

The complaint

Mr C has complained that Clydesdale Bank Plc (trading as Virgin Money) wrongly made a deduction for tax on a redress payment he received for mis-sold payment protection insurance (PPI).

What happened

In June 2017 Clydesdale upheld a complaint from Mr C that he had been mis-sold PPI with a loan. It paid him standard redress which was a refund of the premiums plus 8% simple interest. It deducted 20% basic rate tax from the interest amount.

Mr C has complained that Clydesdale's communication at the time was inadequate, causing him to lose the opportunity to claim the tax back.

Our investigator thought that Clydesdale had acted fairly and reasonably, both in deducting the tax and in the way it explained it. Mr C disagrees and so the complaint has been passed to me for a 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.

Banks were required to deduct tax from the compensatory interest on PPI redress payments. So, Clydesdale was acting correctly when it deducted the amount of £1,813.55 in 2017.

Mr C says that the information provided in Clydesdale's final response letter (FRL), which set out the redress, was insufficient and vague.

The FRL from 2017 states:

'Simple interest may have been included in your compensation figure. By law we need to deduct tax (currently at the rate of 20%) on the amount of simple interest we pay customers and report this to HM Revenue & Customs (HMRC). We will pay simple interest net (after tax has been taken off).'

On 6 April 2016 Banks and Building Societies stopped automatically taking 20% in income tax from the interest earned on non-ISA savings. This change does not affect our obligation to deduct 20% from the simple interest included in a customer's compensation. For further information you can call HMRC on 0300 200 3600 or visit www.gov.uk.

If you are a basic rate taxpayer, there is no further tax to pay on simple interest. If we have taken off more tax than you need to pay you can make a tax reclaim to HMRC. Please keep a copy of this letter to evidence to HMRC. If you pay tax at a higher rate than the basic rate you may have further tax to pay and you should include any simple interest details on any tax return that you need to make.'

Looking at the above wording, I'm not persuaded that there was a lack of clarity. Mr C has said that it uses technical language that the financially inexperienced would have difficulty understanding. However, I consider that the wording is clear and transparent, and can be understood without any specialist tax or financial knowledge.

I don't know what Mr C's circumstances were in 2017 when he received the redress payment. And he hasn't explained why he thinks he might have been due a refund of tax.

If he was a non-taxpayer, then it would have been clear to him that he didn't need to pay the 20% tax deduction and the FRL makes it clear that the amount can be claimed back from HMRC.

If he was working and a basic rate taxpayer, then the correct amount was deducted, and he would have understood that from the FRL.

If he was a higher rate taxpayer, then not enough tax had been deducted, so he might be liable for more. I also think he would have understood that from the FRL.

It's possible that Mr C may be referring to the launch of the personal savings allowance on 6 April 2016 which might mean that some people would be entitled to some money back, depending on how much they held in savings, although I don't know if this applies to Mr C's situation at the time. He says he's lost out as there is a four-year window for claiming back tax, which he missed. But that's not Clydesdale's fault, as the FRL also mentions this and signposts him to where he can find out more information about it.

Mr C says he relied on Clydesdale's communication and assumed the deduction was correct. There's no detriment here as the deduction was correct. It was required to deduct 20% tax from the compensatory interest amount, which is what it did. It was then his responsibility to follow that up with HMRC if he felt that was too much or too little tax in his case. Clydesdale made that adequately clear in its FRL.

Overall, based on the available evidence, I'm unable to conclude that Clydesdale did anything wrong in the way it deducted tax from the PPI mis-sale redress amount. It follows that I do not uphold the complaint.

My final decision

For the reasons set out above, I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 2 April 2025.

Carole Clark
Ombudsman