a good product and explain that product to you. But all the same, many of them fail to offer good advice.

LEWIS: And is this because they're not independent financial advisers on the whole? They're limited to their own products, aren't they?

LINDLEY: Well they are limited to their own products and some of the products are very bad, so that is a problem. That's why we would always say visit an independent financial adviser. I mean overall they give better advice. They've got a much wider spectrum of products to choose from.

LEWIS: And what about the issue in Hazel's particular case? She clearly told the bank to get her money out of shares because she was concerned about what was happening in the stock market. They failed to act on that for about a year.

LINDLEY: Well that is clearly unacceptable. I mean we've seen a couple of other cases where banks have failed to act on instructions given to them. If you are giving your bank instructions, then it's always best to put them in writing and to get the bank to acknowledge receipt, so then there can be no dispute later about exactly when you told them to change your investments.

LEWIS: Is there any sign the banks are improving either in the advice they give or in being clear to customers what actually they're offering?

LINDLEY: No, there isn't. The banks have always offered a lower quality of advice than independent advisers, and our kind of mystery shopping over many years has shown that and the banks really haven't got any better at it.

LEWIS: So is rule number one don't go to your bank for financial advice?

LINDLEY: If you want to find the best savings account or talk about a credit card, then you can still talk to your bank. But if you want advice about investments or pensions, then always go to an independent financial adviser.

LEWIS: Dominic Lindley of Which?

Now when Money Box features in comedy shows, it's normally to have a bit of a laugh at our expense. But the comedian who won £10,000 at the Fosters Comedy Awards for the Best Comedy Show at the Edinburgh Festival this year wanted some serious advice. Here is winner Russell Kane talking to the Guardian after that big announcement.

ACTUALITY: ANNOUNCING RUSSELL KANE HAS WON

KANE: Maybe some Guardian readers will know whether I have to pay tax on prize money.

MALE: Oh I don't know.

KANE: We need Money Box Live actually on Radio 4 for that. It depends whether I've got tax on it. So if I don't have to pay tax, I'm sitting on 10k. How amazing is that? It's the most money I've ever had in one go. So exciting.

LEWIS: So if you're lucky enough to win a cash prize, for whatever reason, do you have to tell the taxman and pay up? John Whiting is still with us from the Chartered Institute of Taxation. The most money Russell has ever had. Can he keep all of it, John?

WHITING: For the moment, yes, but I fear the taxman will come knocking because although most people think prizes, premium bonds, lotteries outside the tax net - yes they are. If fundamentally it's a prize for doing your job, it's what you do day to day - a cash prize like this, well it's all part of his earnings, his income, and sadly, no joke, the taxman wants a crack at it.

LEWIS: So he'll have to declare it on his self-assessment form as income and he'll pay the tax on it eventually?

WHITING: I'm afraid so.

LEWIS: But what if instead of cash, he was given, I don't know, a crate of champagne or a trip round the world? What's the position for that?

WHITING: It gets more difficult. Again he's getting some value, so in principle it's taxable. But if he's self-employed, as one assumes he is, you're probably into questions of second-hand value for such things. And they, particularly if it's for example a very personal trip around the world, there may be no second-hand value. So there are some possibilities.

LEWIS: John Whiting from the Institute of Taxation, thanks.

Well that's it for today. Now you can find out more, as ever, from our website: bbc.co.uk/moneybox. If you're expecting my weekly newsletter, I did write it but it got eaten by the gremlins. They've been a bit starved over the summer. But if you haven't signed up, now is the time to do so on the website and get next week's. You can also listen to the programme, get a podcast, and of course have your say on the Revenue and those tax mistakes. Many of you are. If you're expecting to hear our story on prisoners and bank accounts, apologies - that will be next week now. I'm back on Wednesday with Money Box Live, this week taking your questions on saving and investments. Back with Money Box next weekend. Today reporters Bob Howard, Charlotte McDonald; producer Monica Soriano. I'm Paul Lewis.