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MONEY BOX

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LEWIS: Hello. In today's programme, VAT cheats. We reveal that some trades people are charging VAT and pocketing the money. Speculation in the press today that interest rates will have to rise sooner rather than later. Should you rush out on Monday to fix your mortgage? Ben Carter's with me today - getting a lesson in finance, Ben?

CARTER: Yes, Paul. I pay for a packaged bank account and went to find out whether I'm getting value for money.

M. LEWIS: Let's go straight into this logic. You're paying £144 a year. What are you getting for your £144?

LEWIS: We'll find out later. Barclays is fined a record £7.7 million and now admits it did mis-sell investments to thousands of people. And ... (*Theme Music: The Archers*) ... tax avoidance in the world's longest running radio soap.

But, first, some traders are charging householders VAT when they are not VAT registered. They add 20% to the bill, call it VAT, but pocket it themselves. Few people bother to check if there's a VAT number on an invoice. Still less if it's accurate. Nigel Leck runs the building renovation company Property Presentation Services in Warwickshire. He's worried that this kind of scam is becoming more common in the building trade. Our reporter Bob Howard caught up with him at work.

LECK: We discovered last year there's actually a bit of a trend now that workmen seem to have been registered for VAT and then they're not registered for VAT but they're still charging. So it's actually fraud. I mean they're charging people 20% extra more than they should be doing and they're defrauding the government of 20%. Really for little people, like an ordinary woman who's doing a little job at home and a plumber comes in, charges her VAT - is she going to check, is she going to be happy ... No, she's not. And the problem is that it's always the bad workmen drive out the good workmen.

HOWARD: So how often has this happened in the last year?

LECK: It's been twice. We've actually discovered people have tried to charge our customers VAT when they are not registered?

HOWARD: And could that have been an accident or a slip-up or not?

LECK: No, not at all. They've been deregistered. They know they're deregistered and they're still charging VAT. Because the other thing the VAT number does, it actually gives a company a bit of status. You think well it must be a certain size. He must be respectable, responsible, he's got a VAT number. No, he hasn't. He's a crook.

HOWARD: So why are they doing this? It's a big risk for them, isn't it?

LECK: It is a huge risk if the VAT catch them because then they go back into their bank accounts and they make an educated guess of how much money they should receive, double it, fine them and take more money. But in the interim time, for most people if they're not working for a company, if they're working direct for a client - it's easy, it's fine.

HOWARD: So is there a way you could have checked before they actually did the work that they were actually VAT registered? Is that something you would do in the

future?

LECK: After our first incident, we then started checking everyone's paperwork from day one. I mean it never occurred to us that this was going to be a problem. So now we check absolutely everything.

HOWARD: So we're going to have a look at some of these VAT numbers that you've been checking and we're going to look in your office and just see exactly what you found out.

LECK: Exactly. Glad to show you.

HOWARD: So, Nigel, we're in your office now and we're going to try and check up on the credentials of a couple of guys who worked for you. So just explain what we're going to do.

LECK: The internet's made life so much easier. In the old days, this would be lots of letters going backwards and forwards with different demands. This is dead easy. Straight onto research, straight to the site. Information on your screen within five seconds. We'll enter in a VAT verification, which it will do and it'll take us ... There we go and it'll take us straight to this site here, which is a European Union site. It's called Taxation and Customs Union. It has a very simple screen of four fields of which you only need two really. And the first one asks you your member state, so obviously the member state of the worker you're checking out, so obviously for us that's the United Kingdom, Great Britain. It has a field then which asks you what the number is you're checking. So you put that number in. Here we go, we'll do that now. Okay. And then it asks you to verify, which is a simple button. You press the button 'verify' and back will come the response. Okay. So now this is the screen we get, which is VAT validation response. And, as you can see there, it clearly says 'Invalid VAT number. Please refer to the frequently asked questions'. So it's telling us there that that is not a valid VAT number.

LEWIS: Nigel Leck speaking to Bob Howard. Well live now to Somerset to talk to

Ian Liddell-Grainger, Conservative MP for Bridgwater, who's also Chair of the Parliamentary All Party Taxation Group. Ian Liddell-Grainger, is this a problem you're aware of?

LIDDELL-GRAINGER: I think everybody knew it was going on, but you see one of the problems we've had is the extent of it because it's very difficult to detect. Unless a firm (as we've just heard) comes forward and says look, we're checking, we don't know. Now that the VAT's gone up to 20%, yes I think it will become a much more high profile problem.

LEWIS: Yes and I think people might be a bit concerned. If there's a tradesman in the house and they give them a bill, it's a bit difficult, isn't it, to say hang on a minute, I'm just going to check your VAT number?

LIDDELL-GRAINGER: That isn't going to happen and people, I would suggest, probably shouldn't do that. But they could check on the website that you've just mentioned, see what the situation is, and then report it to Her Majesty's Revenue & Customs.

LEWIS: Yes because there is a helpline to do that.

LIDDELL-GRAINGER: There is indeed and it should be used.

LEWIS: And what about the penalties? How big a risk are people taking for doing this?

LIDDELL-GRAINGER: Unfortunately not enough, and one of the things that I think the government must look at (and certainly as a group we would say this is important) is the penalties need to be stiffened against directors of the companies that are doing this. There is a mechanism for bringing directors to account. It doesn't need much tweaking and you can strike directors off or you can surcharge the companies.

LEWIS: Yes because generally it's, what, double the tax they should have paid for a first offence, isn't it?

LITTLEGRANGER: Which is no deterrent. So if you've got a bill and the bill's £30, it's £60. Alright if it's £1,000, it's £2,000, but of course you've done an awful lot of work. So it does need to be not twice. It probably needs to be the worst case is a custodial sentence, but certainly up to ten times.

LEWIS: So you say they should be jailed in some circumstances?

LIDDELL-GRAINGER: This is blatant fraud and it's defrauding the United Kingdom. And it's also the very worst way of doing it because you're actually going into people's houses or businesses or whatever. You're saying yes I'm registered, so you're lying. You're actually using basically your company position to extort money out of people. If it had been any other organisation or any other walk of life, you would be jailed.

LEWIS: So are you going to be calling on the government to do more along these lines?

LIDDELL-GRAINGER: Well I think there's two things. I think the first thing to do is to get the government to understand this is going to become much more of a problem now VAT's gone up. And then second is working with the government through the All Parliamentary Group to try and come up with a mechanism which will actually be acceptable to legislators but also to businesses to make sure that they're not being ripped off.

LEWIS: Ian Liddell-Grainger, thanks very much - talking to us from his constituency there. And you can check VAT registration with the Revenue or on the European website Nigel Leck mentioned earlier. There's also a 59 pence app for the iPhone called Calc VAT that links to it. You are entitled to ask for a proper VAT receipt with a VAT number and you don't have to pay VAT to anyone who can't prove they're registered. And there is, as I said, a customs hotline. You can report there concerns

anonymously. More details on our website, bbc.co.uk/moneybox, where you can also let us know if you've experienced VAT being wrongly charged.

There's growing speculation among economists and indeed investors that the Bank of England will raise interest rates sooner rather than later. It began with the sharp rise in inflation this week, and the rate at which banks lend to each other has also been slowly rising. If - or perhaps I should say when - the bank rate rises, millions of people on low cost variable rate mortgages could see a big increase in their monthly payments. So is now the time to fix your mortgage to pre-empt a future rate rise? With me is Melanie Bien of mortgage brokers Private Finance. Melanie, speculation that rates may rise. Is that being reflected in the deals that are offered?

BIEN: It really is. We've seen in the past week a number of lenders have pulled their fixed rates with little or no notice and that's simply been they've got a set tranche of money available at that rate and that money's run out because people have been panicking this week. There's been a frenzy really in terms of borrowers trying to fix their mortgages.

LEWIS: So this is being driven by borrowers more than lenders, is it? I mean lenders must see what's happening. They must expect rates to go up at some point?

BIEN: Yes, the money markets are certainly factoring in a rate rise. Again people are now thinking sooner rather than later, but certainly at some point this year. So anyone who would struggle to pay their mortgage if interest rates were to rise should really consider a fixed rate; and if you're going to go for a fixed rate probably sooner rather than later before all the really good ones disappear.

LEWIS: Yes. It is a gamble though, isn't it, because you're gambling that rates will rise. They probably will, but you're also gambling when they'll rise.

BIEN: Yes and nobody knows for sure. There's so many different predictions out there. So really it must reflect your own circumstances. If you're in a position that you're worried perhaps about your job, you know this fiscal tightening, you're

worried about cutbacks, the rising inflation - petrol, food, you know all these costs - if you're worried about paying your mortgage, then you must go for a fixed rate.

LEWIS: Yes and of course that does give you certainty. Even if you're paying a bit over the odds at least you know exactly what your mortgage will cost. When you say fixed, are you talking about 2 years, 3 years, 5 years? Which would you go for?

BIEN: That's a very important point. There's again today lots of coverage about these fabulous 2 year fixes. I would say a 5 year fix makes a lot more sense at the moment. If we think rates are going to rise at some point over the next couple of years, if you were to opt for a 2 year fix you're going to have to remortgage again just when rates are higher. A 5 year fix costs only a little bit more, but gives you security for a much longer period of time.

LEWIS: And do you think there's a danger that if you don't go out on Monday (as I suggested people might) and fix, the next tranche of money that's available for fixes, that will be more expensive? So if you don't do it now and you think oh I'll just do it in a month or two, you might have missed a bit of the boat and you have to pay a lot more?

BIEN: Yes. I was going to say if you're going to go for a fix, do it sooner rather than later. We've seen NatWest, Woolwich and Halifax have all warned this week that their fixes are going to go up, so act sooner rather than later.

LEWIS: Okay. So when you say that, you know should we rush out on Monday?

BIEN: Well I think if you're going to go for one anyway, then yes.

LEWIS: Okay. Melanie Bien from Private Savills ... from Private Finance, I'm sorry, thanks very much. We'll talk to you a bit later about something else, so stay with us.

Barclays Bank has been fined nearly £8 million for the way it sold two investments to more than 12,000 customers. It will also have to pay out an estimated £60 million in compensation to those who were mis-sold the ‘cautious’ and ‘balanced’ investments - their terms - which turned out to be anything but. Money Box first reported on the way these products were being mis-sold in April 2009. Then Barclays told us it had done nothing wrong, though it’s now clear that people inside the bank were raising concerns as early as 2007. Mark Meldon is a Director of independent financial advisers RC Gray. I asked him what mistakes Barclays had made.

MELDON: Poor training; they mis-described the funds they were selling to consumers; they sold them to the wrong kind of consumer. I’ve met people who without being unkind are not terribly sophisticated investors. Much of their life savings was allocated to this pair of Aviva funds, and at some points they were down by 50% and these people were really, really upset and it’s frankly outrageous that a large, hopefully trusted organisation such as one of the main high street banks were able to get away with this for as long as they were.

LEWIS: Now we talked about this in 2009 and it’s clear from the FSA report that Barclays knew then there were problems with these funds, though they said to us in a statement that everything was fine.

MELDON: Well there’s no real surprise there, I’m afraid, because although the numbers per individual are very large and to you and me it’s a lot of money, to a big organisation like Barclays, even in the current environment a £7 million fine is not a great deal of money. It’s part of the risk of running their business, I guess.

LEWIS: These funds were targeted as you say deliberately on older customers who wanted a high income from their investments, but Barclays didn’t make it clear that if they got that income, their investments might be spent to pay for it. Surely that’s a very fundamental and relatively easy thing to explain?

MELDON: Yes, it is. I mean one of the questions most IFAs would ask a client is how much money are you prepared to lose? And if the answer’s none, well they

surely mustn't be advised to invest in funds such as this which hold equities and rather complicated fixed income securities known as convertible bonds. The other thing about these funds is they're really expensive funds. The charges were something around 1.7% per annum, which is quite a lot compared to the market average.

LEWIS: And Barclays took a percentage upfront.

MELDON: I believe from documents I've seen that averaged 4.5%, so many, many tens of millions. And even more importantly, they were getting over 1% per annum each year from Aviva just for having the funds on their books, so to speak.

LEWIS: How big were the losses made by people?

MELDON: The Balanced Income Fund was worst affected - at one point going down below 50% losses - so that's a huge reduction. The Cautious Fund was less affected. That was down 30%. But for a nervous, cautious investor of advanced years, that's a really hard thing to stomach.

LEWIS: But now the stock market's gone back up again, have a lot of the people who had lost money then got a great deal of it back?

MELDON: No. The funds are just about back to where they started. The Cautious Fund's doing a little bit better. But, interestingly, I believe Barclays sold nearly 700 million pounds worth of units in these funds, and the funds have now got around about 300 million in. So a lot of people have pulled money out of the fund. Indeed I know people who've done that.

LEWIS: Mark Meldon of RC Gray. Well Barclays Bank would not be interviewed, but we've put a link to its apology on our website. It told Money Box yesterday that it will only be compensating about two-thirds of the 12,331 people who were sold these funds. So if you're not contacted, you'll have to complain and then go to the Financial Ombudsman if you think you're due compensation.

We all make mistakes about our money. I'd hate to admit all the bad decisions I've made. But when our reporter Ben Carter told us that he was paying £12 a month for his current account, the team - well some of us - gasped in astonishment. Generally the advice is not to pay for your current account. The insurance that's included is seldom worth what you pay. So to help Ben decide if it was a good idea or not, rather than listening to us, we brought in MoneySavingExpert-In-Chief Martin Lewis to give him a little guidance.

CARTER: I have one of these accounts.

M. LEWIS: Instant, give me your wrist. There we go, slap. Next.

CARTER: I'm paying £12 a month for it.

M. LEWIS: Times by 12.

CARTER: Which is £144 a year.

M. LEWIS: That's the way you should always think. That's the biggest killer here. They sell you by the month. You need to think by the year. Let's go straight into this logic. You're paying £144 a year. What are you getting for your £144, not for your £12 a month?

CARTER: Well I have an iPhone, which I need insurance for.

M. LEWIS: Right.

CARTER: And I probably maybe travel a couple of times a year, so I need travel insurance a couple of times a year. So I worked on the assumption that I was probably getting a reasonable deal with what I was paying.

M. LEWIS: Are you a single person?

CARTER: I am.

M. LEWIS: So you think that you couldn't get cheaper travel insurance and mobile phone cover for less than £144 a year? Is that your definition?

CARTER: Well that was the starting point.

M. LEWIS: Because I mean travel insurance, annual travel insurance for a single person in Europe, the cheapest policy - you might want to go a little bit more expensive than this - is £15 a year. The mobile phone cover - 30, 40 quid a year depending where you're going. It may be a little bit more expensive if you want absolutely you know all the bells and whistles. But I mean I'm not hearing really much more than 60, 70 quid at the moment maximum.

CARTER: I've also got offer for AA cover. That's included in the ...

M. LEWIS: Do you have a car?

CARTER: I don't in London. I do when I go back to my parents. I've got access to a car.

M. LEWIS: Well basic AA cover bought through a cashback site can be ... I mean it depends on the week you get it. We had it for £7 a year recently. If you wanted full service cover through Auto Aid, the cheapest full service cover - admittedly it's a pay and reclaim, which means you pay the money and then you send your receipts in - is £38 a year. I still ain't close to £144 yet.

CARTER: But banks will also argue that with these accounts, you may get the first couple of hundred pounds of your overdraft interest free and that also you may get better interest rates on these accounts. Is that not worth consideration?

M. LEWIS: It's not true, never mind not worth consideration. The best rates are not

on fee paying accounts. You can right now get up to 5% in credit interest, £100 for joining an account, 0% overdrafts - all on fees free accounts. And, interestingly, the big providers of the accounts that charge fees tend to be the old high street banks where their products are pretty poor and what they say is pay us a fee, we'll give you a few extra added benefits and we will improve our already poor rates. But if you were to go and have a look at the competitive marketplace out there, you can beat those rates anyway. The only real advantage here is for people who want very, very big overdrafts - not cheap overdrafts, big overdrafts which fee paying accounts sometimes allow you to have.

CARTER: Okay, so I don't have a particularly big overdraft at all, so that's not going to be applicable for me either.

M. LEWIS: Well at least I'm now smiling. I'm quite pleased to hear that. It's good not to have a big overdraft.

CARTER: Would you recommend these accounts to anybody?

M. LEWIS: There are a couple of times that I would suggest people get fee paying accounts. The first one ... Recently there was a brilliant deal from the Co-op - Privilege Premier Account that gave you annual travel insurance, it gave you mobile phone cover, it gave you breakdown cover, and you didn't have to pay the fee for the first year. So if you get a fees free fee account for one year, that would be good. The other particular example would be older people, travel insurance. If you don't have pre-existing conditions many of these bank based travel insurance policies will give you travel insurance cover sometimes up to age 75 and up to age 80. Now those policies if you were to get them as a standalone are super expensive, in which case it may well then be worth going for a fee paying account. You need to calculate, do the x 12 multiplication. You know they're charging me £12 a month. That's £144 a year. How much would I pay for the travel insurance? 200, 300 quid for annual policy. Then it can be cheaper for you.

LEWIS: Martin Lewis, Founder of MoneySavingExpert.com talking to our reporter

Ben Carter. And Ben's with me. Ben, are you changing your account?

CARTER: Well I will be, Paul. Although interestingly while it's easy for me to upgrade my account online, there is no facility to downgrade, so I'll be going into the branch.

LEWIS: I wonder why. Well Ben, we had a bit of fun with you there, but you've also had a bit of a triumph this week, haven't you?

CARTER: Well yes, Paul. A week ago I explained that some credit card providers were using poor exchange rates when converting foreign purchases. It was Royal Bank of Scotland, NatWest and Tesco's that were not using the standard Visa or Mastercard rates. Instead they were using their own less favourable exchange rates costing their customers money. But yesterday Money Box received a statement from Tesco Bank saying that 'we are now pledging to align our foreign exchange rates with the central industry rates and this change will be in place by the end of January.'

LEWIS: So cheaper for customers. Well done, Ben - a Money Box success.

And, finally: (*Theme Music: The Archers*) Well not a sound you often hear on a Saturday. That's the theme tune of course for the 60 year old Radio Four serial 'The Archers'. Fans were shocked recently when Nigel Pargetter, the owner of the local stately home Lower Loxley Hall, fell off the roof and died. But can his widow Elizabeth keep the family pile? A question even their children have been asking.

EXTRACT: THE ARCHERS

LEWIS: So will the trust avoid inheritance tax? First though, what's the house worth? Well Melanie Bien of Private Finance is still with me. Melanie, you've been doing some research into this. What is it worth?

BIEN: Yes, if you read about it online, you can see a rather nice drawing of Lower

Loxley Hall, which is (we're told) 300 years old, Grade II listed, set in 400 acres of parkland. So very nice too. Probably looking at between 3 and 4 million pounds depending on state of repair, and that's without the fact that it's used as a conference centre and wedding centre. This is just really for the house and grounds if you were to buy it.

LEWIS: Just the house in what we might call rural South West Midlands. Thanks very much, Melanie. Well live now to Gloucester, a bit further south, to talk to Mike Warburton, partner in accountants Grant Thornton. Mike, a home worth (Melanie says) 3 to 4 million pounds. Does putting it in trust avoid the inheritance tax that would otherwise be paid?

WARBURTON: I think the important thing to remember here, Paul, is it's a very valuable asset and it's also an asset that's been in the Pargetter family for many years. So two things we're trying to do here. Nigel's taken good advice on this. I've not seen the will, but I believe what he's done is to set up what's called an 'immediate post-death interest trust'. What that means is that the right of occupation of the hall will be with Elizabeth, and indeed I think the income of the trust will be for Elizabeth during her lifetime. But under the terms of the will, I believe he's directed his trustees that the estate will effectively pass to Freddie and then his twin sister will receive monetary assets at the appropriate time. And that's the key point. Because Elizabeth's got a life interest, there will be no inheritance tax on his death, but ultimately the assets will go as Nigel intended.

LEWIS: Of course if you leave everything to your wife or husband or civil partner, there is no inheritance tax then. What about when Elizabeth dies? Will there be a big tax charge at that point?

WARBURTON: Well there could be. But you see I think what's happened here is I believe that Nigel left a letter of wishes with the trustees and the intention there is for the trustees to use their discretion to make a transfer (effectively a gift) from the trust to Freddie and to Lily when they think the time's right. Now obviously they're children at the moment, but in 10 or 15 years time or whatever, when they believe

they're mature enough to do so, then the trustees may well exercise that discretion. And for tax purposes that's treated as if it's a lifetime gift effectively from Elizabeth, and as long as she lives a further 7 years - and let's all hope she does - then that will also avoid inheritance tax. And this is perfectly legitimate tax planning. This isn't a scheme going on.

LEWIS: Well you say it's legitimate tax planning, but it's actually denying the Chancellor the inheritance tax on something worth several million pounds, so it is a way of avoiding tax, isn't it?

WARBURTON: It's an important, legitimate thing that families can do. But I'd turn it the other way round. You could have exactly the same tax effect by leaving all the assets to Elizabeth and for Elizabeth to then make transfers when the time is right. But of course what the trust arrangement is doing, it's enabling Nigel to direct where those assets go because of course these days it may seem a bit strange that the hall if you like and the estate is going to the son and then other assets are going to the daughter, but that's what Nigel's intended and that's how he ensures that his wish is carried out.

LEWIS: Yes, a very traditional way of leaving things. Now it's worth saying, isn't it, that inheritance tax obviously a worry for that family, but not a worry for that many people nowadays. What 16,000 estates are expected to pay it this year. What size of estate, what value of home should you really think of this kind of trust arrangement?

WARBURTON: Well I would turn it the other way round, Paul. First of all, I think it's very wise for anybody to have a will. Something like half the country don't have wills, so everybody should take the sensible precaution of going to a solicitor and structuring a will. And whether it's worth having a trust arrangement or not should not be so much directed by your concerns on inheritance tax. I think it should be directed upon how you want your assets to flow. You get a number of situations, particularly with second marriages, where you might have children of a first marriage and children of a second marriage and there is a desire to make sure the assets go the way you would like - not if you like to leave assets to your spouse and they go in the

wrong direction.

LEWIS: Mike Warburton, I must stop you there. Thanks very much. That's it for today. Find out more from our website, bbc.co.uk/moneybox, where you can have your say on VAT fraud. Many of you are. That website we mentioned earlier is on there, and it does give you the trader's name as well as the number. I'm back on Wednesday with Money Box Live taking questions on borrowing and debt. Back with Money Box next weekend. My Twitter - Paul Lewis Money. Today reporters Ben Carter, Bob Howard. Producer Lesley McAlpine. I'm Paul Lewis.