

The complaint

Mrs M complains that funds she had intended for her 2022/2023 ISA subscription allowance were instead applied to her 2023/2024 allowance by Paragon Bank Plc.

What happened

Mrs M has said that on 3 April 2023, shortly before the end of the 2022/2023 tax year, she made a deposit of £3,500 to Paragon, which she had intended to count towards her available allowance for that tax year. She says she made a further deposit of £16,500 the following day and received an email from Paragon.

The email acknowledged the deposits she had made but said she needed to renew her ISA declaration in order for Paragon to add the money to her account. It gave details on how Paragon could be contacted and said it would return her money to her if it hadn't heard from her within 45 days.

Paragon attempted to contact Mrs M on 20 April 2023. There was no answer, and so a message was left, asking for a call back.

Mrs M called Paragon on 26 April 2023. The 2023/2024 ISA declaration was read to her during the call and it was confirmed that the funds would be allocated to Mrs M's account.

Paragon called Mrs M again on 28 April 2023, again asking her to agree to the declaration. When Mrs M told the agent she had already agreed to the declaration, Paragon reconfirmed the funds would be allocated to her account.

But on 15 May 2023, unable to see that her funds had been credited, Mrs M called Paragon again. During the call the agent asked if Mrs M wanted the funds to be credited to 'this tax year', to which Mrs M confirmed she did. Mrs M called Paragon back the same day to let it know the money still hadn't landed in the account, and referenced the earlier call she'd had where she had confirmed the funds should apply to the 2023/2024 tax year. She said this was a mistake, and she had meant for the funds to apply to the allocation from the tax year that had just passed.

Paragon sent Mrs M a secure message on 17 May to say it couldn't allocate the funds to the previous tax year as the ISA declaration was agreed after the new financial year had started. Mrs M says she responded on 20 May but, having not received a reply, messaged Paragon again a few days later. Paragon said it hadn't received her earlier message so Mrs M explained her position again.

She felt that because she transferred the funds during the previous tax year, the funds should have been allocated to the allowance for that year. She also mentioned the email Paragon sent on 4 April 2023, asking her to complete her ISA declaration. Mrs M highlighted the 45 days it gave to respond and pointed out that the email didn't say the declaration had to be made in that year for the funds to be allocated.

Mrs M complained to Paragon, but her complaint wasn't upheld. Paragon said that HMRC's

ISA rules required a declaration to be completed if a customer hadn't subscribed to an ISA for a whole tax year. It said that as this applied to Mrs M, she needed to declare her eligibility. It went on to explain it was Mrs M's responsibility to ensure her ISA declaration was up to date and said it had followed HMRC's regulations.

It said the declaration was agreed to on 26 April for the tax year 2023/2024 and Mrs M confirmed on 15 May that she wanted the funds allocated to that year. Overall, it didn't think it had done anything wrong.

Mrs M wasn't satisfied with this response. She contacted Paragon again to reiterate what she believed was a lack of urgency in its email from 4 April, highlighting that the email didn't say the declaration had to be made before the end of the tax year for funds to be allocated. She also said that when she was called and asked to complete the declaration for a second time, the adviser said it hadn't been completed correctly previously. She clarified that although she agreed to the funds being allocated to the 2023/2024 tax year, this was an error which she called back to correct later the same day.

Mrs M also referenced her message from 20 May which Paragon said it hadn't received. She said that whilst she appreciated the secure nature of the messaging system, it wasn't user friendly.

Paragon wrote back to Mrs M. It explained the ISA declaration she first agreed to was completed, but required the confirmation as to which tax year Mrs M wanted to use her ISA allowance for – but Paragon had been unable to contact her. Because of this, it was unable to allocate the funds. When confirmation was supplied on 15 May, Paragon notified its finance team. Whilst it appreciated she had called back to clarify, it noted she had already given 2023/2024 as the correct period.

Paragon thanked Mrs M for her comments on its secure messaging system and said it would pass them on to its continuous improvements team. It accepted there were missed occasions where it could have clarified the tax year and allocated the funds sooner. It apologised for this. It offered Mrs M £25 for the delay in allocating funds to her account.

Mrs M didn't accept this and brought the complaint to our service. In her submission she said she didn't believe Paragon had adequately addressed the issues she'd raised. She said that Paragon admitted it could have allocated her funds sooner, so she didn't understand why it wouldn't allocate her funds to her 2022/2023 ISA allowance.

Our Investigator didn't think Paragon had done anything wrong. She said as the declaration was made during the 2023/2024 tax year, Paragon was correct to allocate the funds to that year.

She said she didn't think the delay was caused by Paragon as it had notified Mrs M before the end of the tax year of her requirement to complete the declaration.

Our Investigator thought Paragon's offer of £25 fairly made up for the impact of the delay in allocating the funds.

Mrs M didn't agree. She highlighted that the email she received didn't make it clear that the declaration needed to be completed before the end of the tax year in order to deposit funds into that year's allowance. She pointed out it gave her 45 days to submit her declaration which would have taken her beyond the end of the tax year.

She also queried why she was asked which financial year she wanted the funds allocated to if there was no choice.

Mrs M felt Paragon had made errors in relation to the funds not being allocated sooner; the first, she said, was when it failed to correctly record her declaration. The second was when it recorded her declaration but failed to allocate the funds.

Mrs M said the ISA rules have a two-stage process, the application and declaration. She said she'd made the application by transferring the funds. This, she said, had started the second stage of the process, the notification of declaration. She went on to say that according to the ISA rules, the bank had five working days to do this. Mrs M concluded by saying the application was valid from the date the ISA manager created the declaration, and nowhere did it mention the application and declaration needed to be in the same tax year.

Our Investigator responded to Mrs M. She said whilst the email didn't explicitly state the declaration needed to be completed by the end of the tax year, it did ask Mrs M to renew her declaration so the funds could be added to the account. Therefore, she said, without completing the declaration, the funds couldn't be allocated to the required tax year. The Investigator said she thought it reasonable for a customer to assume that if they required the funds to apply to the 2022/2023 tax year, the declaration would need to be completed before that tax year ended. To underline this point, the Investigator mentioned Paragon's website which said ISA declarations needed to be renewed before Paragon could accept any further payments into the current tax year's allowance.

The Investigator touched on Paragon's delay, finding that although Paragon could have allocated the funds sooner, it couldn't have allocated them within the tax year Mrs M wanted as the declaration hadn't been completed.

Finally, in relation to the rules Mrs M had cited, our Investigator said this text was guidance for ISA managers and was for those applying for an ISA rather than renewing a declaration.

No agreement could be reached, and so the case was passed to me to decide.

During my further investigation, Paragon offered to increase its offer of distress and inconvenience from £25 to £100. It also offered to backdate interest, paying 2% from 6 April 2023 to 14 May 2023, when the funds were eventually deposited into the account, equating to £42.44. Mrs M didn't accept this offer and asked our service to continue looking into things.

As the case remained unresolved, I proceeded to issue a provisional decision. It said:

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'm minded to uphold this complaint. I'll explain why.

'I'm inclined to disagree with the Investigator's opinion that it was reasonable to expect Mrs M to assume that if she required her funds to apply to the 2022/2023 tax year subscription, the declaration would need to be completed before that tax year ended. I say this because, as far as Mrs M knew, the funds had been sent to Paragon in time and the declaration email gave no indication of a deadline falling before the end of the tax year. On the contrary, it gave Mrs M the impression she had 45 days (taking her beyond the end of the tax year) to complete the declaration.

But even if I were to accept the argument that Mrs M should reasonably have known the declaration needed to be completed before subscription could be made, I think Paragon missed an opportunity to set matters right.

I say this because Paragon has told me it could have amended which subscription year the funds were allocated to at any point up to, and including, 28 April 2023. Because of this, I've thought about any opportunity Paragon had in the time leading up to this date to confirm which tax year Mrs M wanted her funds allocated to.

To help with this, I've set out a timeline for what I consider to be this complaint's key events below, mostly relating to the call recordings I've heard.

- 26 April 2023: Mrs M called Paragon. During that call the 2023/2024 declaration was read and agreed to.*
- 26 April 2023: Paragon's finance department has referenced a note it left on or around this date, following the 26 April 2024 call mentioned above, which asked for clarity on whether Mrs M was aware the funds would count towards the 2023/2024 ISA allowance.*
- 28 April 2023: Paragon called Mrs M and said she needed to complete the ISA declaration. Mrs M told the agent she had already done so. The agent seemed confused and said she'd let the finance department know the declaration had already been agreed.*
- 15 May 2023: Mrs M called Paragon. Paragon said the declaration had been agreed to on 26 April and the request had been passed to 'finance'. The call handler said a note was left to confirm whether Mrs M was happy the funds would be allocated to 'this tax year'. The call handler added that someone had tried to call her back, and this might have been the reason.*

From what I've shown above, I think it's more likely than not that the 28 April 2023 call was made due to Paragon's finance department's note. I don't see any other reason for Paragon to have called Mrs M on 28 April 2023. Had Paragon checked with Mrs M during that call – and been clear about what it was asking and why – I think Mrs M would have explained she'd intended for the funds to be allocated to the 2022/2023 tax year allowance. And, from the information Paragon has given me, it would have been able to amend the subscription year at this point.

So I'm minded to say Paragon must now do something to put Mrs M back in the position she would have been in had things gone the way they should have. As mentioned, Paragon has offered to backdate the interest Mrs M would have earned, giving her £42.44. It has also offered a total of £100 to make up for the distress and inconvenience caused. But Mrs M lost out on a year's ISA allowance, and I'm persuaded this caused her a financial loss, so I think Paragon needs to do more. I've set out what I'm minded to direct Paragon to do below.

I've also considered Mrs M's complaint point regarding contact with Paragon. From the evidence I've seen, it doesn't appear Paragon's systems received Mrs M's message on 20 May 2023 – but it's unclear why. Although I can't know where fault lies here, I can't see that Mrs M has suffered any noticeable detriment as a result. So I won't be directing Paragon to make any payment in relation to this point.

For the reasons I've explained above, I'm persuaded that Paragon has caused Mrs M to lose out on a year's ISA subscription, and Mrs M has provided evidence to support that she would have used her full allowance for both the 2022/2023 and 2023/2024 tax years.

From the account statements and testimony I've received, I think Mrs M would have been liable to pay tax on interest accrued outside of the ISA wrapper – in excess of her personal savings allowance. So I think she has been disadvantaged by missing a subscription year and being unable to deposit an additional £20,000 into a tax efficient savings account.

Paragon has said it is unable to liaise with HMRC about backdating subscriptions to a previous tax year allowance, and so I've followed our service's general approach of assessing loss in interest over a period of around five years. This approach takes into consideration the net interest earned from the account Mrs M deposited her funds into when compared to the interest she would have earned had her funds benefitted from an ISA wrapper. It also factors in what I know about Mrs M's tax status.

Prior to this provisional decision, I gave the parties a breakdown of the preliminary calculations I've made. We don't offer a forensic accountancy service and so the calculations behind my redress direction make some assumptions, particularly for tax years which haven't occurred yet.

With an aim to, as far as possible, put Mrs M back in the situation she would have been in, I'm currently minded to say that fair redress is £378.44.'

In addition, my provisional decision addressed the impact of Paragon's failing. It said:

'I also think Paragon needs to do more to compensate Mrs M for the impact of the general service she received in relation to the issues outlined above, and from the distress at losing the ISA wrapper from a proportion of her funds. So, in addition to £378.44, I plan to direct Paragon Bank Plc to pay Mrs M a total of £300 for the distress and inconvenience caused, less anything already paid in relation to this complaint.'

Both Mrs M and Paragon responded to say they accepted my provisional 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.

Having done so, I see no reason to depart from my findings above. I say this because both Mrs M and Paragon have agreed with the findings made in my provisional decision and have presented no new evidence or arguments for my consideration.

My final decision

My final decision is I direct Paragon Bank Plc to pay Mrs M £378.44 to put her back in broadly the financial position she would have been in had things gone the way they should have. It should also pay £300, less anything already paid in relation to this complaint, to make up for the distress and inconvenience it caused.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 1 November 2024.

James Akehurst
Ombudsman