

The complaint

Mr M complains that ReAssure Limited incorrectly deducted tax from his pension payment in tax-year 2021/22 which meant he had to reclaim the tax paid from HMRC.

What happened

Mr M retired in 2018 and his personal pension plan (PPP) is administered by ReAssure. His only income, other than the state pension, is the withdrawals he makes from his PPP. He has told our service that he varies the amount of income he takes from his PPP to reflect the tax-free allowance he has remaining in that tax year. The withdrawals made were as follows:

Date	Tax year	Withdrawal	Tax code applied	Tax deducted
2018	2018/2019	£25,000	1185L	£9604.25
2019	2019/2020	£4,000	0334M	£688.20
2020	2020/2021	£3,000	0302M	Nil
2021	2021/2022	£2,900	0310M	£476.20

When Mr M received the 2021 payment from ReAssure he found tax had been deducted, so he complained. He said he'd calculated how much he could withdraw from his PPP in each tax year so that it would be under his personal tax threshold, so he shouldn't have had tax deducted. He said ReAssure should make a further payment to him to cover the deduction as his health problems made applying to HMRC difficult.

ReAssure sent a final response letter in July 2021, but this letter didn't offer a resolution or explanation of why tax had been deducted.

Unhappy with this response Mr M complained to our service that ReAssure had incorrectly deducted tax from his pension payment.

ReAssure then wrote to Mr M again and explained it had been given the tax code 0310M to apply to all payments made from his PPP in tax-year 2021/22. After applying this code it had calculated a deduction of £476.20 should apply. It then went on to explain to Mr M that he could ask HMRC to refund any over-paid tax that he thinks is due.

Mr M successfully reclaimed the £476.20 tax deduction from HMRC, but maintained that ReAssure had deducted this in error, and as he relies on this income the delay caused by him having to claim it back from HMRC had caused him financial difficulties.

Our investigator asked ReAssure for an explanation as to why a tax deduction was made from Mr M's withdrawal in 2021/22 when the previous year's payment had been made tax-free. But ReAssure didn't respond, so our investigator had to form her opinion based on the

information she had already been given.

She thought it likely that ReAssure had been mistaken when it made the tax deduction. She thought this because the 2020 payment, which was for a similar amount and with a similar tax code, had been made without any deduction for tax. She also noted that HMRC had refunded the tax deduction that ReAssure had applied to the 2021 payment. All this led her to think it hadn't needed to be deducted in the first place.

Although she noted that Mr M had not suffered any financial loss as he'd recovered the overpaid tax, she did think that he was due some compensation for the distress and inconvenience he'd been caused. She thought ReAssure should pay him £300 to reflect this.

ReAssure responded to say it didn't agree. It said it had correctly applied the tax code given to it by HMRC, and if Mr M had concerns about the tax code applied, he should address these concerns with HMRC. But it didn't explain why it had applied a similar tax code differently in the previous tax year.

As no agreement could be reached the complaint has been passed to me for a decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

The crux of this complaint is whether ReAssure, when applying the tax code it had received from HMRC, was correct in deducting tax from the payment it made to Mr M in the tax year 2021/22. Mr M says the payment of £2,900 was below the tax-free allowance provided by his tax code 0310M, so should have been made free of tax. But ReAssure have said the code was appropriately applied and the correct amount of tax was deducted.

Tax codes are provided to pension providers by HMRC to allow the correct amount of tax to be deducted at source from the income an individual takes from their pension. And I can see from the information we have been given, that the tax code provided by HMRC to ReAssure to be applied to Mr M's income changed each year. This is to be expected and takes into account any other income he has or over/under payments of tax he made in previous years.

Having examined the withdrawals made by Mr M since retirement, and the related tax codes and deductions, I can see the withdrawals in 2018/19 and 2019/20 were above Mr M's tax-free thresholds of £11,850 and £3,340 respectively. This meant that ReAssure were most likely correct in deducting the tax at source. And the amount of tax deducted in these years, although seemingly quite large, has not been disputed as part of this complaint.

It is unfortunate that ReAssure, despite being asked, hasn't explained to our service why a similar tax code was applied differently to the withdrawal Mr M made in the tax year 2020/21, when compared to the withdrawal in 2021/22, as these different approaches have caused this complaint. But given the lack of explanation from ReAssure I can only base my decision on the information I've been given.

I can see Mr M made a withdrawal of £3,000 from his PPP in the tax year 2020/21. A tax code of 0302M was applied and no tax was deducted from the payment. This appears to be correct, as the tax code 0302M allows an income in that tax year of £3020 to be taken tax free. But when Mr M withdrew £2,900 in the tax year 2021/22 a tax code 0310M was applied. This should mean that Mr M could receive up to £3100 in that tax year without any deduction of tax. So I can't see any reason for ReAssure to deduct £476.20 in tax at source. And given HMRC refunded this amount to Mr M I'm satisfied that, on balance, ReAssure was

mistaken when it deducted the tax at source, and should've made the payment of £2,900 gross.

Putting things right

I agree that Mr M was inconvenienced when he had to apply to HMRC to have the over-payment of tax refunded. And I can see that this was of particular importance as he relies on the payment from his PPP to top up his state pension income for the year. And I can see from the emails and messages he sent to ReAssure he was frustrated. I can also see he had explained to ReAssure the health difficulties he was contending with, and how these made it difficult to apply to HMRC for the refund. So I agree with the investigator that a payment should be made for the distress and inconvenience ReAssure have caused him. And given the circumstances I'm satisfied that £300 is fair and reasonable.

My final decision

I uphold this complaint. I require ReAssure Limited to pay Mr M £300 for the distress and inconvenience it has caused him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 15 December 2022.

Chris Riggs
Ombudsman