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MONEY BOX

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LEWIS: Hello and welcome to the first of the new season of Money Box. Today we'll look at the extraordinary ups and downs of share prices directly affecting up to 16 million people with a pension, investments, or a Child Trust Fund. And we'll be looking at the new payments being made to 700,000 7 year olds that started this week, and hearing from some 6 year olds about their money. Let's also welcome Ruth Alexander to Money Box. Ruth, what have you been discovering?

ALEXANDER: Well I've been looking at the fallout from Keydata Investment Services and talking to some of the savers whose assets have disappeared.

WENDY: My husband worked hard for this money and wanted to make sure that I was secure, and this has just been all taken away.

LEWIS: And the boss of HM Revenue & Customs tells us there's no hiding place for offshore tax dodgers. But, as I said, we start with share prices, which have been rising for the best part of 6 months - up 18% over the summer and nearly 40% up on their low point in March. Good news for the millions with a stake in shares. With house prices edging up too, mortgage deals growing, and the car market given a boost by the scrappage scheme, there are those who are optimistic. Others see unemployment and government debt rising, and market watchers are generally split over whether this is just a pause before the recession gets worse and share prices and house prices take another tumble. Well with me is Barry Norris. He's a partner at Argonaut Capital, has a billion pounds under management. Barry, I've heard this called a 'ski jump': prices tumble; they go up for a moment, as they are; and then they plunge down again to the icy slopes. Where do you see shares going?

NORRIS: Well I think we've certainly seen the bottom of the market in March, and since March we've obviously had a very powerful rally which has been predicated on the economic circumstances just getting less bad. However, most major economies are set to emerge from recession in the third quarter of this year, and by the fourth quarter will be growing above trend at sort of 5% plus rates.

LEWIS: Though the Office for Economic Cooperation and Development says that's true, the global economy may recover, but the UK will not be one of those frontrunners.

NORRIS: Well I don't think perhaps the UK will be a frontrunner, but economic surveys are suggesting a very powerful recovery toward the end of this year both in the United States and in Europe; and if the global economy is recovering to that extent, then it'll be difficult for the UK not to also participate in that.

LEWIS: Well listening to that is Michael Hughes, an independent economist who's been around the markets long enough to have seen several crises come and go. Michael Hughes, in May you told Money Box that a realistic level for this FTSE 100 Index that we all watch was about 5,000. Four months on, we're almost there, aren't we? Has it risen faster than you expected?

HUGHES: I think it has risen pretty fast because profits have been better than we could have hoped for - largely because companies have been very aggressive in cutting their costs. But to have a sustained improvement above 5,000 and to stay there for any length of time, I think you've got to have expectations of policies coming through that are going to be supportive for the economy. And my fear, looking out into 2010 and 11, is that we are going to start to see policies, the *wrong* policies perhaps, being put into play just to deal with the debts that have been built up to get the economy going.

LEWIS: So you're talking about higher taxes, more regulation maybe - things that will stifle the economy?

HUGHES: I'm afraid so. I think in my experience equity prices show more vulnerability to possible policy shifts than they do to changes in the basic economic conditions. And because we have a large amount of debt, you might hope and you might *like* to hope that governments would be looking to stimulate economic recovery in order to raise taxes and, hence, get those debts down. All the feedback we seem to be getting at the moment from both potential parties is that there are higher taxes to come and cuts in public spending. And indeed we know from experience that when you see that at local authority level, they start increasing their charges. So bit of an inflation issue as well.

LEWIS: Yes. Barry Norris, it is true, isn't it, we're going to see unemployment rising? It's rising already. It's rising in America. We heard quarter century record figures there this week. And of course we are going to see public expenditure cuts. That's all going to stifle the economy, isn't it?

NORRIS: Well unemployment is a lagging indicator. The leading indicator of unemployment is initial jobless claims in America and actually they've been falling quite significantly from a high of …

LEWIS: *(over)* So you're saying the figures aren't as bad as they might seem?

NORRIS: Correct.

LEWIS: But here, if we cut public spending - and both parties, either party who wins the election will have to do that - we're going to see more unemployment. And also we've seen £175 billion of public money pumped into the economy. That's not going to happen forever, is it?

NORRIS: Well I think there are three elements to the recovery. One is an inventory rebuild, and certainly most factories cut production and people in industry have generally run out of inventories to sell at the moment, so there's going to be a very powerful stimulus for the …

LEWIS: *(over)* So they'll have to restock their cupboards, if you like.

NORRIS: Exactly. The second thing is - and this is much more sustainable - is that the credit crunch is over. Credit spreads have halved since the start of this year, and that is feeding through to borrowing rates. You've seen 2% mortgages introduced in the UK. That will continue to get better. And the last thing is just pent up demand for goods. So if you want to buy a new house or a new car, you might put it off for a year, you might put it off for 2 years, but ultimately you've got to buy.

LEWIS: Michael Hughes, are you convinced by those arguments?

HUGHES: I'm pretty sure the economy will start rebounding. I don't think the UK is in as strong a position as many others, but, as I say, my concern really is that I think markets do look quite a long way out into the future and they need to be confident that the right policies are going to be put in place in 2010. And those policies I think are those that support economic growth and my fear is that we're actually going to find that the politicians are wanting to rein in and to regulate more, and I think there'll be some disappointment reflected in the markets as we go into 2010.

LEWIS: Economist Michael Hughes and Barry Norris of Argonaut Capital, thanks. And if you have questions on saving and investing, that's the topic for Money Box Live with Vincent Duggleby on Wednesday here on Radio Four at 3.

7th birthdays will never be quite the same again. Forget the balloons and the pirate party. Children turning 7 years old from 1st September get £250 from the government to top up their Child Trust Fund. About 700,000 children a year will receive the payment. A third of them will get £500 if their parents have a low income. The scheme was introduced to encourage children to save and give them some cash when they reached 18, and to back up lessons at school about money and investment. We spoke to three West London children - Leo, Emily and Alfie - who are just about to turn 7.

LEO: We’ve put £4,300 in. But it’s only worth £4,000 now, so we’ve lost £300 because the stock market is down.

EMILY: It’s gone up to £323, so I’ve made about £50. But the interest rate is now only 1.1%.

ALFIE: I had £380 in my fund. But according to my last statement, it’s now only £290. How do I get more money up?

LEWIS: A question we’d all like to know from three rather well briefed 6 year olds, including our editor’s son. Well with me is Dennis Hall, the Managing Director at Yellowtail Financial Planning. Dennis, probably rather younger than most of your customers, but they had the points, didn’t they? Two boys on the stock market, their money’s gone down; a girl who had a cash Child Trust Fund, Emily - she’s done rather better. How have they compared - the majority who’ve put money in the stock market and the minority, like Emily’s parents, who put it in cash?

HALL: Well I think if we’d been looking at these numbers 2 years ago, it’d have been a completely different picture. Clearly what is happening to them is what’s happening to the wider economy. And, yes, Emily has done better by holding in cash and a lot of people, a record number of people are now using their vouchers to go into cash Child Trust Funds. That may be a long-term mistake.

LEWIS: Yes and they may have done it of course just at the wrong time because over the last 6 months, as we heard, shares have gone up 40%. And what about charges? Because one reason for the poor performance of these stakeholder Child Trust Funds has been the charges. 1.5% a year off children’s money. You can get funds like that outside Child Trust business much cheaper - .3% or something like that.

HALL: Well you can. And if you want to buy a tracker fund, you can get …

LEWIS: *(over)* That's one that just tracks the stock market up or down?

HALL: It is. And if you're not going to be taking a lot of sort of interest in what's happening to the stock market but you feel that's a good long-term investment, that's what you do. The government said that a stakeholder contract would have a maximum charge of 1.5%. This word 'maximum' seems to be de facto for a lot of fund managers.

LEWIS: Yes, it's obviously easy people to take money off, one is tempted to say. Isn't the key thing though, apart from whether you put it in shares or whether you put it in cash, to get all the relatives to join in because they can put in up to £1200 a year, can't they? And if you get granny and granddad and uncles and aunts and friends down the road to put money into it, that's going to mean a lot more than whether you put it in cash or shares.

HALL: I think it is. And you want to be able to instil in these young people some kind of savings regime that is going to help them in the long-term. And getting uncles, aunties, grannies and friends to chip in a bit will make a big difference; will probably do what the government intended to happen with Child Trust Funds, which is to create a fund that they could use for future education.

LEWIS: Well that's the intention, though of course they can spend it on what they like and a lot of parents are worried about that, aren't they? What can they do to try and protect that money at 18?

HALL: There's very little they can do about Child Trust Funds. The child can actually take control from age 16 of the Child Trust Fund, and then it's theirs at age 18. A lot of parents who are saving are doing things that run alongside where they can have a little bit more control.

LEWIS: And maybe not tell the child the money's there till they're 21 or 25. Dennis Hall, thanks very much from Yellowtail Financial Planning. You can have your say on Child Trust Funds. Tell us what you think through our website: bbc.co.uk/moneybox.

£100 million missing, the ISA's that never were, and thousands of angry investors. This is the story of Keydata Investment Services. The company collapsed in June, and the more its financial mess is investigated, the worse it looks. Ruth Alexander's been looking into it.

ALEXANDER: Yes, this is a story that twists and turns, but at the beginning things seemed relatively simple. The Financial Services Authority, or the FSA, discovered that Keydata was advertising products as ISA's - that is tax free savings products - when actually they weren't, and this meant Keydata faced a huge tax bill and so the administrators were called in. So what was going on and was investors' money safe? You might remember these reassuring words from the administrator Dan Schwarzmann of PricewaterhouseCoopers who came on Money Box at the time.

SCHWARZMANN: Our focus right at the beginning of the administration was to check whether investors' funds were secure, and I'm pleased to say that from everything I've seen I am confident that the investors' funds *are* fully secure.

LEWIS: Yes, I do remember that, Ruth. And he was confident Keydata would be sold, but three weeks later he was back again, wasn't he, with another story?

ALEXANDER: He was, yes. In examining the company's accounts, Dan Schwarzmann and his team had stumbled upon a nasty surprise: more than £100 million of people's money had vanished.

LEWIS: And that was when the Serious Fraud Office came in.

ALEXANDER: Yes and investigations are still ongoing. What we know is this.

Keydata invested people's money in a number of products, most of which are fine. But some of the products were *not* fine, specifically life bonds issued by a company based in Luxembourg called SLS Capital. Now it turns out the life policies underlying those bonds are nowhere to be found. Now Keydata had about a quarter of a million invested in total and this problem affects only about 5,500 of them who'd invested in these products since 2005.

LEWIS: And for quite a while their investments seemed fine, didn't they?

ALEXANDER: Yes. So, for example, people who had the now ironically named Secure Income Bond, they were getting quarterly or annual payments and they were expecting to get their capital back after 5 years too. But last year SLS Capital stopped making payments to Keydata and Keydata continued to cover investors' income payments from its own funds, telling no-one about the problem.

LEWIS: So their money's gone. Does that mean they'll be compensated?

ALEXANDER: Well we *still* don't know. The Financial Services Compensation Scheme has to declare Keydata in default before people can make a claim, and a spokesperson told me it's still too early to say whether that's the case. But any compensation would be no more than £48,000 and I've spoken to one woman - Wendy who's from Bedfordshire - who had considerably more than £100,000 invested in one of the affected Secure Income Bonds.

WENDY: Four years ago I lost my mother. Also I lost my husband four months later. And this money, this large sum was left for my security. My husband worked hard for this money. He worked for 30 years of his life in two reputable companies and wanted to make sure that I was secure, and this has just been all taken away.

ALEXANDER: Wendy and other investors I've spoken to want their money back and they're looking for someone to sue. And that's something I've been talking to the administrator Dan Schwarzmann about. I asked him whether he would take legal action against anyone on behalf of the creditors?

SCHWARZMANN: We will certainly look at it, Ruth. Everything we do, we look at from a commercial perspective - so we won't throw good money after bad, so we will look at the cost benefit of pursuing litigation. This is an extremely, extremely complex situation and it's something that we're going to have to consider very carefully, and we will discuss this in a lot of detail with the Creditors Committee so as a group we're satisfied with the course of action that we as administrators are proposing.

ALEXANDER: How uncooperative have Keydata's directors been with this investigation?

SCHWARZMANN: I've been disappointed. I've been disappointed that we've not had the assistance that I would have liked to have discovered these issues.

ALEXANDER: Dan Schwarzmann there talked about how legal action could be too costly. Well to give you a bit of an idea about the complications of pursuing SLS Capital, for example, it's based in Luxembourg but not regulated there; its shareholders are Malaysian; and the Director, David Elias, has since died. Now, interestingly, he had a very colourful past. At the time of his death, there was a warrant out for his arrest for a failed court appearance about other business matters.

LEWIS: So it doesn't sound too good, Ruth, for the people who invested in these particular Secure Income Bonds. But what about the ISA's that never were, back to the beginning of your story really? Their money isn't missing, but they still face uncertainty.

ALEXANDER: Yes, about 30,000 people have been affected by this. The million dollar question is are they going to be faced with huge backdated tax bills? It's been almost 3 months now and yet Her Majesty's Revenue & Customs still won't say either way. And this brings us onto a point made emphatically by Keydata investors I've spoken to: where were the regulators in all of this? Investor Pete McGowan has started up a website called Keydata Victims and sits on the Creditors Committee.

McGOWAN: What does FSA authorised and regulated mean today? What comfort can the public take from it because from where I'm sitting, it's not clear?

ALEXANDER: The FSA says it carries out targeted projects and sector wide reviews of firms and it's now checking other businesses which are similar to Keydata.

LEWIS: Is there any *good* news here?

ALEXANDER: There's a little. Those who have money in Keydata products not affected by the missing funds - and that is the vast majority - they'll soon start to receive their regular income payments again.

LEWIS: Thanks, Ruth. And we'll be keeping our eyes on that story. But now for a short Money Box quiz. What's the financial theme among these tunes?

MUSIC/THREE NATIONAL ANTHEMS

LEWIS: Well the national anthems there of Panama, Liberia and Monaco. I should be standing up really. A musical trip to just 3 of the 26 nations still identified as tax havens. This week, HM Revenue & Customs has opened a second window for people with money abroad to come clean about it. They'll still have to pay the tax they've evaded, with a penalty and interest; but if they don't come forward, the Revenue warns it now has the power to get names and addresses from more than 300 banks which arrange offshore facilities. And if *it* finds *you*, the penalty will be higher and you could be prosecuted and publicly named. In a separate deal with Lichtenstein, customers get longer to pay and less backdating. I spoke to the Revenue's most senior civil servant, the Permanent Secretary for Tax Dave Hartnett. He explained the details.

HARTNETT: What we're saying to people with money offshore generally is this is the second and last opportunity to come forward, make a clean breast of things, pay the tax, the interest and a 10% penalty, or 20% penalty if we wrote to them in the

2007 proposal. What we’re saying to people who’ve invested in Lichtenstein is that they too should come forward and pay their tax, interest and a 10% penalty in the same way.

LEWIS: The two deals are a bit different though, aren’t they? The Lichtenstein deal only goes back 10 years and they’ve got an extra 5 years to disclose.

HARTNETT: We will only collect money for 10 years for people who come forward in relation to Lichtenstein, and the reason for that is that we have less levers there. There are no Lichtenstein banks operating in London from whom we can obtain data in the way we can obtain data for others, so we needed a different approach.

LEWIS: Isn’t it also possible for people who do have plenty of money and want to hide it from you, even though they live in the UK, to go to one of these other tax havens that’s not involved in Europe, that’s not under American influence, that’s not Lichtenstein, hide their money there and you’ve got no way of finding out about it, have you?

HARTNETT: Well the number of tax havens like that is becoming very small indeed, and I actually can’t think of a tax haven that isn’t under some influence or pressure from a nation that’s looking for an end to tax secrecy.

LEWIS: I’m sure a lot of people listening who are on very modest incomes, who pay their tax on their wages or their savings all done automatically, will say to you why have an amnesty at all? Why not just punish these people? They’ve broken the law, they’ve evaded tax, billions of pounds unpaid we’re told. Why not just demand the tax and the penalties in full?

HARTNETT: It’s for all those honest citizens that we’re trying to find out who the people are who’ve hidden money offshore, so that government services can be funded and provided. Having a disclosure arrangement of the sort we’ve got is a very effective way of collecting the money and enabling us to then apply our skilled investigative resource to the people who are still not prepared to come forward. We want to collect as much as we can.

LEWIS: You have the power to publish a list of names of those who have broken the law and evaded tax. Will you be doing that?

HARTNETT: Yes, that comes in from April 2010 and the first list will be published in 2011.

LEWIS: And, finally, what about the people who may have opened an offshore account with a modest amount of money and genuinely thought they didn't have to pay tax on that money?

HARTNETT: There will certainly be people like that. The new approach to penalties in HMRC is that for truly genuine mistakes, we don't levy penalties.

LEWIS: Permanent Tax Secretary, Dave Hartnett. Well listening to that in Birmingham is former tax inspector Jeff Millington, who's now Senior Tax Manager at BGT Tax. Jeff, Dave Hartnett with fairly tough warnings for criminals there, but offers open to pleas of ignorance. Is the Revenue being fair to everyone here?

MILLINGTON: I think the Revenue's being fair to everybody, but there's a bit more fairness going around if you're in Lichtenstein than if you're based elsewhere.

LEWIS: Because you get a better deal there, don't you?

MILLINGTON: You get a considerably better deal, and it came as a surprise to most tax advisers that they had agreed the Lichtenstein agreement.

LEWIS: Yes, I mean I did ask Dave Hartnett about that. We didn't broadcast it, but he did say that they really had less power over that deal and that was a deal they had to get from Lichtenstein, so they were slightly more generous.

MILLINGTON: Yes, I think they made a commercial decision, which is from the Revenue's point of view a good decision. But there are some anomalies within the agreement that we at BGT Tax think would lead people to be able to still take part in the Lichtenstein disclosure facility.

LEWIS: Yes. So people who have money in another tax haven can open a Lichtenstein account and all of it goes into Lichtenstein. It's a kind of trick, isn't it? I mean it's a bit disappointing in some ways that tax advisers are already looking for loopholes in something designed to block loopholes up?

MILLINGTON: It's a good point, but I think that the loopholes, whether they're loopholes or whether they're actually being written that way … Because if you look at the Lichtenstein summary, Lichtenstein actually believe that people can open newly established Lichtenstein assets and take part.

LEWIS: Yes, so they're actually going to get more business out of it. Dave Hartnett says there's nowhere to hide now, no tax haven is really safe. Is he right about that?

MILLINGTON: I think there are better tax havens let's say than others for people wishing to squirrel away …

LEWIS: *(over)* I bet you're drawing up a list already?

MILLINGTON: *(laughs)* There are a few that come to mind. But I think most of these will be put under considerable political pressure as time moves forward, certainly with the G20. It does seem to be the flavour of the month at the moment.

LEWIS: Yes. And very briefly billions, they say, could be saved. In reality, what do you think they'll say?

MILLINGTON: Well on the last ODF, offshore disclosure facility, they looked for about a billion and got £400 million back.

LEWIS: A bit less than they're saying, perhaps. Jeff Millington …

MILLINGTON: A bit less than they're saying, yes.

LEWIS: Jeff Millington of BGT Tax Partners, thanks. And Ruth's back with some other news. Ruth?

ALEXANDER: Yes, the Office of Fair Trading is investigating the fees pensioners have to pay if they sell or rent out their purpose built retirement houses or flats. The specialist firms which build these properties can charge pensioners exit fees and the OFT is worried that contracts don't always make this clear and that the practice is unfair.

LEWIS: And what's it doing?

ALEXANDER: Well it's issued formal written notices this week to 26 retirement property developers and they've got 2 weeks to respond to its concerns.

LEWIS: Ruth, thanks very much. That's it for today. You can find out more from the BBC Action Line - 0800 044 044. Our website, as ever, bbc.co.uk/moneybox. All sorts of exciting things there: watch videos, sign up to newsletters, and of course have your say on Child Trust Funds. Vincent Duggleby's here, as I said, on Wednesday with Money Box Live this week, taking your questions on saving and investing. I'm back with Money Box next weekend. Today the reporter was Ruth Alexander, the producer Caroline Bayley, and I'm Paul Lewis.