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MONEY BOX

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LEWIS: Hello. In today's programme, HM Revenue & Customs admits it's sending out tax code notices that are wrong.

HARRISON: The most alarming thing about one of these letters was that it was for a D zero code, which means all of my earnings would have been taxed at 40%.

LEWIS: Some people on low incomes are being refused basic bank accounts, and that can be expensive.

WILSON: I can't have any direct debits, standing orders set up. It means any discounts that would be available for paying by direct debit, I'm not able to take advantage of those.

LEWIS: The pension you can buy with the money you've saved up all your life is going down. How do you boost your retirement income? And 400,000 people who invested in a with-profits bond in the year 2000 should remember its 10th birthday or lose hundreds, maybe thousands of pounds.

But, first, tax - which needn't be taxing, but, my goodness, it often is. Reports have been coming in all week, not least to our email inbox, that there are serious problems this year with tax code notices. They tell employers how much tax to deduct from us and HM Revenue & Customs is sending out 25 million this year. But many of them

are wrong. Here's Money Box listener Nick Harrison from Muswell Hill in London.

HARRISON: I received two letters from HMRC on the same day, issuing me with new tax codings. The most alarming thing about one of these letters was that it was for a D zero code, which I only know (because my wife is involved in payroll) that that means all of my earnings would have been taxed at 40%. They happily answered immediately they were experiencing some software problems and that this was happening in a number of cases, and certainly both my wife and some other people at her firm have also received similar letters. I'm sure there will be people who go into the new tax year paying a lot more tax than they expected.

LEWIS: Well Nick has found himself on the wrong end of a Revenue computer records upgrade. Wouldn't you know it? He reported the errors, but is still waiting for his code to be changed. And we've had many similar complaints from listeners, and so have accountants and tax organisations. Live now to Mike Warburton who's a partner with Grant Thornton. Mike, how widespread is this problem?

WARBURTON: Well we know now, HMRC have admitted that millions of tax codes have been issued which are incorrect. Paul, there's three important points I'd like to make here. First of all, your listeners will know that if they leave their job at the end of the year, they get a form P60. If they leave their job part way through the year, they get a P45. Both those documents are copied to HMRC. They have the information. They know what your current job is. What's happened is the second point - multiple coding notices have been issued - and this blunder has resulted in many people having their personal allowances allocated against non-existent jobs, which, as your listener just said, is going to result in him paying 40% tax on his income. But the vast majority of people get a basic rate code. They have 20% deducted and they're all, in the vast majority of cases, going to have too much tax collected. But the third and most worrying thing - from my point of view - and I know people should check their tax codes, but the fact is many people receive information from the taxman and they assume it's right. To put it bluntly, they trust the taxman. And what's happened here, as I understand it, is that HMRC sent out these incorrect coding notices and *knew* they were incorrect when they went out. Now to my mind,

that represents a blatant breach of trust by HMRC if they didn't warn the taxpayers that they were going to be overpaying tax as a result of this.

LEWIS: So the danger is Mike, briefly, that people could be paying too much tax because of this wrong coding. What's the most it could be?

WARBURTON: Well the most it could be, in the case of your listener just then, is 40% of the personal allowance at 6475, so we're talking about thousands of pounds. But even for basic rate taxpayers, it's a couple of thousand pounds. I mean I think that to rely on taxpayers to correct this matter and understand what's gone wrong, I think is incorrect. I think HMRC should admit their fault and they should take the responsibility to put it right.

LEWIS: Mike Warburton from Grant Thornton, thanks. Well with me is Clare Merrills from HM Revenue & Customs. Clare, Mike's saying there that you combined these old computer records. You had the records when people give up jobs, but you just didn't incorporate them in the new system.

MERRILLS: What's happened ... Firstly what I want to do is to correct something that Mike said there. He said that we knew that they were wrong as they were going out. Now we didn't realise that this many codes with erroneous details on were actually going out until they started to hit doormats.

LEWIS: But why didn't you know that? Because you combined all the records. They're your records. Surely you realised some of them would be old and out of date?

MERRILLS: We thought that some would. We didn't realise that the records were in the state that they were in, and we have accepted that and we're dealing with it now. We are doing things ourselves in the offices to go through and see where the issues are and if there's anything that we can actually do without relying on taxpayers. But the most important thing is - and Mike said it himself there - it's the same thing that we say every year: you must always check anything that comes from us, including your tax code, every year.

LEWIS: Yes, so *not* trust the taxman, as Mike suggested people did - which seems a rather strange message from HMRC. But you did start this, didn't you, in October 2008? You delayed it till last summer to get it right. You *still* haven't got it right. You still didn't realise you had all this old, duff data on there.

MERRILLS: The fact is we now are in a situation where once this is sorted out, we are going to have a much better system. It's going to be much more accurate. There are going to be less people at the end of every tax year who owe us money and who we owe money, and that's better all round for everybody. But we have got to get over this year's issue. We do have to get over that.

LEWIS: And one of the problems is that people get this tax free income every year - £6,475 - and this time, for the first time, you're sharing that among various sources of income; and if some of these are false sources of income, people are losing some of their tax allowance, so they will be paying too much tax, won't they?

MERRILLS: They're not losing them altogether because if it is wrong, they need to contact us and we will put it right. And, you know, we can still put that right at the end of the tax year, but we've still got until April to get it right now.

LEWIS: Okay, well you mentioned putting it right, and of course one way is to phone you. But I'm sorry to say you're not doing very well on that either, are you? Here's one listener, Andrew Currie, from Snowdonia, who was trying to talk to someone at HMRC this week.

HMRC ANSWERPHONE MESSAGE: Welcome to HM Revenue & Custom's self-assessment helpline. One moment. (*Music*)

CURRIE: I started telephoning them on Monday, late afternoon, and I spent two to three hours on Monday and most of Tuesday trying to get through to various people, but never getting an answer on the phone. I phoned six or seven different numbers because eventually I was just getting frustrated and trying to find any number that would be answered by someone. I just got repeated messages, constantly referring me

to the website and explaining that all my problems would be solved if I went onto the website, but the very reason I was phoning up was the website would not be able to deal with my inquiry.

HMRC ANSWERPHONE MESSAGE: Thanks for waiting. (*Music up and ends*)

LEWIS: To hear more of Handel's 'The Arrival of the Queen of Sheba', we'll give you the Revenue's helpline number later. Clare Merrills, the National Audit Office has criticised you for not answering 44 million calls in 2008/9. People can't get through, can they? They can't tell you their tax code is wrong even if they think it is.

MERRILLS: People may have had problems getting through to us this week because we are at one of the busiest times for our contact centres this year. We've got the self-assessment deadline tomorrow and people are trying very hard to get their tax returns back to us. So we always get peaks and troughs within our system at these types of times of the year. So what I would say to people is if they call next week or the week after, if they've read the leaflet that comes with it and then gone onto the website ... I mean the chap there said that the website wasn't answering his query, so he does need to speak to us to give us that information. But the new system we have now does mean we can put it right there and then.

LEWIS: Right. But you see people are saying to us things like this. We had this email in this morning from Gillian. 'I am outraged that the responsibility to sort out this mess is being put onto the wronged taxpayer.' Surely it's you that has to put it right because if we don't ring you up and know the tax code is wrong and tell you, it won't be right next year either, will it?

MERRILLS: What we have to do, I think it's a case of working together in partnership to get this right. As I said to you earlier on, we are already going back ...

LEWIS: But surely your job is to get it right in the first place and not take too much tax off people?

MERRILLS: Well it is and what we want is for taxpayers to pay the right amount of tax at the right time, and that is what this new system is going to help us to put in place. But we've admitted, you know, there are issues now, but we need to get that right. And what we do need people to do is to help us to get it right, so that from now on they *will* pay the right amount of tax at the right time.

LEWIS: And when you get things wrong, are you going to be fined £100 as we are?

MERRILLS: But the tax returns, these aren't tax returns. That's tax returns you get your £100 for.

LEWIS: I think the answer's no. Clare Merrills, thanks. And you can let us know your tax code problems or have your say on our website, bbc.co.uk/moneybox - and many of you already are.

Now we revealed on Money Box last week that people in some of the poorest parts of the country were having their benefits paid directly onto pre-paid Mastercards and that can be an expensive way to manage a low income. Well then the Work and Pensions Minister Helen Goodman told us there are better options such as a basic bank account, which should be available to just about everybody and is free. But Money Box has learned that many people who try to open one are refused and Ruth Alexander's been looking into this. Ruth?

ALEXANDER: Yes, basic bank accounts are very simple bank accounts. You can't get into debt with them because they can't have an overdraft. So when you apply for one, your credit history shouldn't matter, but some Money Box listeners say that's not their experience. Gordon Wilson from Glasgow says he's tried to open a basic account with three banks, but was refused when he failed their credit checks. So he has his jobseeker's allowance paid into a Post Office Card Account instead. No other money can be paid in, he has no cash card, and can only withdraw money at the counter. This, he says, makes life inconvenient and expensive.

WILSON: I can't have any direct debits, standing orders set up. It means electricity,

I've got to pay on the prepayment key, which incurs charges. Same goes for community charge, television licence - got to pay all of these at the Post Office. Obviously that incurs travelling to the Post Office and back. Also any discounts that would be available for paying by direct debit, I'm not able to take advantage of those.

ALEXANDER: The Citizens Advice Bureau says staff see a lot of people who've been turned down for basic bank accounts because they've been credit checked. From the bureau, here's Tony Herbert.

HERBERT: This does seem somewhat bizarre given that these accounts offer no credit, there's no overdraft facility, there's no chequebook offered. Unfortunately what we tend to find happening is that bank branch staff will automatically enter someone's details in a computer to see which account they will be most suited for. When it comes back that they may have had difficulties with debt or credit in the past, they merely refuse them.

LEWIS: So, Ruth, what do the banks say about this?

ALEXANDER: Well the British Bankers Association says people applying for a basic account can be turned down if they're bankrupt or if they have a record of fraud - neither of which applies to Gordon Wilson. But the association says a history of bad debt shouldn't matter. Well the three banks Gordon approached - RBS, NatWest and the Bank of Scotland - all say they *don't* refuse people with poor credit histories, but the Bank of Scotland admits branch staff sometimes do make mistakes. So looking at the scale of the problem, there's basically no record kept of the number of people refused a basic bank account, but we do know that in the year 2007 to 8, 1.75 million people didn't have access to a current or a basic bank account.

LEWIS: So that's a lot of people. And if you *can* get a basic bank account, Ruth, are they a good alternative to one of those pre-paid cards we looked at last week?

ALEXANDER: Well as standard, you can't have an overdraft with them and you don't get a chequebook, but you can pay in cheques and get money out at machines

and set up direct debits. But some offer more than others. Tony Herbert from the Citizens Advice Bureau.

HERBERT: The variations between the accounts can be quite stark. For example, many don't offer a debit card, so you can't buy things on the Internet, you can't make the savings like that. And we've had some cases of people with mobility problems. For them, to do something like Internet shopping would be ideal. If they haven't got a debit card, they can't do it. Hence people are pushed to considering alternatives such as pre-paid cards, which in many instances incur great costs.

ALEXANDER: And according to the Financial Services Authority, 6 out of 17 basic bank accounts, so about a third, don't offer a debit card. And that's including big names like Santander, HSBC and Nationwide.

LEWIS: Thanks very much, Ruth. Well live now to a government minister in charge of financial inclusion, Sarah McCarthy-Fry, who's Exchequer Secretary to the Treasury. Sarah McCarthy-Fry, why are so many people being what seems to be wrongly denied access to basic bank accounts?

McCARTHY-FRY: Good afternoon Paul. I think the issue here is what came out in some of your interviews because in discussions I have with the banks when we're talking about financial inclusion, the banks tell me that this shouldn't be happening. And I think it's happening at the lower end. Maybe the staff are not being trained properly. And that's an issue that I shall certainly take up with the banks, to make sure this is getting down to the branch counter level because that of course is the first point of contact for people that want to open these bank accounts.

LEWIS: Yes, so when someone goes into their bank and, as we've heard there, asks for one and is refused on credit check grounds, that's wrong you say. What can they do then?

McCARTHY-FRY: I think they should ask the counter staff if they would kindly check with their head office, ask if they could check their firm's guidance because it

is their understanding that this should not be the case. Not to just accept it, but say can I please take this up with your head office.

LEWIS: Yes. It's quite hard though because many of these people have never been into a bank before and they're maybe not like you or I might be, Sarah, and be argumentative.

McCARTHY-FRY: Absolutely. But that's why I think with the other end is what we need to do with the head offices of these banks - to say this information needs to get down to branch level, needs to get down to the counter staff level.

LEWIS: And even if people do get a basic bank account, one of the problems is that with, for example, big banks like HSBC and Santander, Nationwide Building Society, they don't offer a debit card to these people. Now nowadays what's the point of a bank account that doesn't offer that basic functionality of a plastic card?

McCARTHY-FRY: We have 17 banks that do offer basic bank accounts and, as your reports have said, they do vary. And this is one of these things where it's important that we enable people to be able to make informed decisions, so when we're encouraging people to take up basic bank accounts, we make sure the information is out there for them to know which are the best ones for them to apply for and which are the best institutions for them to go to.

LEWIS: So choose one that *does* offer a debit card?

McCARTHY-FRY: Choose one that does offer a debit card.

LEWIS: Now you're keen to get new competition into banking: RBS and Lloyds are having to sell off branches; Metro bank's opening in London; Virgin Money and a couple of others, Walton Home and Savings Bank waiting to start. Will the government insist they offer basic bank accounts and will they insist they offer debit cards with them?

McCARTHY-FRY: We don't *insist* that any banking institution offers a basic bank account. We find the best way is to work with the industry and to talk to the banks and explain to them their obligations.

LEWIS: But why isn't the obligation to offer a basic bank account then because that's unfair competition if some do and some don't, isn't it?

McCARTHY-FRY: Well if you think about it ... I was talking to one of the major banks today and they see it as a competition issue. They don't just see it as an issue of their corporate social responsibility to offer a basic bank account. They say many of their customers who open basic bank accounts then go on and migrate to their other products and they actually see it as a long-term investment.

LEWIS: Let's hope the new ones do. Sarah McCarthy-Fry, thanks. And you can also have your say on basic bank accounts on our website: bbc.co.uk/moneybox.

Annuities - the income for life you buy with your pension fund - have been falling. That means that the same amount saved up for your pension over your life, you'll get a lower income throughout your retirement. Well with me is Aston Goodey, who's Director of Sales and Marketing at retirement income specialist MGM Advantage. And Aston Goodey, you've done this research, you've looked at annuity rates. How much *are* they falling?

GOODEY: Hi Paul. Yeah, the research that we did showed ... it was looking between June and November and the average rate fell about 1.64%. But I think if you look over the longer term, since about 1990 a £100,000 fund may have brought you about £15,500 worth of income. The same rate today would buy you about £6,500, £7,000 worth of income. So the long-term trend is that they've significantly fallen.

LEWIS: So you've got to save up twice as much to get the same pension basically?

GOODEY: Absolutely.

LEWIS: Which is quite frightening. But I mean we have talked about that before on the programme because that's been a long-term trend, but you're saying they're still going down, a couple of percent almost in the last few months?

GOODEY: They are. The demand for ... Typically annuities are backed with corporate bonds, and the demand for those is going up at the moment; and what that does - that pushes the prices up, but the yield's down. So as a result, we're seeing a short-term fall in annuity rates as well.

LEWIS: So what can people do because most people, as I understand it, their retirement fund matures, they reach whatever age they want to retire. They say to the same firm okay, what will you give me, and they accept that. Is that a sensible thing to do, he asked with a smile? *(laughs)*

GOODEY: Absolutely not. That's possibly the worst thing that you can do. And I think the key education here is for people to understand that when they come to retirement, the company that they've saved with for all these years at the end of maturity will offer you an income. Now you don't have to take that income with that provider. That provider may well have been the best provider to accumulate wealth with, but actually when it comes to providing the annuity, they may not be competitive. So there is an option called the open market option - sometimes referred to as the OMO - where they have the right to shop around and they must do that to get the best rate.

LEWIS: Yes and not always made as clear as it should be. I should say just one caveat there before asking the next question; that if you've got a guaranteed annuity rate because it's a very old pension, you probably should stick with that provider because you're getting 10 and 11% rather than 6 or 7. But just moving on though, if you don't stay with that provider, how do you find the best one? I mean is there something about your personal circumstances that can boost the pension rather than just looking for the top of the best buy table?

GOODEY: Again once we've understood that, you know, you have the right to shop

around, then the key thing to look at is your health. So it's interesting that when you accumulate wealth and throughout your life you tend to be penalised or your rates go up or your premiums go up, you know, the more unhealthy you are, actually at retirement it's completely the opposite. You should tell everyone everything about your health conditions because the greater that you are impaired, the greater the income you will get in retirement.

LEWIS: And what is an impairment? I mean does it have to be something like heart disease or can it be something simpler than that?

GOODEY: It can be anything from, you know, just smoking 20 a day. Again I think the world's moved on and traditionally you have to be severely impaired. I think nowadays you can have light impairments, which is the smoker's rate, you could be overweight. It doesn't have to be what might be considered a traditional impairment.

LEWIS: And that will give you a higher annuity for life. And just very briefly, literally in a few seconds Aston, where are annuity rates going - up or down?

GOODEY: I think over the long-term potentially it could be going down rather than up.

LEWIS: So buy now rather than wait?

GOODEY: Yeah.

LEWIS: Aston Goodey from MGM, thank you very much indeed.

Now if you bought a with-profits bond in the year 2000, moment of millennium madness, be careful when you cash it in. There's just one day this year when you won't face a penalty and 364 when you could face losing up to 20% of your investment. And obviously on a bond worth £10,000, that could cost you £2,000. Now you won't face this penalty if you cash it in on the exact date of the 10th anniversary

of the policy usually, but insurance companies are under no obligation to remind you of that anniversary. Live now to Michelle Cracknell who's Strategy Director of Skandia Financial Services. Michelle, if you bought a with-profits bond 10 years ago, time to check your paperwork, isn't it?

CRACKNELL: Oh absolutely. It's a great time at the beginning of the year to have a look to see when the 10th anniversary comes up. As you rightly say, Paul, they're not obliged to tell you that the 10th anniversary is coming up and you could be stuck in an investment that looks very different today to what it was when you bought it.

LEWIS: Yes because I mean these are not the most popular investments now, though they were a few years ago, I have to say. And how do you know if there's a 10 year anniversary special deal on it?

CRACKNELL: It will say in the terms and conditions of your original policy document. And of course if you can't wade through all of the small print, pick up the phone and speak to them. And the real key message is to do that sooner rather than later because quite often it can take 2 or 3 weeks for the insurance company to reply to any of your requests, so now is the time to get the paperwork out. If you can't find the details in your policy document, phone up the insurance company and find out whether you do have this opportunity.

LEWIS: So the opportunity is that there's a particular day when you can cash it in at the full value rather than suffering a reduction because these bonds have been reduced by this weird thing called market value reduction because of the poor performance of shares? So the other days you get that reduction. On this particular day, you don't. Is that what's going on?

CRACKNELL: Well it varies from company to company. Some of the companies have spot guarantees, which is just as you say on one day, on the 10th anniversary, the market value reduction factor won't apply. Other companies have slightly better terms and after the 10th anniversary the market value reduction doesn't apply. So it varies from company to company. It's not, you know, one rule for everything. So the point is

to check your policy document.

LEWIS: Always check carefully. Now when we talk to providers, I mean as I said in my introduction they don't actually have an obligation to warn you that this date's coming up, but some of them did say they would. And Aviva, for example, said that they could retain the benefit even *after* the 10th birth date.

CRACKNELL: That's absolutely right. Some insurance companies are telling their policyholders that they have this opportunity. But nevertheless it's still the case and there's a really clear message not just to hold onto this investment hoping that it's going to pay out what you want because the investments underlying with-profits bonds have changed dramatically in the last 10 years. 10 years ago these bonds had about 70% of their funds invested in equities. Today only 30% invested in equities. So it's changed markedly and it may not be right for you any longer. So regardless of whether you know you can carry on holding your investment with the insurance company, you should still check to see whether it's appropriate.

LEWIS: Michelle Cracknell from Skandia, thanks very much. And, Ruth, it's February 1st on Monday and that's Bonfire Day?

ALEXANDER: Yes, February 1st is the day you can destroy financial records - either on a bonfire or preferably in a secure shredder. Most people can safely destroy records relating to the 2007 to 8 tax year, but the self-employed or landlords have to keep them longer. On Monday, they can destroy records for the 2003 to 4 tax year. However, it's worth mentioning that if the Revenue has an open inquiry on your tax, then you have to keep all your records until that's over.

LEWIS: Thanks very much for that, Ruth. And that is over for us today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox. All sorts of exciting things to do there - watching videos, signing up for the newsletter, downloading a podcast, listening again, and, of course, having your say on tax codes and basic bank accounts. And, my goodness, there seem to be an awful lot of tax code problems - wrong amounts, wrong numbers, too many.

Vincent Duggleby's back here with Money Box Live this week taking questions on investing in shares. I'm back with Money Box next weekend. I have to say one email listener says he got straight through on the PAYE number. Today the reporter was Ruth Alexander, the producer Charmaine Cozier. I'm Paul Lewis.