

The complaint

Mr J says Scottish Widows Limited failed to inform him properly about a withdrawal he made from his Retirement Account. He says he was told he'd get a refund of any tax taken and that the income wouldn't affect his tax credits.

What happened

In April 2023 Mr J contacted Scottish Widows for the value of his personal pension and to understand the tax implications of taking money out. He'd already accessed his tax-free cash from his plan some years earlier.

Over the course of the next few months Mr J decided he wanted a net payment from his pension of around £10,000. To effect this Scottish Widows paid out a gross sum of £15,200 to allow for the emergency rate tax it had to deduct. He received the funds in July 2023.

On 3 December 2024 Mr J contacted Scottish Widows to complain about the effect the payment had on his tax and benefits. He said he'd been told he'd get the tax refunded and that the payment wouldn't affect his tax credits. But he found neither was the case. By taking some of his pension pot he ended up paying some income tax on the sum as well as ending up being overpaid tax credits.

Scottish Widows replied to Mr J on 11 December 2024. It upheld his complaint and apologised for telling him he'd get all the tax back and that it had been incorrect in saying his tax credits wouldn't be affected by the income he was taking from his pension pot. It offered him £250 for the trouble and upset he'd been caused. It also undertook to pay him around £2,300 to cover any excess tax bill from HMRC upon production of evidence showing his income and tax position for 2023/24.

Ultimately Mr J wasn't satisfied with Scottish Widows response and he brought his case to this Service in February 2025.

An Investigator considered his case, this included reviewing the file provided by Scottish Widows. It said when it had replied to Mr J in December 2023 it didn't have access to recordings of the calls between him and its agents. It had since been able to access them and this had shown it had given Mr J the right information.

The Investigator didn't uphold Mr J's case. He concluded in the following terms:

"I think Scottish Widows gave Mr J clear and practical guidance about the tax implications of taking money from his pension, and I think they handled it fairly. They explained that because this was his first taxable withdrawal, they didn't have a tax code for him, so they'd need to apply an emergency tax code. They gave him examples to help him understand what that might look like in real terms. For example, they said if he took out £10,000, around £2,952 could be deducted in tax using the emergency code."

"Scottish Widows also explained how this could affect Mr J's income for the rest of the year. One of the advisers said that taking a larger amount could push him into a higher tax bracket, which might mean more tax is taken from his wages. They put it quite clearly by

saying something like, "What I'm trying to explain is whatever you take now, the amount you take in income will effects other income throughout the year, because if you're taking a larger, a bigger amount, it can take you to a bigger income bracket". I think that was a clear way for Mr J to understand the potential impact."

"Scottish Widows told Mr J that once the first withdrawal had been made, HMRC would be informed automatically and would issue an updated tax code. Mr J was advised that if he felt too much tax had been taken, he could contact HMRC directly or use a P55 form to claim some of it back. One adviser also said that some people choose to take a smaller amount first to trigger the correct tax code and then make a larger withdrawal later once it is updated. I thought that was a helpful suggestion."

"Tax credits were only discussed during the call on 11 July 2023. In this call, Mr J asks, "And will it reflect on tax credits as well, this money you know?" The adviser responds, "If the rules of those tax credits include all income, then it's possible, but we can't advise on things like that. You would have to speak to the relevant... wherever else they deal with those, in terms of whichever government departments."

"So, I'm satisfied, when Mr J asked if the withdrawal could affect his tax credits, the adviser was honest and said they couldn't advise on that but suggested speaking to the relevant government department. They also gave him the number for Pension Wise and encouraged him to speak to them for free, for impartial guidance about his pension and tax position."

Mr J was disappointed with the Investigator's view. He said he'd expected to receive compensation. But in his call to this Service he didn't identify which findings and conclusions the Investigator arrived that he disagreed with. Neither did he provided any new evidence or arguments.

As both parties couldn't agree with the Investigator's view, Mr J's case has been passed to me to review afresh and to provide 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.

Where there's conflicting information about the events complained about and gaps in what we know, my role is to weigh the evidence we do have and to decide, on the balance of probabilities, what's most likely to have happened.

I've not provided a detailed response to all the points raised in this case. That's deliberate; ours is an informal service for resolving disputes between financial businesses and their customers. While I've taken into account all submissions, I've concentrated my findings on what I think is relevant and at the heart of this complaint.

I'm not upholding Mr J's complaint. I'll explain why.

The first thing I've considered is the extensive regulation around the services like those performed by Scottish Widows for Mr J. The FCA Handbook contains twelve Principles for businesses, which it says are fundamental obligations firms must adhere to (PRIN 2.1.1 R in the FCA Handbook). These include:

- Principle 2, which requires a firm to conduct its business with due skill, care and diligence.
- Principle 6, which requires a firm to pay due regard to the interests of its customers and treat them fairly.

- Principle 7, which requires a firm to pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

So, the Principles are relevant and form part of the regulatory framework that existed at the relevant time. They must always be complied with by regulated firms. As such, I need to have regard to them in deciding Mr J's complaint.

Mr J contacted Scottish Widows about his personal pension in April 2023. He'd taken his tax-free cash a few years earlier. At this point he was enquiring about the value of his plan and the tax implications of using some of his residual funds.

Over the following months Mr J had a further seven calls with Scottish Widows. I'm not going to detail the contents here. The Investigator provided a comprehensive summary in his view. Mr J hasn't disputed what was recorded.

Mr J says he was told any tax taken by HMRC would be refunded and that taking funds from his pension wouldn't impact on his tax credits. But like the Investigator, I've concluded that in the phone calls he was given clear information about his pension and the implications of taking funds from it. Scottish Widows' call handlers provided him with practical examples and information. It signposted him to further support, information and advice.

Further, I note that Scottish Widows also sent Mr J several letters during the same period which included information about the implications of taking income from his pension, including in relation to tax and benefits.

In providing its file to this Service, Scottish Widows said:

"The tax charge provided by Mr J for £2,274.23 has been paid to him on 28th February 2025. Having completed a further review, I cannot see any Scottish Widows error in this case and as a result we feel Mr J has been overcompensated in this instance."

Mr J hasn't mounted a compelling argument nor provided any new evidence to challenge either Scottish Widows' account of events or the findings of the Investigator.

I can see how Scottish Widows final response letter to Mr J in December 2024 may've caused confusion about what had happened in the summer of 2023 and raised his expectations of what he might be owed as a result. But actually the support and information provided to him by Scottish Widows was good.

My final decision

For the reasons I've already set out. I'm not upholding Mr J's complaint. And I don't require Scottish Widows Limited to do anything further in this case.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 10 October 2025.

Kevin Williamson

Ombudsman