

The complaint

Mr B complains that Scottish Widows Limited (SW) unfairly taxed his drawdown withdrawal.

What happened

Mr B has a drawdown personal pension with SW. In March 2024, having already taken a 25% tax-free cash lump sum earlier in the tax year, he wanted to take a further lump sum from his pension to maximise the use of his annual personal tax-free allowance before the end of the 2023/24 financial year. So Mr B called SW on 1 March 2024 about this.

During the call, SW said it didn't hold a tax code for Mr B. It said that the first drawdown payment he requested would trigger both an emergency tax payment and a tax code to be provided to it. It said it would normally receive a tax code within ten working days. And that if Mr B requested a £100 withdrawal that day, it would get his tax code before the end of the tax year.

SW said Mr B could then request a further larger drawdown payment which would be taxed based on the tax code just received. It also noted that Mr B would be able to claim back any overpaid tax from HM Revenue and Customs (HMRC).

Mr B said he wanted to drawdown as much of his pension tax free before he started to receive his state pension. He felt he didn't need any advice.

Mr B requested a drawdown of £100 during the 1 March 2024 call. This completed on 6 March 2024. SW wrote to Mr B on 7 March 2024 to confirm the payment.

This letter showed a tax code of 1217L and also showed that no tax had been deducted on the payment.

On 13 March 2024, Mr B called SW to drawdown a further £12,470, which he felt was the rest of his annual personal tax-free allowance. SW's agent confirmed SW had received Mr B's tax code. And said she believed the personal allowance was £12,570.

Mr B said that other than interest on his savings accounts, which he felt had already been taxed, he had no other taxable income. He therefore felt there shouldn't be any tax due on the requested amount.

SW's agent said that the tax code SW now held for Mr B would be applied to his drawdown. But she couldn't confirm whether or not his withdrawal would be taxed at source when that tax code was applied, and wouldn't know until the payment had been made. She said Mr B's tax code didn't say whether payment would be tax free. Mr B said: *"let's put it through and see what happens"*. The agent said if the withdrawal was taxed, Mr B would need to contact HMRC for a tax refund.

On 15 March 2024, SW wrote to Mr B to confirm a drawdown payment of £12,470 had been completed using a tax code of 1217L. The letter stated that £4,004 had been deducted from this payment in tax.

On 21 March 2024, Mr B called SW to ask why his payment had been taxed. He felt the amount he'd withdrawn was within his annual personal tax-free allowance.

SW explained that all tax issues had to be directed to HMRC as it had no control or knowledge of his individual tax situation. I also understand that SW told Mr B that it relied on HMRC to provide the correct tax code which it then applied in line with HMRC's instructions.

SW said that 1217L was the current tax code from the second withdrawal, effective from 11 March 2024, while 1257L was the tax code for the first withdrawal of £100. It said that Mr B would need to check all tax details with HMRC as it could only communicate the codes HMRC had given it.

Mr B called SW again on 26 March 2024 as he felt it'd misled him when he'd spoken to it on 1 March 2024. He felt he'd been told he could withdraw a total of £12,570 tax free. SW told Mr B that he'd be able to contact HMRC to receive a tax refund.

I understand that on 27 March 2024, SW explained the process for reclaiming tax to Mr B.

On 15 April 2024, SW sent Mr B his annual P60. This showed that he'd paid £4,004.90 tax and had a final tax code of 1217L M1.

Mr B called SW again on 15 April 2024 as he was unhappy with the service it'd provided. SW told him it couldn't refund any overpaid tax. It said Mr B would have to arrange this by completing online forms through the HMRC website.

On 29 April 2024, Mr B emailed SW to make a formal complaint about the tax it'd taken from his March 2024 drawdown withdrawal. He felt it'd been dishonest with him when he'd explained he wanted to drawdown as much as possible from his pension without paying tax. He said SW had advised him that he was entitled to take £12,570, the standard tax-free allowance, in addition to the tax-free cash he'd taken earlier that tax year.

Mr B felt SW should only have taken tax at 20% on the £400 that was in excess of his 1217L tax code. But said it'd deducted £4,004.90. He felt SW had miscalculated the deduction. He also said it was not easy to get the tax back from HMRC, noting that he'd suffered a personal loss which meant he hadn't been able to return the required HMRC forms until the old tax year had expired.

SW issued its final response to the complaint on 22 May 2024. It felt it'd correctly applied the tax code HMRC had issued to it. It repeated that Mr B would need to contact HMRC for a tax refund, stating it couldn't provide tax advice – it could only provide generic information.

Unhappy, Mr B brought his complaint to this service. He said that because SW had deducted too much tax, he'd only been able to transfer £6,000 to a savings account on 1 April 2024, rather than the £10,000 he wanted to transfer. He therefore felt that SW should compensate him for the loss of interest on the £4,000 of overpaid tax from 1 April 2024. Mr B said he still hadn't received reimbursement from HMRC.

Once the complaint had come to this service, our investigator asked SW for further information about how it applied tax codes to withdrawal payments. He specifically wanted to know how such a large tax charge could've arisen given Mr B's circumstances.

SW said that the tax codes HMRC provided it with were automatically entered into its policy system and the tax amounts then generated.

Our investigator next asked SW to demonstrate that it hadn't made a mistake in the amount

of tax deducted.

SW then wrote to Mr B on 20 February 2025 to explain that it'd taxed the 15 March 2024 gross payment for £12,470 using the tax code "*1217L Month 1 basis*", which HMRC had sent it on 11 March 2024. It said that under a Month 1 basis the full gross amount was taxable.

SW said that HMRC had given Mr B a certain tax code after his initial £100 withdrawal and that HMRC had changed that code for the next withdrawal. It felt this could've triggered the tax charge. It said that information from HMRC was added to its system automatically, negating the opportunity for human error. SW felt that only HMRC would be able to explain why the tax code changed and why the tax was deducted from the payment in question.

Mr B felt that SW should've known about his withdrawal payment being under '*a Month 1 basis*', despite the fact that March 2024 was the twelfth month of the 2023/24 tax year. He felt that SW should've also known that the total taxable payments to be taken from his pension in the tax year 2023/24 would be £12,570. He therefore felt that with a tax code of 1217L, the correct amount of tax to deduct would've been 20% of £400, that is £80.

Our investigator didn't think that SW had done anything wrong. Having listened to the 1 March and 13 March 2024 calls between Mr B and SW, he said he hadn't heard SW mislead Mr B, or tell him that his withdrawals wouldn't be taxed.

Our investigator explained that under HMRC guidelines, when a pension provider didn't hold a current tax code for a policyholder, it has to tax a payment at an emergency rate. HMRC will then issue a correct tax code for subsequent withdrawals to the pension provider. He therefore felt that SW had acted correctly when it first processed Mr B's requested £100 payment at an emergency rate, noting that having done this, it received a tax code back from HMRC.

Our investigator said that SW then used that tax code when processing Mr B's second withdrawal request for £12,470 on 15 March 2024, noting that HMRC had provided SW with a tax code of 1217L following the £100 withdrawal. He acknowledged that Mr B felt that SW had then miscalculated the tax due, as he felt the payment shouldn't have been taxed at all given his allowances for that tax year. But felt that, as SW had stated in its 20 February 2025 letter, the full tax code received from HMRC on 11 March 2024 was 1217L M1.

Our investigator explained that the '*M1*' in Mr B's tax code told SW that HMRC required his £12,470 withdrawal to be taxed on a one-month basis. He further explained that '*M1*' was a temporary measure put in place by HMRC whilst it determined a policyholder's tax code. He said that SW had used the tax code HMRC had sent it when processing the £12,470 withdrawal. Therefore he felt it'd been correct for it to refer Mr B to HMRC to reclaim any overpayment.

Mr B said he wasn't a tax expert, but he expected SW to have more insight into the taxation system than he did. He said he hadn't known what the '*M1*' in his tax code had meant before our investigator had explained it. But he now understood that SW had made the correct tax deduction based on that code and that it hadn't attempted to deliberately mislead him by referring him to HMRC.

But Mr B felt that as SW had known that he'd expected to receive the full amount he'd requested without deduction, it should've explained to him why the amount was less than expected. He therefore felt his complaint should be upheld as SW had failed to adequately explain why it'd made the deduction it had, noting that if SW had done this, he would've understood that responsibility rested with HMRC and directed his efforts accordingly.

Mr B said that while he didn't expect SW staff to be tax experts, he did expect them to be able to explain to customers what they were doing in a manner that customers could understand. He said the reference that SW made in its February 2025 letter to processing the payment on a month one basis didn't make sense. As such, he said he'd be happy if his complaint was upheld on the basis that SW should've better explained the tax code and the reason for the shortfall in the amount he'd expected to receive.

Our investigator then set up a new complaint for Mr B as he said he'd have to investigate this new point before he could take a view.

Mr B felt that all of his points should be treated as a single complaint. He said he was dissatisfied with SW because he'd expected to receive a certain sum of money from it, but he received a lower amount without explanation. While he now understood that SW hadn't made an error, he felt SW should've explained why it had paid him the lower amount.

Mr B shared a copy of SW's 16 May 2024 final response letter with this service. This considered his complaint that SW should've told him about the Month 1 tax deduction applied to his drawdown.

SW didn't think it'd done anything wrong. It said it'd correctly advised Mr B that all tax issues should be directed to HMRC as it had no control or knowledge of his individual tax situation. And that it relied on HMRC to provide the correct tax code. It also said it couldn't provide tax advice, only generic information.

Mr B acknowledged that SW staff weren't tax experts. But felt this wasn't an adequate explanation for SW's failure to explain what it was doing. He felt SW should've been able to provide an explanation of the deduction in the same way that our investigator had. He also acknowledged that SW couldn't provide tax advice. He said he'd never sought tax advice from SW. All he'd wanted was an explanation about why he'd received a lower amount than expected.

Our investigator told Mr B that his new complaint point was a customer service complaint which hadn't been part of his original complaint. He said he'd have to investigate the new complaint before he could offer an opinion. He said while the original complaint about whether the correct tax code was applied could be referred for an Ombudsman for a final decision, the Ombudsman would have very limited information about his additional customer service complaint to provide an opinion.

Mr B said his original complaint was that SW had paid him a sum of money that was less than the amount he'd expected to receive. While he accepted SW hadn't made a mistake with the tax deduction, he didn't agree that his complaint was resolved. He also asked our investigator to delete the new complaints that had been set up.

Mr B confirmed that he had now received a full refund from HMRC.

Mr B said he'd expected to receive his second March 2024 withdrawal without the deduction of tax. He felt SW hadn't addressed the cause of his dissatisfaction, which was its failure to explain the tax code. He felt it'd had a number of opportunities to do so but it hadn't taken any of them.

As agreement couldn't be reached, the complaint has come to me for a review.

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'm not going to uphold it. I know this will be disappointing for Mr B. I'll explain the reasons for my decision.

I'd first like to say to Mr B that I'm very sorry for his loss.

Mr B has accepted that SW didn't make a mistake with the tax it took from his March 2024 withdrawal and that it was correct to refer him to HMRC for a tax refund. Therefore, the crux of this complaint is whether SW should've done more to explain to Mr B why the larger of his two March 2024 withdrawals was taxed in the way that it was. So I've considered this point.

Should SW have done more to explain the tax charged?

SW said that only HMRC would be able to explain why it changed Mr B's tax code and why it deducted the tax it did from Mr B's drawdown. Mr B felt that SW should've been able to explain the "M1" code HMRC had used. If it had, he felt it would've saved him the inconvenience of bringing his complaint to this service.

While I understand that Mr B expected an explanation about why his withdrawal had been taxed when he'd expected it not to be, I can't fairly say that SW could've done anything more here.

I say this because SW sent Mr B factual information about his withdrawal on 15 March 2024. I think this was when Mr B first became aware of the tax deduction. But SW had no way of knowing exactly what Mr B was expecting to receive.

Apart from the tax codes it had from HMRC, and the 1 March and 13 March 2024 calls, when Mr B had told the agents that he didn't expect to pay any tax, SW had no information about Mr B's other income. While I can see that Mr B felt that SW knew that his taxable pension withdrawals totalled the standard personal tax allowance, it didn't have any way of knowing about any other taxable income. I'm therefore satisfied that there was nothing further SW could reasonably do when it sent Mr B its 15 March 2024 letter than to explain the facts of the payment and the tax deduction. I say this because it had no way of knowing whether tax should be payable or not. It also had no reason not to rely on HMRC providing it with the correct tax code.

I also say this because although Mr B did tell the agent on the 13 March 2024 call that he didn't expect to pay any tax, the agent clearly explained that she couldn't confirm whether or not his withdrawal would be taxed, stating that this wouldn't be known until the payment had been made. Mr B said: *"let's put it through and see what happens"*, indicating he was prepared to withdraw the payment despite not having received any confirmation from SW that it wouldn't be taxed. The agent also told Mr B on this call that he'd need to contact HMRC for any tax refund. I'm therefore satisfied that SW provided all the information Mr B needed to make his withdrawal decision during the 13 March 2024 call.

The evidence shows that SW again gave Mr B all the information he needed to start the process of getting a tax refund from HMRC on 21 March 2024. While I appreciate that it would've been helpful to Mr B if SW could've explained the 'M1' tax code to him at this point, I'm not satisfied it would've been reasonable to expect this. SW's role was to correctly process Mr B's withdrawal request using the tax code provided by HMRC. Its role wasn't to explain to him why he'd paid a different amount of tax than he expected.

I do understand that this is the crux of Mr B's complaint. He feels that SW should've been able to explain the 'M1' code to him in full so that he could've understood the situation and

accepted sooner than he did – and without the effort of bringing his complaint to this service – that SW hadn't made an error and that he'd have to contact HMRC to reclaim any overpaid tax. But, as I've noted above, this wasn't part of SW's role. And the evidence shows that SW did what it was supposed to do by giving Mr B the facts about his payment and the process for reclaiming any overpaid tax from HMRC.

I can see that Mr B said that he expects a business to provide a customer with an explanation if it's going to make a payment that differs from the amount the customer expected to receive. While I agree that this should be the case where a mistake has been made, that isn't the case here. And, as I noted earlier, I'm also not persuaded that SW should or could've known the correct amount of tax Mr B should've paid on the withdrawal.

I'm satisfied that SW did what it should've done when it provided Mr B with correct and factual information about his tax code and what he needed to do to get a tax refund. I'm pleased to hear that Mr B has successfully had his overpayment of tax refunded. But I can't uphold the complaint as I've not found any evidence that SW did anything wrong.

My final decision

For the reasons explained above, I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 16 July 2025.

Jo Occleshaw
Ombudsman