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## **MONEY BOX**

**Presenter: PAUL LEWIS**

**TRANSMISSION: 15<sup>th</sup> MAY 2010 12.00-12.30 RADIO 4**

**LEWIS:** Hello. In today's programme, capital gains tax will rise and some people with second homes are very upset. We look at the details of what it will cost. Apart from capital gains tax, other taxes will change and so will benefits and pensions. We find out about what the coalition plans, as far as we know. Santander has written to customers saying some accounts are considered 'dormant' after a year of inactivity and a fee may be charged to run them. And how big do you think this mobile phone bill was?

**TOM:** First of all, it was just disbelief and shock. And then it was a case of oh my god, how am I going to pay this? There's something seriously wrong with the size of this bill.

**LEWIS:** Find out later.

But, first, lots of people who did not agree with Nick are feeling rather miffed this week as it emerged that the Liberal Democrat policy on capital gains tax forms part of the plans of the new coalition government. On Tuesday David Cameron - who presumably now also agrees with Nick - signed an agreement that the coalition would:

**CAPITAL GAINS AGREEMENT:** Seek a detailed agreement on taxing non-business capital gains at rates similar or close to those applied to income with generous exemptions for entrepreneurial business activities.

**LEWIS:** In other words, the present capital gains tax rate of 18% could rise to the same rate paid on income - now as high as 50% for the most wealthy. That will particularly hit higher rate taxpayers who have second homes, large share portfolios, or perhaps bought a cheap painting which is now very valuable. To be fair, the change is in the Liberal Democrat manifesto and it would restore a system introduced by a previous Conservative government, but it has still taken many people by surprise. Money Box listener Dee who lives in Warwickshire is worried about how much tax she'll now pay when she finally sells a flat she bought to rent out.

**DEE:** I was a bit taken aback when I heard on BBC radio this week with the new coalition government that the capital gains tax is likely to go up for higher rate earners from 18% to 40%. I have a second property. I bought it in 2001 for £97,000 and it's really a second pension for me. But with the prospect of 40% capital gains, it's not going to be a good investment at all and I really will be losing out big time.

**LEWIS:** Well one small landlord there. And the National Landlords Association is campaigning against this change. One of its directors, Richard Price, is in our Southampton studio. Richard Price, a landlord's business model should surely work without windfall gains made on house prices?

**PRICE:** Well it's not particularly a windfall gain. The business model that you put forward obviously has to work over a long term. The average length of owning a property for members of the National Landlords Association works out at 18 years. And of course the key word in there also is 'business'. There has been a suggestion that there will be provision for business capital gains, but we're classed as non-business.

**LEWIS:** Of course 18 years ago, this is exactly how capital gains tax worked. The tax was charged at your marginal tax rate.

**PRICE:** Yes, but there was also taper relief and what have you.

**LEWIS:** Well that was introduced in 1998, and then of course from 2008 it was cut to

18%. So you've had big advantages. Now we're going back to the system that was around before 1998.

**PRICE:** Well it is a long-term business and it's very, very difficult to plan when we have two major changes to the system within 3 years, which in the life of a portfolio management is very, very short.

**LEWIS:** Yes. If landlords though do make gains, why shouldn't they pay tax on them? If they're a source of income like the rent is or the profit on the rent, why shouldn't they pay tax on the gains?

**PRICE:** Well I think an amount of tax is likely to happen anyway, but what is difficult is being able to reinvest and expand the business because, as I said, we're actually taxed as if it's investment income and rollover relief, for example, is not available to us. So if you wanted to sell a property in an area of low demand and purchase a property in an area of high demand, which is exactly what housing needs require, then we can't do that without finding extra capital.

**LEWIS:** Yes, I see, because rollover relief - if you're buying another asset with the asset you sold - you shouldn't be taxed on that, but in fact you would be. But of course some people would say well you know you really shouldn't be expanding because they blame buy-to-let for the rise in house prices, which has been so damaging to first time buyers.

**PRICE:** Yeah reports have shown that's actually not the case, but what is important is that we can get the properties that need to be let in the right areas.

**LEWIS:** Okay Richard Price from the National Landlords Association, thanks. And for a look at that and other tax changes, I'm also joined by Mike Warburton of accountants Grant Thornton. Mike, capital gains tax has changed a lot over the years, as I was hinting there. It affects all gains, of course - shares, paintings as I said, anything else. You've been making phonecalls about these changes. What's your understanding of what is really planned by the coalition?

**WARBURTON:** Well a first point to make I think, Paul, is that you get the government you voted for. This is genuine coalition government we're now seeing where the Liberal Democrat policies are having a heavy influence on tax policy in the coalition government. We're seeing it in the income tax changes and we're seeing it here with the capital gains changes. And, as you said, it's clearly in their manifesto. First, to correct any misunderstanding, there will be a maximum rate of 40%. It won't go as high as 50%.

**LEWIS:** Ah right. We wouldn't know that though, did we, because ...

**WARBURTON:** That wasn't in the document they've agreed, but I have clarified that with the Conservatives directly. There is also a big question going on at the moment about whether or not the annual exemption that we have for capital gains purposes, which is currently set at £10,100, whether that will reduce now. Inevitably this government actually I think did very well to get a coalition together as quickly as it did. Our colleagues in mainland Europe would be amazed at how quickly we did it. But inevitably there are points to be ironed out and there are a couple of key points on capital gains tax, one of which is will the Liberal Democrats be able to push through their own declared desire to reduce the annual capital gains exemption, or will the Conservatives - as I am told - stick to the line it's not in the agreement? So I think there's some discussions going on behind closed doors on that.

**LEWIS:** Yes. So just to explain, someone like Dee who might make a profit of, I don't know, £50,000, £60,000, £70,000 on her flat when she sells it, she would be allowed to make £10,100 gains in a year without paying tax and the rest would be taxed. You're saying that £10,100 could be cut ... Well the Liberal Democrats were planning to cut it to £2,000, weren't they?

**WARBURTON:** Well originally £1,000. They then relented to £2,000. The point is we don't know and we won't know till the coming Budget - which my guess is will be on 30<sup>th</sup> June, so put that date in your diary.

**LEWIS:** That's fifty days after the agreement was signed?

**WARBURTON:** Fifty days after the agreement was signed. And it falls on a Wednesday, I think.

**LEWIS:** Handily.

**WARBURTON:** Handily. I think the point is this. Someone like Dee I think is quite understandably saying a capital gain, you don't make it every year, it just comes in a one-off lump sum; and if it's being taxed as income, it pushes you into much higher tax rates. If she's saving as a pension, it does seem unfair it's all taxed at top rate.

**LEWIS:** Well sure, but of course that was the system the Conservatives originally introduced, wasn't it? And we've got to make big tax cuts. I mean that's part of this agreement. We're going to raise the personal allowance to £10,000. That's a cut. These have to be paid for by tax rises, and capital gains tax is one of them.

**WARBURTON:** Oh absolutely, and it is a matter of political debate as to where the taxes should fall. With the increase in personal allowances, it won't go to £10,000 all at once. We're expecting it to go up over the 5 year period of the planned government by steps of perhaps £700 or £1,000. But, as you say, that has to be paid for by someone. My own guess is on 30<sup>th</sup> June we're going to see a jump in VAT to 20%, but that's just another thing we've got to wait to see.

**LEWIS:** Many people have said that and there's also been some suggestion that the scope of it might be extended maybe to food or to children's clothing or to books and newspapers.

**WARBURTON:** I think that's less likely. I don't see that as part of the plans of either the Conservatives or the Liberals. But one key point of course is the treatment of inflation on capital gains, and that's a point where there's a lot of disquiet at the moment: why should you pay income tax rates on gains that are inflationary?

**LEWIS:** Okay, well of course we'll have to wait and see - as you say probably till the

Budget, certainly till the Queen's Speech to get any more details. And of course it's not just tax changes there are going to be. There are also going to be big changes, we think, in benefits. And Rachel Hadwen is also listening to us. She's an independent benefits consultant. Rachel Hadwen, we know there are going to be changes for example to child tax credits.

**HADWEN:** Yes, that's right, the agreement says they're going to restrict tax credits. And we don't have any more detail than that, but in the Tory manifesto it does say that they will stop paying tax credits to people who earn more than £50,000.

**LEWIS:** That's a family income, of course, so that could be two people on the average wage, couldn't it?

**HADWEN:** *(over)* That's a family income - yes, yes. And charities such as Working Families have pointed out that actually that could be just two people earning £25,000. They're still going to have potentially quite high childcare costs.

**LEWIS:** And the Liberal Democrats though would have started tapering it much lower than that, and I think it would have disappeared on family incomes of maybe even £30,000.

**HADWEN:** Yeah, that's right. What the Liberal Democrats were proposing was once you had tapered all the rest of your tax credits, you would also lose this sort of minimum amount called 'the family element'. So that would have stopped much earlier for families.

**LEWIS:** And there were also suggestions that other benefits like child benefit should be means tested. We've heard hints that the Treasury has put in these plans to ministers to look at at the moment.

**HADWEN:** We have, that's right, and again that's something that most charities working in this area will definitely oppose. The one thing about child benefit, it has a

very high take-up rate. It's like 96%. It gets to people who need it. And it's stable, which is one thing that tax credits are not. They're unpredictable, you're overpaid; whereas child benefit you can depend on.

**LEWIS:** Sure, but with big cuts needed - and the Welfare Bill is about £170 billion, the biggest spending programme - cuts there would have a big effect, wouldn't they?

**HADWEN:** Absolutely, yes, and I think there are areas that could be cut. They've also talked about stopping the Child Trust Fund. That might be something that will happen. It could perhaps become means tested or just kept for disabled children.

**LEWIS:** And you're saying there are areas that could be cut if even you would agree with them. What might they be?

**HADWEN:** Well just an example. There's another universal benefit which only came in very recently, which is the Health and Pregnancy Grant, so every pregnant woman gets £190 at week 25 of pregnancy. Now to introduce a new universal benefit at a time when we're in such deficit did seem a slightly strange thing to do, so perhaps that would be something to look at.

**LEWIS:** Rachel Hadwen, thanks very much. Well also with me is Malcolm McLean of the lawyers Barnett Waddingham. Malcolm, pensions. We've only got a couple of minutes, but there's quite a lot about pensions and quite a lot *not* about pensions.

**McLEAN:** Absolutely, yes - outline details I would think we might describe them. Probably the best one from the consumer's point of view is the decision to restore the link with earnings for working out annual increases in the basic state pension. In fact there's a triple guarantee going to be ... People will get either the highest of the earnings link prices or a minimum of 2.5%, and that will come in from April 2011 which is a year earlier than the previous government was contemplating.

**LEWIS:** Very welcome news for people who've been campaigning for that for years.

**McLEAN:** Absolutely.

**LEWIS:** What were the other main things?

**McLEAN:** The compulsory purchase (so-called) of annuities by age 75. It's not quite that, but ...

**LEWIS:** It's not quite compulsory, is it?

**McLEAN:** Not quite, but for most people it's seen as compulsory because the tax implications of doing otherwise are horrendous. That is going to be removed, so ...

**LEWIS:** But that will help people with very big pension pots though. It's something that will help rich people rather than low income people.

**McLEAN:** It will. And I think a word of caution there. An annuity's probably a good thing for most people. It gives you some security for the rest of your life because it is paid for the rest of your life, so not perhaps to rush into taking advantage of that. The other thing that's coming in is the abandonment of the default retirement age at 65. That is the right that an employer has at the moment simply to get rid of a worker at 65 basically on age grounds.

**LEWIS:** Yes, so that will change. And also briefly tax relief on pensions at higher rates. That's already being phased out for the very wealthy, but the Liberal Democrats wanted to phase it out for everybody.

**McLEAN:** They wanted to do that, and one of the reasons for doing it was to enable them to give this higher tax allowance, tax free allowance of £10,000. Now nothing has been said about the phasing out of the tax relief at the higher rate, so we'll wait and see on that. The Liberal Democrats wanted to do it. I'm not sure the Conservatives will want to do, so we'll see.

**LEWIS:** Okay, we'll see. That seems to be the watchword for the new coalition. Malcolm McLean, thanks, and thanks to Rachel Hadwen and Mike Warburton.

Now Santander customers have had a letter through their door recently and a number of them have been writing to Money Box to complain about it. The notice sets out that if you don't make any transactions for a year in the case of current accounts or 5 years for savings accounts, Santander may treat your account as dormant. And:

**SANTANDER NOTICE:** Once your account becomes dormant, we may transfer the balance to another account and we reserve the right to deduct an annual fee from your balance to cover the costs of administering and running your account. If we decide to introduce this, we will inform you by notices displayed in our branches and on our website.

**LEWIS:** So does this mean your money would be moved to an account with less or even no interest, and how much would those fees be? Well these are questions Money Box put to Santander and Ruth Alexander's well tried to get some answers. Ruth?

**ALEXANDER:** Well first of all Santander told us that although it's been busy drawing up these terms and conditions and mailing them out to customers, it has in fact no plans to put them into practice. It's just "reserving the right to do so", it says.

**LEWIS:** Right. And it spends all this money then sending out leaflets to every customer and it's just reserving the right but it's not going to. But if it did do it, what would it mean?

**ALEXANDER:** Well the bank told me that it couldn't answer these questions because it wasn't putting the terms and conditions into practice and didn't have any immediate plans to. But then it came back to me and told me that any interest rate would stay the same and emphasised that there were no plans to charge what it called a "dormancy fee" - whatever that would be - "at this stage".

**LEWIS:** So here are the new rules and we've no plans to do them. And if they did do it though, Ruth, would it be allowed because the Financial Services Authority controls how banks treat their customers and it has to be fairly, doesn't it?

**ALEXANDER:** Yes, so it probably wouldn't be allowed. The terms and conditions say Santander would put notices up in branches and online if it decided to switch monies into different accounts and charge fees. But the Financial Services Authority's banking conduct of business rules say that a customer should be personally written to if there's to be any material changes to an account. And the FSA has told Money Box that "the consumer must not be disadvantaged if their account is made dormant." That is if the consumer reclaims their money at a future point, it should all still be with there with interest.

**LEWIS:** Thanks, Ruth. Well James Daley, the Editor of Which? Money, is with me. James, this is pretty confusing. The bank writes to you and says it's changing things, and then we ask them they say oh well we're not really going to do that.

**DALEY:** Oh it's astonishing, isn't it? And we can only assume that they would actually try and put these charges through at some stage in the future. That's why they've put this clause into their terms and conditions. Obviously right now they're probably rather upset that they've got Money Box on their heels, and now Which? as well; but when people are not looking, I imagine you know in a couple of years time, they would try and introduce those charges.

**LEWIS:** So we'll both be looking, I'm sure James.

**DALEY:** Absolutely.

**LEWIS:** When they say they might introduce this, they say they'll only let customers know by putting a notice up in the branch. Well that's not enough because if you're not actively doing your account, you're not going to go in the branch anyway, are you?

**DALEY:** No, absolutely. And, as Ruth was saying there, you know that is actually in breach of FSA regulations. They have to take reasonable steps to inform people in what the FSA refer to as a 'durable medium' - that's writing to people by email or by letter. You know putting a notice up in the branch is clearly not going to get the message across.

**LEWIS:** No, I mean we used to have that. They'd say "Oh we put an advert in the Times" and expected everyone to have seen it, didn't we? Now why are they calling accounts dormant after a year because I thought the official definition was now 15 years?

**DALEY:** Yes well it's 15 years in terms of the government's unclaimed assets scheme. At that point an account that's been dormant for 15 years will be transferred into the government scheme and can be used and put towards good causes. However individual banks set the time limit that they classify an account as dormant, and obviously in the case of Santander here it's just one year. And, like you say, I mean you know that seems incredibly short. It's quite possible that somebody might be out of the country for a couple of years on a work placement and might not touch their account then. It doesn't mean that it's completely dormant.

**LEWIS:** And it should be clear even after 15 years, the government takes the money but you can always get it back if you prove who you are. There's another sentence I just want to raise with you briefly in these new terms and conditions about withdrawing money over the counter. Now we've looked at this with other banks in the past, but it says 'there may be a limit on the amount you can withdraw and withdrawals at the counter may be subject to a fee.' Now that would be a huge change, wouldn't it?

**DALEY:** Well it's something we're starting to creeping in now. Alliance & Leicester, which is owned by Santander, has already said that it's going to stop withdrawals at the counter of £300 or less. And Nationwide has done the same for withdrawals of £100 or less. And this is really upsetting for older customers who rely on the branches. They don't feel safe using cash machines. We're very concerned about this

trend and we'd like to see regulators step in and stop it.

**LEWIS:** And a fee would be a new thing though, wouldn't it?

**DALEY:** Oh absolutely. Fees at the moment don't exist. But you know, like I say, they're actually banning you taking withdrawals out under £100 in Nationwide.

**LEWIS:** For people with certain kinds of cash card accounts.

**DALEY:** Yeah.

**LEWIS:** James Daley, Editor of Which? Money, thanks.

Now most people who were stuck abroad after the ash cloud are now home, but some have found a very unpleasant surprise on their doormat: massive bills for using their mobile phone or laptop while they were waiting. Tom Burton was stuck in Italy for an extra five days, and when he got home his Broadband provider O2 told him his bill for downloading data was just over - wait for it £7,000. Now much of this bill was for listening to Radio Four on his laptop using his mobile phone dongle, as he showed me when I went to visit him in his West London flat, and I heard a familiar voice.

**RADIO FOUR ANNOUNCER:** Now on BBC Radio Four Money Box with Paul Lewis.

**LEWIS INTRODUCING MONEY BOX PROGRAMME:** Hello. In today's programme, as we've been hearing, the disruption to flights caused by the Icelandic volcano could last longer than expected. (*fades under*)

**LEWIS:** (*to Tom*) Well I'm very glad you were listening to that, Tom, but it turned out to be a very expensive exercise.

**TOM:** It turned out to be a complete nightmare actually. I had no conception of how

expensive it could turn out to be. When I got back, I was shocked to discover that I was being presented with a bill for over £7,000, plus VAT, for five days of Internet access. It's ridiculous.

**LEWIS:** Now there has been a lot of publicity over the last few years at the cost of using data, mobile data outside the UK. Did you really have no idea that you could be running up a very large bill?

**TOM:** I obviously realised it would be more expensive than using Broadband at home; but even factoring that into account, I didn't realise it could be thousands or tens of thousands of times more expensive than using the Internet at home. So it was a shock.

**LEWIS:** You say the bill was a great shock when you came home. O2 tell us that they did text you to warn you that you were going above normal limits in your data usage.

**TOM:** The only warnings I got from O2 related to my iPhone usage and I'd received a notice on the day that I actually returned to the UK saying that I was £111 of Internet usage on my iPhone. So certainly that was not a surprise, but certainly £7,000 plus VAT for Internet usage on the laptop was a total surprise and a complete shock.

**LEWIS:** Now O2 have made you an offer. They've said that instead of £7,000, they'll charge you I think £2,785. What's your reaction to that offer?

**TOM:** It's a reduction in the £7,000. But, to be honest, we shouldn't really be looking at reductions from £7,000 as £7,000 is so out of touch with reality and out of touch with what anyone would expect to pay for five days of Internet access that it's beyond a joke. It's farcical. I can't believe that they're seriously contemplating that as an offer. It's ridiculous.

**LEWIS:** What do you think would be fair for that sort of usage?

**TOM:** Well I had proposed to them a counter offer of £50 per day, which comes to £250 for that period. Again, compared to the costs of downloading the same amount of data on my home Broadband, that's probably a thousand times more expensive, but I accept that using Broadband overseas is more expensive than home. But there still has to be a degree of commonsense and reason.

**LEWIS:** Tom Burton. Well with me is Matthew Wheeler from the price comparison website uSwitch where he looks into mobile services. Matthew Wheeler, Tom Burton did download an unusually large amount of data - 2.8 gigabytes. Are you surprised at the size of his bill?

**WHEELER:** That is a substantial amount of data for anyone.

**LEWIS:** Well he was streaming Radio Four. I'm sure it was well worth it. *(laughs)*

**WHEELER:** He's a dedicated listener, absolutely. But the reality is unfortunately, with data roaming being such a new industry, at the moment it's just best to steer clear of it at all costs if you can.

**LEWIS:** So when you use your Internet away from home, how much does it cost to download data?

**WHEELER:** So at the moment it varies massively between the networks and it also varies whether you're in the EU or whether you're abroad. On O2, for example, you're looking at £3 per megabyte in the EU and £6 per megabyte outside the EU. And to put that into perspective, if you were to download or stream a four megabyte song, that's £12 a song, which is some very expensive listening.

**LEWIS:** Right, so a song might be four megabytes?

**WHEELER:** Exactly.

**LEWIS:** And listening to Money Box probably even far more than that. But in Europe though there are rules, aren't there, coming in? Just let's hear from Jonathan Todd from the European Commission who we spoke to earlier, who explained what these rules are.

**TODD:** As 1<sup>st</sup> March everyone has the right to ask their operator to put in place a data roaming bill limit. Now you can set this limit at any level you like - you know 20 euros, £50, whatever - and then the operator tells you when you reach 80% of that limit and if you don't do anything then you will be cut off when you reach the limit. Or alternatively if you want for exceptional reasons to go over it, then you can indicate that you want to. As of 1<sup>st</sup> July, if you haven't indicated to your operator that you want such a limit, then they will impose automatically a 50 euro limit which you can then change subsequently if you want to.

**LEWIS:** So those are the new European rules that are sort of half enforced. Will they cut people's bills in Europe anyway?

**WHEELER:** I think what this will do is imposing that automatic cap is going to hopefully stop problems like Tom's had obviously with the £7,000 bill, so that bill shock will hopefully get reduced. It doesn't still make this service something that is going to be affordable for most people when they are travelling abroad.

**LEWIS:** Why is it so dear? Are the charges reasonable, or is it just profiteering?

**WHEELER:** It's a bit of a mixture. So at the moment it is a new service, so that it's currently very expensive to do that. What the networks will do is buy a wholesale price off foreign networks. That wholesale price is still around 54 euro cents and falling.

**LEWIS:** Matthew Wheeler, thanks very much. And O2 wouldn't come on Money Box, but they said they've revised the bill down and they're going to let Tom pay it off over 6 months. We'll see what happens. But that is all we have time for. You can find out more from our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox) - exciting things to do there -

and have your say on capital gains tax and other government tax and benefit plans. Vincent Duggleby's here on Wednesday with Money Box Live. I'm back with Money Box next weekend. Today the producer was Ruth Alexander and I'm Paul Lewis.