THIS TRANSCRIPT IS ISSUED ON THE UNDERSTANDING THAT IT IS TAKEN FROM A LIVE PROGRAMME AS IT WAS BROADCAST. THE NATURE OF LIVE BROADCASTING MEANS THAT NEITHER THE BBC NOR THE PARTICIPANTS IN THE PROGRAMME CAN GUARANTEE THE ACCURACY OF THE INFORMATION HERE.

MONEY BOX

Presenter: PAUL LEWIS

TRANSMISSION: 6th FEBRUARY 2010 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, as the Revenue works to fix tax coding errors, staff say new problems continue to emerge.

ANONYMOUS FEMALE REVENUE EMPLOYEE: We're just waiting to see if things are put right in April, but none of us believe that they will be because we've heard it all before.

LEWIS: Why PIGS are upsetting the apple cart in world markets. Would you invest in this fund?

DIRKS: It's a low risk strategy, low risk. You know if you've got very low risk is 1 on the scale and high risk is 5, it's near 1.

LEWIS: Well thousands did and now can't get their money. And why being born on the wrong side of midnight on April 5th could leave you out of pocket.

But first, the problems with the spanking new computer at Her Majesty's Revenue & Customs are more widespread than previously thought. It's churning out millions of tax codes which tell employers how much tax to deduct from our pay and pensions, and many of them are wrong. The Revenue admitted to Money Box last week that there is a problem, but tax officers who use the system say the problems are bigger than we thought. Ruth Alexander has the story.

ALEXANDER: Yes, we’ve spoken with Revenue employees who deal with customer queries and who use the new system, and they say there are numerous flaws with it that we’ve not heard about before. People affected include those drawing their state pension for the first time, people who have taxable benefits like a company car, or people who qualify for a married couple’s allowance.

LEWIS: And let’s start with the married couple’s allowance there, Ruth. What is the problem with it?

ALEXANDER: Well it’s given to married couples and civil partners who are age 75 or over and it’s worth nearly £700, but it could now be dropped from their tax code. A number of Revenue staff told us about this. Now they can be sacked for talking to the media without authorisation, so this isn’t their real voice.

ANONYMOUS MALE REVENUE EMPLOYEE 1: Another problem we’re having with pensioners is the marriage allowance. Someone could have been married for 20 years, they might have marriage allowance in their code and be fully entitled to it because of their age. But our computer doesn’t have their partner’s name or national insurance number, so as soon as it recodes for next year, it’s taking the marriage allowance out. We’ve then got to write out to these people and say I know you’re married, but can you give me your partner’s name and national insurance number.

ALEXANDER: Now the Revenue says it’s “aware of this issue” and it’s “working on a solution.”

LEWIS: Well let’s hope so. But also, Ruth, if you’ve got a taxable benefit like a company car or health insurance, you should probably also check your code.

ALEXANDER: Yes because in some cases the Revenue’s new system has been double taxing people for these benefits. And the Revenue has this morning told us it only became aware of this issue in the last fortnight and has now fixed the problem, but it admits there are still issues related to car fuel benefits and gift aid.

LEWIS: 'Issues'. Great word, isn't it? There was also issues with the state pension, but they tell us again this morning they've now fixed that.

ALEXANDER: Yeah, frontline staff have told us on Money Box about errors in next year's tax codes for people who've drawn the state pension for the first time part way through this tax year. A glitch in the system meant that the Revenue's computer has wrongly calculated a tax underpayment in these cases and put that into next year's tax code. This morning again, the Revenue told us this problem has now been fixed, but some people may have already received an incorrect tax code, so they should contact the Revenue. And while the Revenue's telling us that it's getting on top of the issues, another of it's employees told us there are new problems coming to light all the time. Again this isn't their real voice.

ANONYMOUS FEMALE REVENUE EMPLOYEE 2: There's getting more and more of them as we're doing more and more work. I mean when it first started, we were all getting terribly frustrated with it, with the new system, and we didn't know if it was us doing it wrong or the system. But as it's gone on and on, it's more evident that it's the system that's going wrong. So we're just waiting to see if things are put right in April, but none of us believe that they will be because we've heard it all before.

LEWIS: An anonymous Revenue employee. Well thanks for that, Ruth. Now we asked the Revenue for an interview, but this week it said no; and it does assure us that problems with the system "are being resolved." Well live now to talk to John Whiting. He's the Tax Policy Director at the Chartered Institute of Tax Advisors. John, there have always been errors in the tax PAYE collect, but this seems to be on a different scale. What's gone wrong?

WHITING: Yes you're right, Paul. I mean one of the famous tax saving tips: always check your tax code because there's always errors. Sometimes it's the taxpayer's fault. But what seems to have gone wrong here is a lot of transition errors, and this is what put the Chartered Institute of Taxation onto it two or three weeks ago when we began to get members saying hang on, there's situations. The particular one -

somebody who'd changed jobs last year and was getting two codes, their tax re-allowance going to this old job which of course they were no longer at. Since then, we've been gathering information from members and trying to work with the Revenue and saying "Look, these are the sort of situations we're coming up with. Can you explain?" And one or two of the things you and Ruth have just alluded to resonate very well with the sort of issues we've surfaced.

LEWIS: I think what disappoints people though is this was going to be introduced in October 2008 to improve things. It was delayed for nearly a year to get it right, and it still *isn't* right.

WHITING: I'm afraid so. I mean like so many systems, in the long run, as we understand it … I mean I had a presentation on it from the Revenue just before Christmas and it sounds good. It will do something we've long asked for, which is do some reconciling at the year end - in other words do some more matching and actually look for people who've got the wrong amounts - but it's taking time.

LEWIS: But we've been told it gets that calculation wrong in many, many cases.

WHITING: Well we'll need to see, won't we? I mean the key thing to come out of this, of course the big message is codings aren't something that are automatically going to lose you money or indeed gain. Of course there's something that you and I, everybody listening has got to check and tell the Revenue. And that's really what we're asking the Revenue - to make sure there's publicity and make sure there's people on the helplines to help these people.

LEWIS: Yes, I mean they're a way of collecting tax, not of assessing it …

WHITING: Exactly.

LEWIS: … and they often get it wrong. But it's easy to say check your tax code, but people find that difficult, don't they?

WHITING: They do. And, therefore, I mean what I've been saying is look, have a look at this coding notice that comes out. You've got to look at it. Just check what's on it. There's not a lot. If you're somebody under 65, you should get your basic allowance of £6,475 - in many cases translates to 647L. If it *isn't* that, have a look. If you don't recognise or don't understand the adjustment, ring the Revenue. Same thing applies to those over 65 getting bigger allowances. And of course if you're getting two, three, four coding notices, well better ring the Revenue.

LEWIS: Yes, okay, on the number. And be persistent because, as we found out last week, it's quite hard to get through.

WHITING: And that's the key, isn't it? The Revenue need to staff up the helpline and carry that through the year because this isn't going to be solved immediately.

LEWIS: John Whiting of the Chartered Institute of Taxation, thanks. And you can tell us your tax code tales on Have Your Say on our website: bbc.co.uk/moneybox.

Down, down, down … down, down. That's been the story this week of the price of shares, the euro, the pound, gold and crude oil - and many other things come to that. They all fell as new fears stalked the financial world: fears about economic growth, particularly in Western countries as state support is unwound; fears about growing budget deficits and state borrowing, causing concern about the long-term solvency of some countries (Greece is mentioned, along with Portugal, Spain and Ireland); not to mention of course the UK, which may lose its triple A credit status unless spending is cut and taxes rise. Well with me to discuss the implications of this is Financial Times journalist and author, Gillian Tett. Gillian, politicians have been congratulating themselves recently on how they've managed this crisis. Was that misplaced?

TETT: Well it wasn't necessarily misplaced. But that to a large extent the fact that the financial system has stabilised in the last few months and the economies have rebounded, that's occurred because the government's been pouring lots and lots of public money into the system to try and paper over the cracks that were exposed in the financial crisis two years ago. And the problem is that people are starting to question whether governments will ever be able to pay that money back.

LEWIS: Yes and they're pouring money and they're going to stop pouring it in. And of course the other fear is that that's going to cause inflation, isn't it?

TETT: Well that's one concern, but the more immediate concern that's worrying investors right now is that the cost of borrowing money for the government is going to rise because investors are going to say well actually those government bonds look rather risky; we're not going to buy them.

LEWIS: Yes and they're saying that certainly as far as Greece is concerned, Portugal, Spain and Ireland. The PIGS - Portugal, Ireland, Greece and Spain, as I called them earlier. That's affecting the Eurozone because they are all members of the euro, aren't they?

TETT: Absolutely. I mean what's happening right now is potentially very serious because for the past decade or so the so-called PIG countries - and I should say some banks have actually banned their employees from using that term because it sounds so nasty - but the so-called PIG countries have actually begun to converge in the debt markets with the other countries like Germany, which meant the cost of borrowing money for them started to be quite similar because people thought well, hey, they're all in the Eurozone, they're tied together. Now, however, the cost of borrowing money for the PIG countries is rising very rapidly, and that's signalling that some investors are saying that maybe eventually some of them will have to leave the euro.

LEWIS: Yes, or perhaps default on their debt. Is that the ultimate fear?

TETT: Well that is absolutely the ultimate fear. But the key thing to realise is really it's a symptom of a much bigger cause. It's not just about Greece or Italy or Portugal. It's actually about the question of whether governments across the Western world will be able to repay all that money. And, unfortunately, that also applies to the UK and the US.

LEWIS: Yes, I mean the US you mentioned. It's the biggest government debt in the world, but the dollar's actually been doing well. People quite like the US.

TETT: Well there's rather a bizarre pattern that tends to happen when markets get into a state of panic, and it's what's called the risk aversion trade. People fly to things they think look a bit safe and everything else. And a lot of people right now are saying well, listen, we know the American economy's got a lot of problems, but the Eurozone looks potentially even worse with all these questions about whether the euro can stick together.

LEWIS: And very briefly, Gillian, you're one of the people who first saw the dangers of all the financial chicanery that was going on. Do you think we're heading for another disaster or in 10 years will we all look back from a golden age?

TETT: I think we are potentially heading for a very difficult period because right now it's not just about economics. It's also about politics and sociology. Can the governments in Europe actually get their act together to deal with these debt problems or not?

LEWIS: Gillian Tett, thanks very much.

Now around 20,000 investors who put their money into funds invested by a company called Arch Financial Products and marketed by Cru Investment Management are still waiting to recover their trapped cash. It's been almost a year since these Arch Cru funds were suspended by the Financial Services Authority. The funds were marketed as low risk and cautious, but they were invested in loans, in shipping and in hedge funds. The problems began over concerns that they couldn't raise enough cash to repay investors who wanted to take their money out. The value of the funds fell from 243 million last March to 144 million at the end of September, a £100 million drop. Now just how these funds were sold has been revealed in a 30 minute DVD, which was used to market one of them. It was sent to independent financial advisers and it shows Jon Maguire, the Chairman of Cru Investment Management, interviewing John Dirks, the Chief Investment Strategist at Arch Financial Products. Mr Dirks is the first voice you hear.

DIRKS: It's a low risk strategy, low risk. You know if you've got very low risk is 1 on the scale and high risk is 5, it's near 1.

MAGUIRE: Right.

DIRKS: It's around 1.

MAGUIRE: Right, so to put it into retail speak, it's cautious?

DIRKS: It's a cautious, it's a cautious strategy. It's designed to be a cashplus cash replacement, bond replacement, bank deposit replacement, but it is also a genuine source of absolute return.

LEWIS: That was *Michael* Dirks of Arch talking to Jon Maguire. Now that DVD was obtained by Daniel Grote, a reporter for Citywire, who's been investigating Arch Cru Funds for some time.

GROTE: Arch didn't tell people for a long time where the funds were invested. Fact sheets that have now come out show the kinds of investments that were being made. So you have hedge funds, you have funds that have themselves been suspended. You have one particular investment of £92 million into a fleet of seven ships that's either halved or fallen to a fifth of its value, depending on which valuation method you use.

LEWIS: Now the fund was devised by Arch and it was marketed by Cru, but another company paid investors and ensured that the business and its marketing material complied with the rules laid down by the Financial Services Authority. That firm was Capita Financial Managers. Arch was audited by Ernst & Young. And when I interviewed Cru's Chairman Jon Maguire yesterday, he was keen to blame these other firms for the problems. But first, did he regret selling the Arch Cru funds?

MAGUIRE: I take responsibility for marketing those funds, yes, because I did, and I'm sad about that because obviously people are now in a fairly dreadful position. So I'm not ducking that. But if you want to know where the losses have come from, which is obviously where the pain is being felt, you only have to look at Arch. And then if you want to see where liability sits, it sits with them, and Capita have to take responsibility because they were responsible for the administration of those funds.

LEWIS: But you did appear on that DVD, didn't you?

MAGUIRE: Yeah, well I was asking … Yes with Michael Dirks.

LEWIS: With Michael Dirks. You said to him, "Put it into retail speak, it's cautious?" and he said, "Yes, it's cautious."

MAGUIRE: Yes quite, absolutely. It's a bond fund. Remember at the time even big companies couldn't access capital. To launch that fund at that time was perfect. It should have worked. The fact that it's collapsed tells us an awful lot about what's gone on.

LEWIS: You also said you wouldn't be surprised to see double digit returns …

MAGUIRE: No and …

LEWIS: … and he agreed with you, so in a sense you were both selling this product that you now admit you actually didn't know what it was invested in.

MAGUIRE: *(over)* Absolutely. Investors have lost £144 million on what?

LEWIS: Well on a fund that you helped sell.

MAGUIRE: I know, I'm aware of that, but at the time the only people who knew or had access to that knowledge were Capita, the regulator and Ernst & Young.

LEWIS: How do you react though to people who are writing on many message boards, saying, 'My husband and I have invested all our money in this fund. My personal injury fund was invested there.' How do you react to those people?

MAGUIRE: It's galling and I really feel for them. But it's not the brochures that have lost people 40% of the money. It's not us. We didn't run the money. What has happened is a collapse at investment level.

LEWIS: The Chairman of Cru Investment Management, Jon Maguire, laying the blame for this disaster at the door of Capita, Arch and Ernst & Young. Now none of those would be interviewed, but all three strongly deny his claims. Capita says it's not responsible for the investment decisions taken by Arch, and the valuations Capita made of the fund used publicly quoted prices. Arch states the comments made by Michael Dirks in the DVD were his personal views, and IFAs did receive numerous examples of the kind of investments it made, although the details of the underlying investments weren't given to protect the strategy. Ernst & Young says its last audit of Arch Cru funds was for the year ended 31st December 07 and 30th June 08, which is before the onset of these problems. Well those are summaries of the statements. They're available in full on our website: bbc.co.uk/moneybox. Now whoever was to blame, these funds were sold to thousands of retail investors by independent financial advisers. Live now to Birmingham to talk to Gareth Fatchett, a lawyer with the firm Regulatory Legal. It represents 100 firms of financial advisers who recommended clients to put money into Arch Cru and these IFAs are themselves seeking redress for their customers. Gareth Fatchett, Jon Maguire blames everyone else. You represent IFAs. I mean surely they're the ones who sold this investment as low risk and high return when it wasn't?

FATCHETT: Well yes they did, but every single fund that you'll find marketed and approved by the FSA is checked out to make sure the risk ratings, how it's promoted is done properly. And this is an example where this has clearly gone wrong. The clip you played certainly illustrates that.

LEWIS: So I mean your IFAs are blaming other people, like everyone else? They're blaming, what, the regulator or someone else?

FATCHETT: Well I don't think they would like to sit and just blame everyone because I think that gets everyone nowhere. I mean their primary concern is their customers because you know after all they have followed promotions by suitably qualified and authorised individuals. And why would they not? There's thousands of funds that do the same thing every day.

LEWIS: And of course these IFAs were earning commissioning for making these sales. Were these commission driven sales?

FATCHETT: Well I would say that wouldn't be the case. I mean most advice is paid for in some way, and to label it like that is too simplistic.

LEWIS: Okay. But we all know, don't we, that anything sold to retail investors which promises low risk and double digit returns won't achieve its goals? It's the holy grail; it doesn't exist. Your clients should have known that.

FATCHETT: Well the performance figures, the way they were marketed and the way that they were risk rated by independent risk rating companies all gave the cautious risk rating. And there's no surprise in this that when you get to look at what's underneath, that wasn't done.

LEWIS: And so who are you looking to to get redress not so much for your clients but for your clients' clients, the retail investors?

FATCHETT: Well I think the three elements of it are the promotion of the product, so you've got …

LEWIS: So that's Cru?

FATCHETT: That's absolutely right. You've got the management of the money, which is Arch. And the oversight, which comes from Capita. And between the three of those, they've got some questions to answer.

LEWIS: Yes, I mean it's the same three people or at least two of the three people that Jon Maguire blamed, and of course they all deny it and say it wasn't their fault. So how are you going to go about trying to establish liability, which is a difficult thing, isn't it?

FATCHETT: It is, certainly. But one of the things that's quite important with this is that this is an unusual investment in so far as it was run across two jurisdictions and …

LEWIS: What the Channel Islands and the UK?

FATCHETT: Yeah, the Channel Islands and the UK. And any fund that's put together, you can't just set one up, you have to get the FSA's approval, and most of this is historic - what's been invested in - and contrasting that with what should have been invested in will be the process that'll have to be undertaken.

LEWIS: Gareth Fatchett, thanks very much for talking to us. And we'll keep you in touch with what happens on that case.

Now thousands of men and women who reach pension age in the next few weeks are beginning to realise that they'll get a smaller pension because of when they were born. From April 6th, the number of qualifying years needed to receive the full basic state pension is being cut: it'll be 30 years for men and women compared with 44 years for men and 39 for women now. So people who've paid too few contributions to get a full pension under the current rules will get a full one if they reach pension age after April 6th, which is good news. But women turning 60 or men turning 65 before midnight on the 5th will need up to 14 years more contributions than those born in the early hours of April 6th and they feel that's unfair. Money Box listener Philip Risdon from Cambridge has made nearly 40 years contributions.

BRISTON: I was informed by the DWP, with my 40 years of contributions I was not up to the maximum required for 100% state pension. Now that's because I was born in January of 1945. Had I been born some time after 6th April 1945, I would automatically qualify for the full state pension because I've contributed at least 30 qualifying years. I see some real injustice or unfairness in the system if they don't include those of us who've already contributed more than the required years from that date.

LEWIS: Well with me is Malcolm McLean from the Pensions Advisory Service. Malcolm, are you getting lots of people like Philip ringing you feeling unfairly treated?

McLEAN: Yes we are getting quite a lot of that sort of reaction. It's unfortunate, I have to say, that what should be and is a very beneficial change for ultimately millions of people, particularly women, is having this sort of negative backlash. The government's line seems to be on this that they couldn't bring the change in before 6th April this year and they couldn't backdate it, and to try and phase it in would actually not benefit more people, it would benefit less. So it's a cliff edge change, I'm afraid.

LEWIS: Yes, there's got to be a line and it's drawn at midnight between 5th and 6th April.

McLEAN: Absolutely.

LEWIS: And I suppose we can understand that, but it does seem very unfair on people like Philip; and at its worst, it could mean a man losing a third of his pension. If he paid 30 years now, he wouldn't get it. If he paid 30 years after April 6th he would?

McLEAN: Yes indeed. And the only thing you could say on that, I suppose, is that it's worth exploring the possibility of paying voluntary national insurance contributions to make good gaps in your record to bring you up (in the case of a man) to the 44 qualifying years needed. And there have been some easements in that respect recently as to what periods you can make these contributions for, so it is worth looking at. It’s usually a good deal actually. It costs about £600, I think, to meet a year’s worth of missing contributions, and for that you’ll probably get an increase on your pension of around about £160, £170 a year. So in the course of 4 years effectively you get the money back.

LEWIS: It’s worth doing, but it is complicated and even the helpline’s finding it complicated and giving wrong advice. But you can go right back, some people now anyway can go right back to 1975.

McLEAN: Yes some people can, yes.

LEWIS: But of course married women may not be able to if they’ve paid these ridiculous lower contributions in the past.

McLEAN: Well, as you say Paul, it’s got to be one of the most complicated areas of pension …

LEWIS: I think only you understand it actually.

McLEAN: Well I do and we’ve tried to put quite a lot of help on our website to try and simplify what is an unbelievably complex set of rules.

LEWIS: And of course one thing people have said to me, and it seems the obvious idea, is that well can’t you just wait to claim your pension till after April 6th even if you could claim it earlier? And isn’t that the answer?

McLEAN: It doesn’t work, I’m afraid. A lady said to me the other day she’d actually delayed taking her retirement until after 6th April so that she could take advantage of the 30 year rule, but it is actually the date of birth that matters, not when you finish work. It’s a slight misnomer to call this pension the State Retirement Pension because it’s not dependent on retirement from work. It’s totally dependent on age and national insurance contribution record.

LEWIS: And it's your birth date falling between 5th and 6th April this year. Thank you very much Malcolm McLean from the Pensions Advisory Service.

Now Money Box has learned that plans to raise the age at which people can claim free prescriptions in England have been put on hold. Ruth?

ALEXANDER: Yeah, we reported in December that the Chancellor had announced that the qualifying age for free NHS prescriptions in England would rise from April. At the moment men and women over 60 get free bus passes and free prescriptions, but the Treasury had said the qualifying age for these benefits would increase in line with the female state pension age. And that age is slowly rising from 6th April, so that for example a woman born on 20th July 1950 won't reach state pension age on her 60th birthday but will have to wait a few months until 6th November 2010.

LEWIS: And as a result people will get these benefits later than they used to.

ALEXANDER: Yes. But when exactly they'll get free prescriptions is not clear. There's been a "misunderstanding" between the Treasury and the Department of Health about this. The Department of Health says that there will not be a change in April, but it does accept that the age for free prescriptions will increase, although it won't say by how much or when this will happen. And *it* will decide, it says; not the Treasury.

LEWIS: Okay, thanks Ruth. And I should say that prescriptions are free for everyone in Wales, will be free for everyone in Northern Ireland from April, and are £3 an item in Scotland and no age change there. That's it for today. Find out more - BBC Action Line 0800 044 044, our website, bbc.co.uk/moneybox. All sorts of exciting things there, including Have Your Say on tax codes. Gosh, many of you are! I'm back on Wednesday with Money Box Live, this week taking your questions on ending a relationship - legally sanctioned or not. Back with Money Box next weekend. Today reporter Ruth Alexander, producer Karen Kiernan. I'm Paul Lewis.