

The complaint

Miss C has complained about the amount of tax she was told she would pay on a withdrawal from her Royal London personal pension. Investment Funds Direct Limited ('IFDL') are the administrators of the pension, and did the tax calculation for Miss C, so it is IFDL that is the respondent business here.

What happened

In late March 2024, a telephone call took place between Miss C and Royal London. Miss C asked what tax would be due on withdrawals of either £15,000 or £20,000 from her pension. During the call, Royal London told Miss C that approximately £500 would be payable on a withdrawal of £15,000 and £1,500 would be payable on a withdrawal of £20,000. The calculations were based on Miss C's tax code for the 2023/24 tax year. Miss C wasn't informed on the call that the amount of tax due was subject to change.

Miss C decided to proceed with a gross withdrawal of £20,000. However, the withdrawal wasn't completed until mid-April 2024, by which time her tax code had changed following the new tax year. This meant that tax in excess of £7,500 was deducted from the £20,000 withdrawal.

Miss C complained as she felt she had been given misleading information. A final response to her complaint was issued (on Royal London headed paper but containing the details of both Royal London and IFDL). The response acknowledged that when completing tax calculations, the fact that Miss C's tax code could have changed before she received the withdrawal payment hadn't been taken into account. Royal London/IFDL apologised for the error and said Miss C would be sent £150 in compensation. But they said the tax was paid in accordance with HM Revenue & Customs ('HMRC') instructions and any dispute over the amount paid should be raised with it directly.

Unhappy with the final response, Miss C referred her complaint to this service. She said she was seeking the difference between the amount of tax she was told would be due on the £20,000 withdrawal and the amount of tax she actually paid.

Our investigator asked Miss C what she would have done had she been aware the amount of tax due on the withdrawal could change. Miss C said she would likely have withdrawn less and would possibly have taken out a loan if she needed more as the interest on the loan would likely have been less than the tax she paid. She explained that the purpose of the funds was to pay off some debts, buy a holiday and a new car. She said her family ended up paying for the holiday.

Our investigator concluded that no further action was required. He thought it was most likely that Miss C would have continued with the withdrawal even if she had been aware the amount of tax could change. He noted that at the time of the March 2024 call, neither IFDL nor Royal London would have been able to tell Miss C exactly how much tax would be deducted as this was dependent on her tax code at the time of withdrawal. He also said he had seen no evidence that taking out a loan would have meant Miss C would have been better off financially.

Our investigator felt the offer of £150 was fair compensation for the failure to inform Miss C that the amount of tax could change and the disappointment she had experienced as a result of having to pay more tax than expected. He suggested Miss C contact HMRC to reclaim any overpaid tax.

Miss C didn't agree. She thought IFDL should have contacted her once it had found out additional tax would be due and asked her if she still wished to proceed.

As no agreement was reached, the case has been passed to me to decide.

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 agree with the outcome reached by our investigator.

First, it's important to note that it wouldn't be fair to ask a business to put someone in a better position than they ever could have been in – for instance, by benefiting from a tax rate that they would never have been entitled to. So I wouldn't automatically tell a business to honour what it has told someone even if what it said turned out to be incorrect or misleading. Instead, I need to assess the extent to which a business's mistake caused someone actual financial detriment.

IFDL (or Royal London) should have qualified the information it gave to Miss C by saying her tax position was dependent on her tax code which could change. In other words, it should have said it couldn't give her a definitive view of the amount of tax she would pay and that it would be for Miss C to consider her options in that light. Miss C says she would have taken different action had IFDL done this. She says she did want to withdraw funds from her pension because she wanted to pay off debts, go on holiday and buy a new car. She was also planning on giving up work. But she says she would have taken less out, and potentially taken out a loan if she needed more, had she been given better information. Her argument, therefore, is that doing this – taking less cash plus potentially taking a loan – would have left her in a better financial position overall.

To a certain extent, Miss C's argument has been clouded by what she now knows, which is that she ended up paying a higher amount of tax than IFDL had indicated. In that light, it's understandable Miss C says she would have taken action to avoid that additional tax. But that's hindsight. In reality, Miss C wouldn't have been told how much tax she would end up paying and that's the context within which her decision would have been made, *not* the context of being presented with a higher-than-expected tax bill and working back from there as to what a better option could have been.

Of course, Miss C thinks she should have been contacted once IFDL became aware there was a significant increase in the tax due on the withdrawal to determine whether she still wished to proceed. But IFDL wasn't under any obligation to do this. Miss C had instructed IFDL to make the withdrawal and this was what it was required to do.

With that in mind, it becomes less clear-cut as to what Miss C would likely have done. But for Miss C to have taken less cash from her pension, she would have needed to have been confident that she could structure her pension payments over the years to a level that meant she saved enough on tax to make that worthwhile and, potentially, compensate for the interest charges on any loan she took. All that *may* have been possible. But it's worth noting the amount of pension Miss C would have deferred taking would still have eventually attracted tax at the point she decided to make a withdrawal. Yes, she may have been able to

structure her pension payments to keep tax charges as low as possible. But there are limits to how far this can go bearing in mind any earnings, and any state pension, would contribute to taxable income in any given year.

Taking such action would have involved a significant degree of planning and foresight on Miss C's part. It would also have required her to forego some of her planned expenditure – the car, holiday and debt repayments. Failing that, it would have required her taking a loan. But, obviously, this comes with its own costs which brings me back to what I said above about the likely cost of that loan and whether it would have been financially beneficial in comparison with withdrawing cash from a pension when one considers the difficulty in avoiding tax on pension payments when in receipt of any other income.

So all things considered, I don't consider Miss C would have taken alternative action. It's possible she may have benefited financially from taking less cash – even if she took a loan – but I don't think the benefits would, over the long term, have been as great as Miss C thinks and it wouldn't have been an obvious decision for her to have made at the time in any case. In the circumstances, I consider it likely that Miss C would have taken the full £20,000 even if IFDL had told her that her tax position could change.

That's not to downplay the upset felt by Miss C. It would have been a shock to discover the amount of tax that had been taken off given what she had been told previously. For that IFDL should pay compensation. It mismanaged Miss C's expectations and the distress and inconvenience this caused should be recognised. I consider its offer of £150 to be fair and reasonable in this respect. But I won't be asking IFDL to take further action.

My final decision

For the reasons given above, my final decision is to not uphold Miss C's complaint. The award already paid to her is fair and reasonable in the circumstances.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 23 May 2025.

Christian Wood
Ombudsman