

The complaint

Mr H complains that A J Bell Management Limited (“AJ Bell”) haven’t been able to claim the HMRC bonus due on contributions he made to his lifetime ISA (“LISA”).

What happened

Mr H has had a LISA with a provider that I’ll call “X” since April 2017. In late 2018 he asked AJ Bell to transfer the LISA to them. But although AJ Bell received the LISA funds from X, the old LISA didn’t get closed down. Instead, AJ Bell created a new, second LISA.

That meant Mr H had two active LISAs at the start of the 2019/ 2020 tax year. While people are allowed to have two LISAs, they only receive a HMRC bonus from contributions to one of them in any given tax year.

With that said, it appears Mr H successfully received bonuses for the contributions he’d made to both his LISA with X and his LISA with AJ Bell in the 2018/ 2019 tax year. It appears that X and AJ Bell regard that as a mistake on HMRC’s part. The contributions to the AJ Bell LISA shouldn’t have been eligible for a bonus at that point, because they were being made to a new LISA, rather than one that had been properly transferred from X.

After setting up the LISA with AJ Bell, Mr H made a further contribution to the LISA with X, in the summer of 2019.

I’ve asked Mr H why he did that. He’s said he thought he was paying into a new LISA with X, not the one he’d already transferred to AJ Bell. He says he intended to make the contribution to X at that point, even though he also had the LISA with AJ Bell.

Mr H received the HMRC bonus for his contribution to the LISA with X. That then “locked” his LISA with AJ Bell, such that any contribution made to it in the same tax year wouldn’t receive the HMRC bonus.

That’s possibly compounded the earlier mistake and made it difficult to reverse what happened in late 2018/ early 2019. Unpicking mistakes in the late 2018 transfer may need the payments made in the 2019/ 2020 tax year to be reworked.

In late 2019, Mr H again asked AJ Bell to transfer his LISA over from X. They did that, but there was a further error – X told HMRC their LISA was closed, rather than leaving it for AJ Bell to report as transferred. That meant that HMRC later rejected AJ Bell’s attempts to register the transfer of the LISA to them. It seems that as far as HMRC were concerned, the LISA with X had been closed before the late 2019 transfer took place.

Mr H then contributed to the AJ Bell LISA on 30 January 2020. But because the transfer hadn’t been registered with HMRC the LISA still had the “locked” status. So Mr H didn’t receive the HMRC bonus.

On 4 February 2020, AJ Bell told Mr H the transfer was complete, and he’d shortly receive his HMRC bonuses. That wasn’t the case.

When the bonuses didn't arrive, Mr H complained. That led to discussions between X and AJ Bell. X said they applied to HMRC and successfully had their LISA reinstated in April 2020, to undo their error saying it had been closed. But AJ Bell say they haven't been able to resolve the problem, and need either HMRC or X to do something else to fix things. They appear to be trying to fix more than just the late 2019 transfer. Their comments speak about the first transfer in late 2018, which – as I've noted – had some issues too.

AJ Bell say they made a £50 "*ex gratia*" payment to Mr H, but with no bonus in sight he decided to come to us. I've made two provisional decisions for this case. My most recent one explained that the issue with the bonus seemed to be caused by Mr H making a payment to his AJ Bell LISA while it still had the "*locked*" status. And I explained how that could have been avoided if AJ Bell had been clearer about what was happening with his transfer.

That led me to say AJ Bell should compensate Mr H for the lost HMRC bonus, and for the confusion and inconvenience caused by this issue. Mr H accepted that decision, but AJ Bell didn't. They said they felt mistakes made by other people or organisations were more to blame than them. They also explained that their email in February 2020 was just to confirm funds had been received, not that the LISA transfer had been successfully reported to HMRC. And they said they had no record of contact with Mr H about his plan to contribute to his LISA in January 2020.

With these comments – and the information previously received by our investigation – I'm now able to make my final decision for this complaint.

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.

Having done so, I've decided to uphold Mr H's complaint. My reasoning remains as set out in my last provisional decision. I'll confirm the key points here, but add some explanations to show why AJ Bell's latest comments don't lead me to a different conclusion.

If someone has an "*active*" LISA and transfers it into a "*locked*" one, that will lead to the LISA that remains having a status of "*active*". That means the remaining LISA would be able to receive a bonus for any contributions made after the transfer was completed.

Mr H's problem here is that he made his LISA contribution in January 2020, before the transfer process was completed by AJ Bell. AJ Bell couldn't have completed the transfer by that point because X had wrongly reported their LISA as closed. As far as HMRC was concerned, that meant the LISA with X couldn't be transferred.

Sorting out the mistake made by X wasn't entirely AJ Bell's responsibility. The first step was for X to have their closed LISA reinstated. The documents I've seen tell me that wasn't done until April 2020. From that point on though, AJ Bell needed to start trying to have HMRC register the transfer properly.

I'm not convinced they've done that. The correspondence from the time talked about trying to claim Mr H's missing bonus – impossible without first registering the transfer. Or it talked about correcting the mistakes that arose from the first transfer in late 2018/ early 2019 – possibly much more complicated than registering the late 2019 transfer.

I've thought about whether AJ Bell should ignore the problems with the late 2018 transfer, and just get on with concluding the late 2019 one. But AJ Bell do have a duty as an ISA

manager to make sure Mr H's account has been managed correctly. Here, they can see that Mr H received two bonuses for two separate LISAs in the 2018/ 2019 tax year. That isn't as it should be. AJ Bell do need to take steps to correct that with HMRC.

But getting back to the problem with the absent bonus, as things stand Mr H's contributions in January 2020 aren't eligible for a bonus from HMRC. That's because they were made too soon – before the LISA transfer had been completed.

Mr H says he made the contributions on 30 January 2020 because AJ Bell had led him to believe the transfer was complete. But this is now a disputed point – in response to my provisional decision, AJ Bell say they have no record of contact with Mr H prior to his January 2020 LISA contribution. So I need to decide which position is – more likely than not – the correct one.

I can see that on 4 February 2020 – three working days after Mr H made his contribution – AJ Bell emailed him to say his LISA transfer was complete. AJ Bell have said this reflected the receipt of the LISA funds from X. But I think those funds were actually received much earlier. In their timeline of events – seen in an email to AJ Bell on 6 August 2020 – X said the funds were sent over on 31 December 2019.

So it seems likely to me that if Mr H had contacted AJ Bell for an update around the end of January, he'd have been given a similar message to what the February email said – the funds had been received, so the transfer was complete. That's consistent with what Mr H says he was told, so adds weight to his position, in my view.

I also note that an email AJ Bell sent on 1 November 2019 – confirming the instruction to have Mr H's LISA with X transferred to them – said Mr H could track the progress of the transfer online. Again, given the funds were sent to AJ Bell on 31 December 2019, and that the receipt of those funds prompted AJ Bell to call the transfer "*complete*", it seems likely to me that the online service would have said the transfer was complete on 30 January 2020.

I also note a lack of updates or correspondence showing AJ Bell informing Mr H there was a problem with this transfer. More generally, it seems unwise to me to have called this transfer complete before it was registered with HMRC. I can see how that would lead someone to think they could make a LISA contribution and receive a bonus, when in fact the LISA still had the "*locked*" status.

On balance, I find it more likely than not that the information Mr H had from AJ Bell by 30 January 2020 did lead him to believe his transfer – requested nearly three months earlier – had been completed. He certainly had nothing from AJ Bell that told him a contribution at that point wouldn't qualify for the bonus he was expecting.

That's where AJ Bell's service has been unreasonable in this case. As part of the work to transfer Mr H's LISA over from X, they should have been keeping Mr H accurately informed about what was happening. They shouldn't have said the transfer was complete just because the LISA funds had been received and added to Mr H's LISA with AJ Bell. There's another step to the process – registering the transfer with HMRC so that the remaining LISA has the right status.

That last step had a problem. And I agree, AJ Bell didn't directly cause that problem. But they should have noticed it. And they should have told Mr H about it. And they should – certainly by now – have figured out how to fix it. Thinking about the impact those failings had on Mr H leads me to say AJ Bell should act now to put things right.

Putting things right

My starting point has been to think about how things would be different if AJ Bell had provided Mr H with a more reasonable level of service in this case.

If AJ Bell had been clearer with Mr H that contributing to his LISA in January 2020 wouldn't lead to a HMRC bonus being paid, I can see he could have acted differently and so gained the bonus. He could have tried to reverse the transfer, make the contribution to the LISA with X, and then redo the transfer. Or he could have waited until the following tax year, when the AJ Bell LISA would again have become "*active*", and eligible to receive a bonus.

In either case, his £3,000 contribution would have qualified for a £750 bonus. He could then have invested that bonus in his LISA, and received whatever gains on it his overall LISA achieved. So that's how much of a loss he's suffered as a result of the unreasonable service from AJ Bell in this case.

To put that right, AJ Bell should ensure Mr H's LISA has the benefit of that £750, plus the growth that amount would have achieved within the LISA since early 2020.

The exact date Mr H would have been able to gain the bonus isn't clear, as I can't say exactly how he'd have got it. But I'm inclined to pick 6 April 2020 – the start of the financial year – as even if the transfer couldn't have been sorted out by then, Mr H's LISA would have automatically reset to "*active*" status at that point.

AJ Bell may be able to make use of the HMRC bonus to achieve this result. For example a payment of £600 into Mr H's LISA will gain a bonus of £150, so giving Mr H £750 overall. I find that's fair to him and to AJ Bell, so I'd be happy with that approach being taken.

It could also be the case that AJ Bell are eventually able to fix all the problems that began with the transfer in late 2018. That may lead to Mr H's LISA naturally benefiting from the bonus he's currently missing. But I feel AJ Bell have had enough time to try and get that to work, so that possibility shouldn't delay their paying Mr H the remedy I'm directing. But that remedy should go ahead with the understanding that if Mr H later receives the money he's being compensated for here, he should undertake to reimburse AJ Bell what has been paid as remedy for the loss of that amount.

On top of all that is the confusion and inconvenience caused for Mr H by this issue. I noted last time that AJ Bell's explanations and handling of the matter to date hadn't particularly helped to either resolve or clarify the problem. In recognition of the ongoing trouble and upset that's caused, I find AJ Bell should pay some further compensation to Mr H personally.

Last time I suggested £250 was a suitable amount for this. I'm still of the view that's right. It recognises the impact described above, and the time it's taken to sort everything out. Given AJ Bell have already made a £50 payment to Mr H along these lines, there's £200 to pay to meet this part of the remedy.

My final decision

I'm upholding Mr H's complaint about A J Bell Management Limited. To resolve this complaint, they should add to Mr H's LISA so that its value is higher by £750, plus the amount of gain that £750 would have achieved in Mr H's LISA since 6 April 2020. A J Bell Management Limited should also separately pay Mr H a total of £250 compensation for the trouble and upset caused for him by this matter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or

reject my decision before 23 August 2022.

Paul Mellor
Ombudsman