

The complaint

Mr and Mrs B received a letter from Scottish Widows Limited trading as Halifax Financial Services (HFS) relating to a chargeable event gain following a withdrawal from their Personal Investment Plan (PIP). They've complained because they say they've never received a clear explanation from HFS about this gain.

What happened

Mr and Mrs B have held a PIP with HFS since 2009.

In April 2023, Mr and Mrs B withdrew £90,000 from the PIP. They instructed HFS to do this by disinvesting moneys invested in the "Gilt and Fixed Interest Fund" with any remainder being raised equally from the remaining three funds that the PIP was invested in.

On 15 August 2023, HFS wrote to Mr and Mrs B setting out that there was an immediate "chargeable gain" of £42,397.32 as a result of the withdrawal. The letter said:

Option 1 Encashment — Immediate Chargeable Gain

On 04 April 2023 you surrender £61,864.60 by Option 1. which is cancelling sub policies close enough to £61,864.60 and then the remaining amount is spread over the remaining sub policies, the chargeable gain would be calculated as follows:

*Surrender Amount of 37 segments on 04 04.2023 (A):
Previous Withdrawals Spread (Previous Spread x 37) (B):
Original Investment (164,700 00 f 100 x 37) (C):
Previous Anniversary Gains (D)*

The formula to calculate this is (A + B) — (C + D) = Gain

*A + B = £60,376.86 + £42,959.46 £103,336.32
C + D = £60,939.00 + £0.00 = £60,939.00
(A + B) - (C + D) = £103,336.32 - £60,939.00 = £42,397.32 Chargeable Event Gain.*

Please note the overall payment out on 4th April as £90,000.00 which was made up of the value within the gilt and fixed fund as at 4th April 2023 which was for £28,135.40 and the rest of the £90,000.00 payment was made up as per the above.

Following this on 23 February 2024, HFS wrote to Mr and Mrs B again and said:

...regarding the withdrawals from your plan between 27 January 2009 and 26 January 2024. The withdrawals have given rise to a chargeable event gain of £16,424.42.

Mr and Mrs B contacted HFS to query this further chargeable event gain and complain about it. They said they didn't understand why they'd received a letter regarding a second chargeable event gain of £16,424.42 when they'd been previously told in the August 2023

letter that the £90,000 withdrawal had given rise to a chargeable gain of £42,397.32. And they didn't know why the second chargeable event gain was calculated by looking as far back as January 2009 when, apart from the £90,000 withdrawal, they'd always withdrawn amounts from the PIP within the 5% tax deferred amount (TDA) threshold for chargeable events gains.

On 21 June 2024, HFS sent Mr and Mrs B what it considered to be an explanation about why there were two chargeable gains and it provided various calculations and figures. Thereafter HFS issued its final response to the complaint on 24 June 2024. It awarded £100 in compensation for any inconvenience caused and a further £31 to cover the cost of Mr B's earlier calls.

Unhappy with the explanation relating to the chargeable event gains, Mr and Mrs B referred their complaint to our service in August 2024.

One of our investigators looked into the complaint. She noted that HFS hadn't responded to her requests for information about the PIP and the chargeable events gains.

She said that HFS' website provided some information to customers about PIPs:

- *You can withdraw up to 5% of your total investment every plan year, for a maximum of 20 years, without incurring an immediate tax charge. If you choose to withdraw more than your 5% tax deferred allowance [TDA] per year, this will create a chargeable event gain and a possible income tax liability.*
- *When you make a withdrawal from your PIP a chargeable event gain can happen.*
- *Chargeable event gains normally happen when you make a profit on your investment; for example, if you invest £10,000 and this grows to £15,000 then you've made a gain of £5,000. Chargeable event gains are taxable under income tax rules, so you might have tax to pay when you make a withdrawal.*
- *A gain may arise in the following circumstances:*
 - o *If withdrawals in any plan year exceed your 5% tax-deferred withdrawal allowance.*
 - o *If you cash in the whole of your plan or individual plan segments.*
 - o *If the plan pays out when someone dies.*
 - o *An assignment (transfer of ownership) of your plan for money or money's worth.*

The investigator didn't think this information helped Mr and Mrs B understand why they'd received the second letter regarding the £16,424.42 chargeable gain. And she didn't think HFS' letter dated 21 June 2024 adequately explained this either.

So, the investigator asked to HFS to pay Mr and Mrs B a further £100 for the distress and inconvenience caused to them. She also directed that HFS provide a clear explanation to Mr and Mrs B as soon as possible.

HFS didn't reply to the investigator and so the matter was passed to me to resolve.

I then liaised with both parties to obtain further information. During the course of my enquiries, HFS said that it has paid Mr and Mrs B a total of £300 compensation.

I issued a provisional decision upholding the complaint. I said I didn't think HFS had explained the chargeable gains clearly to Mr and Mrs B. But the explanation had now emerged from my enquiries of HFS. And I set out what that explanation was.

I said that HFS should pay Mr and Mrs B a total of £500 for the inconvenience caused to them by the lack of a previous clear explanation. And I said that HFS should reimburse Mr and Mrs B for any penalty they might incur for late payment of tax.

HFS accepted my provisional decision.

Mr and Mrs B weren't satisfied with my conclusions. They said, in summary:

- My provisional decision acknowledged that the correspondence from HFS was confusing – HFS should be made to explain this.
- It still didn't make sense that there were two chargeable event gains and that the surrendered investments would continue to attract gains after the surrender. And they'd altered their withdrawals after the surrender to remain within the 5%TDA.
- No one at HFS has been able to give a simple calculation of the chargeable gains.

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, my findings are the same as my provisional decision.

I understand Mr and Mrs B's frustration. I don't think HFS has explained things as it should have in its communications with Mr and Mrs B and our service. The PIP is a retail product aimed at retail customers – so it shouldn't have taken HFS as long as it has to deal with queries from Mr and Mrs B and our service queries in a clear, comprehensible way.

However, after further correspondence with HFS and my review of the PIP Withdrawals Guide that has been provided to me, I think a clearer explanation has emerged – which I set out below in my own words. HFS has confirmed that it is accurate.

In April 2023, Mr and Mrs B wanted to disinvest £90,000 from their PIP. The PIP is broken down into segments – each of which is effectively a standalone policy. These products are often structured in this way to give more control over the taxation of any gains.

The PIP was invested across four funds.

Mr and Mrs B wanted to raise the £90,000 primarily by disinvesting from those parts of the PIP invested in the "Gilt and Fixed Interest Fund" and with any remainder being raised equally from the remaining three funds. HFS implemented this instruction by combining what it calls Option 1 and Option 2 surrenders.

The Immediate Chargeable Gain – Option 1 Full Surrender

£60,376.86 (of the £90,000 needed) was disinvested from 37 units comprising whole segments 100-64 of the PIP. These segments were fully surrendered in April 2023.

Full surrenders of whole segments result in an immediate taxable gain. The immediate taxable gain was calculated as follows:

Value of surrender of these segments: £60,376.86 (A)
Previous withdrawals from the segments: £42,959.59 (B)
Original investment made for this segment: £60,939 (C)

The immediate gain is $A+B-C = £42,397.45$.

This was communicated to Mr and Mrs B as an immediate chargeable gain in the August 2023 letter.

The Tax Deferred Allowance - Option 2 Partial Surrender

The further amounts of £28,135.40 and £1,487.74 (of the £90,000 needed) were disinvested by partial surrenders of the remaining segments (063-001) (an Option 2 surrender).

When segments are partially surrendered, an immediate chargeable gain doesn't occur. But it will have an impact on the tax-deferred allowance (TDA) used in the PIP. The TDA is important because legislation allows 5% of the total amount invested in a segment to be withdrawn tax free each policy year for a maximum of 20 years. Unused allowances can be rolled over into subsequent years.

The TDA for segments not fully surrendered is calculated at the PIP anniversary date – 26 January.

Mr and Mrs B were informed shortly after the PIP anniversary date in January 2024 of the calculation of the TDA for the partial surrender these segments. This was calculated as follows:

Total withdrawals from these segments since 2009 (including the £28,135.40 and £1,487.74 taken in 2023): £76,920.18 (A)

Accumulated 5% TDA per year from 2009-2023: £60,495.75 (B)

$A-B = £16,424.43$

So Mr and Mrs B made an excess gain of £16,424.43 above the TDA in 2023.

Structuring the surrender in this way has had two consequences:

- It has resulted in the "Gilt and Fixed Interest Fund" being closed as desired by Mr and Mrs B.
- There are two tax events: 1. The immediate chargeable gain on the surrender of 37 whole segments and 2. An excess gain on the TDA on the partial surrender of the remaining 63 segments.

In my view

- The above explanation (or similar) should have been provided when Mr and Mrs B raised queries about the chargeable gains.

- The initial August 2023 letter wasn't clear that there would be two chargeable event gains – an immediate gain and a deferred gain calculated on the PIP anniversary.
- I'm aware that Mr and Mrs B think that the explanation should be presented in an even more straightforward way – with a single formula. But because the £90,000 is made up of both the full and partial surrender of segments, it's necessary to apply two different formulas to calculate the chargeable gains. One formula for the immediate chargeable gain resulting from the full surrender of segments and another for the partial surrender of segments. It is standard industry practice for chargeable gains from the partial surrender of segments to be calculated on the plan anniversary date.
- I note that Mr and Mrs B altered their regular monthly withdrawals after making the large £90,000 withdrawal. But the calculation relating to the partial surrender of segments looks at the total gains made above the 5% threshold from the outset of the plan at each plan anniversary date. As explained above, the total accumulated 5% TDA per year from 2009-2023 was £60,495.75 and the gains made by Mr and Mrs B over the same period were higher at £76,920.18.
- The August 2023 letter wasn't clear that the partial surrender of segments would be made up of £28,135.40 and £1,487.74. The presentation of this as two separate sums even now is confusing. But the above explains how these sums were dealt with for tax purposes and they all formed part of the £90,000 surrendered.

I'm satisfied that Mr and Mrs B now have an explanation about why there were two chargeable event gains as a result of the £90,000 withdrawal. But HFS has clearly caused some delay and confusion along the way – leading to distress and inconvenience to Mr and Mrs B.

As compensation for this, HFS initially paid £100 to Mr and Mrs B but then later increased this by paying a further £200 after our investigator's intervention. HFS has offered to now pay a further £200 (so £500 in total). In all the circumstances, I think that a payment of £500 is fair and reasonable for the trouble caused to Mr and Mrs B. So if it hasn't done so already, HFS should pay this amount to Mr and Mrs B.

Mr and Mrs B will have been understandably concerned about their tax liability. In my view, it was reasonable for Mr and Mrs B to wait for an adequate explanation of the chargeable gains before submitting their tax returns for the gain of £16,424.42. The delay in providing this explanation was the fault of HFS. So, I also direct that HFS reimburse Mr and Mrs B for any late payment tax penalty (not the tax owed itself) they may incur as a result of the inclusion of this sum (not any other sum) in their next tax return. HFS should repay this sum within one month of receiving written evidence of Mr and Mrs B paying a penalty to the relevant tax authorities.

My final decision

I uphold Mr and Mrs B's complaint. Scottish Widows Limited trading as Halifax Financial Services must pay the compensation and comply with the direction set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B and Mr B to

accept or reject my decision before 11 November 2025.

Abdul Hafez
Ombudsman