DRN-5263712

The complaint

Dr P complains that Phoenix Life Limited trading as Standard Life ("Standard Life") made a number of errors when paying out the proceeds of his pension, meaning that the wrong amount was reported to HMRC affecting his tax position and causing him additional work and stress.

What happened

Dr P held a contracted in money purchase scheme (CIMPS) with Standard Life. On 4 April 2024 he asked Standard to close the plan and pay out the total pot, which comprised both tax free and taxable funds. Due to the type of pension he held, Dr P was entitled to a higher level of tax free cash (known as protected tax free cash) than would be generally available. Standard Life processed his request and on 5 April 2024 paid £8,705.07 tax free cash to Dr P and issued a letter confirming that his total retirement fund was £23,168.11. On 8 April 2024, the remainder of the fund was paid out as taxable income, with emergency tax applied. This resulted in a net payment of £9,576.50 being made. At this time, Standard Life reported to HMRC that a gross sum of £14,463.04 had been paid, with tax paid of £4,886.54.

Standard Life subsequently identified that an error had been made, which meant that Dr P had been paid a level of tax free cash above that to which he was entitled. Following discussions with Dr P, Standard Life explained that they did not require him to return the excess tax free cash paid, amounting to £619.28. Standard Life subsequently identified that an overpayment of £279.01 had been paid, however it was agreed internally that this would be written off.

In June 2024, Standard Life completed a full recalculation of Dr P's entitlement. This identified that Dr P was entitled to protected tax free cash of £8,085.79 and £15,032 gross income (£9,916.78 net of emergency tax). As this was higher than the net income previously paid, a payment of £340.28 was issued to Dr P via BACS. Following this recalculation, Standard Life reported the correct gross income payment of £15,082.32 to HMRC however, they incorrectly submitted it for the 2024/25 tax year. Standard Life subsequently corrected the submissions to HMRC to remove the payment from the 2024/25 tax year, and to revise the payment for 2023/24 from £14,463.04 to £15,082.32. However, despite these submissions being made, as at December 2024, Dr P's HMRC account showed that the incorrect payment from 2023/24 tax year had been corrected, but the incorrect payment for 2024/25 was still showing.

On 25 July 2024, Dr P submitted a complaint to Standard Life. He complained, in summary, that Standard Life had made errors with the calculation of his pension payments without explanation, they sent incorrect information to HMRC in relation to the income paid, and that this had caused him to lose his tax allowance.

On 11 October 2024, Standard Life provided their final response to Dr P's complaint, apologising for the errors. In their response they explained that the plan in question had originally been linked to Dr P's other CIMPS which was transferred out in 2013. This transfer had an impact on the tax free cash available from the scheme Dr P had requested in April 2024 however as a result of human error, this wasn't taken into account in the calculations they completed which resulted in incorrect income figures being sent to HMRC. In their response, Standard Life confirmed that HMRC had been correctly notified of Dr P's tax position, both for the 2023/24 and the 2024/25 tax years. They reiterated that HMRC had been updated that Dr P had not taken any income for the tax year 2024/25. They apologised for their errors and the disappointing experience and paid £260 to Dr P in recognition of this.

Dr P was not happy with the outcome and referred his complaint to this service.

On 18 December 2024, having reviewed the evidence, our investigator provided her view. In this, she considered Standard Life's failure to accurately pay and report Dr P's pension tax free cash and income, and agreed that they had fallen short of expectations. However, she concluded that Standard Life had already taken action in line with what this service would ask them to do, and did not ask them to do anything further.

Dr P remained dissatisfied and as a result his complaint has been referred to me for a final 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 have come to the same conclusions as the investigator, and for broadly the same reasons.

The timelines of events provided by both Dr P and Standard Life show that a number of errors were made in the calculation of the amount to be paid to Dr P. Standard Life have acknowledged the errors made by themselves therefore although I have taken into account the failings in respect of this, I have focused on what I believe to be the crux of Dr P's complaint, that is the misinformation provided to HMRC by Standard Life, and the fact that he is now in a position of having to correct this with HMRC himself.

As stated above, it is not in dispute that Standard Life made errors in the processing of the payment of Dr P's pension to him. This falls short of the level of service I would expect from a provider when dealing with the payment of an individual's pension. Standard Life have accepted this, issued an explanation of how the errors arose and apologised to Dr P. They have also made a payment of £260 to him, which constitutes £250 to reflect the inconvenience caused and £10 interest in respect of the late payment of a portion of his protected tax free cash.

Dr P remains unhappy that his HMRC account still shows the incorrect tax position, and that Standard Life are unable to correspond with HMRC further in order to rectify this. He believes that this had an impact on his personal allowance for 2024/25 tax year resulting in him deferring accessing his other pension fund. Standard Life have confirmed that they have updated HMRC correctly following the corrective action they undertook in June 2024. Standard Life have stated that as they have now provided the correct income figures, there is nothing further they can do to ensure that HMRC update Dr P's tax account fully, and that he needs to liaise with them directly to ensure it is correct going forward. Although I understand Dr P's frustration in having to deal with HMRC himself to ensure that his tax position is accurately represented within his tax account as a result of Standard Life's errors, I agree that Standard Life are unable to take any further action as I well suspect that HMRC will not discuss Dr P's personal tax account with a third party– all Standard Life can do is ensure that HMRC have been updated in relation to the correct payments made to Dr P, which they state they have done. I have seen correspondence from Standard Life dated 8 October 2024, which states “we have already updated HMRC for the current tax year as it shows £0.00.” I therefore have no reason to believe that Standard Life have not carried out the necessary steps to rectify the position from their side as far as is possible.

Dr P does not believe that the £260 paid to him by Standard Life appropriately compensates him for the time spend dealing with them and with HMRC to rectify their errors. I have considered whether the amount paid is fair and reasonable, and am satisfied that it is. The payment already made is in line with what this service would direct a business to pay for an error such as this. I also note that in the process of paying Dr P the proceeds of his pension, they have not asked him to repay the erroneous overpayments made. I am therefore satisfied that Dr P has not been financially disadvantaged as a result of the errors made, and I do not require Standard Life to take further action.

In his submissions to this service, Dr P expresses his dissatisfaction that his pension income payment was subject to emergency tax despite the fact that he had provided his tax code to Standard Life and advised them that he had no other income in the relevant tax year.

Although the inconvenience caused to Dr P by the application of emergency tax is regrettable, it is standard practice when an ad hoc payment is made from a pension for that income to have an emergency tax code applied. This is due to the fact that the pension scheme does not know what other income the individual may have had within any given tax year, therefore regardless of which month of the tax year a payment is made in, it is treated as if it’s the first month, so the payment only has 1/12th of the individual’s personal allowance and tax bands applied. This generally results in an overpayment of tax which can be reclaimed directly from HMRC immediately after the event, or at the end of the tax year. I understand that this has resulted in additional work for Dr P to ensure that the correct tax code is applied to his tax account, however I cannot find that Standard Life have acted erroneously in applying emergency tax.

To summarise, I agree with Dr P that Standard Life have fallen short of the standards expected of a regulated institution when paying out the proceeds of his pension and reporting such to HMRC, and uphold his complaint. However, as Standard Life have already taken the steps I would have required of them, I am not asking them to do anything further.

My final decision

For the reasons stated above I uphold Dr P’s complaint against Phoenix Life Limited trading as Standard Life.

Under the rules of the Financial Ombudsman Service, I’m required to ask Dr P to accept or reject my decision before 20 June 2025.

Joanne Molloy
Ombudsman