

The complaint

Mr T complains that Wesleyan Assurance Society (Wesleyan) should have asked him for his tax-code before he took his benefits. Instead, he was taxed at an emergency rate on part of his pension withdrawal and this has caused him a loss of use of money and inconvenience.

What happened

Mr T called Wesleyan to withdraw his pension on 4 June 2025. He had requested to take the full amount as a lump sum, with 25% being paid as tax-free cash. Wesleyan explained that on the taxable part, he may be taxed at an emergency tax code. And it would send him a p45 so he could reclaim any overpaid tax. Mr T said he understood this.

Later in June, Wesleyan wrote to Mr T to confirm the payment would be made. And it set out the amount of tax-free cash payable and the taxable amount of the withdrawal – and that income tax would be payable on that.

The letter then said:

How does this affect my income tax status?

We will normally use a temporary tax code (sometimes called an emergency tax code) to determine how much tax to deduct from your income withdrawal. This means the tax deducted may not be the right amount due when all of your income for the year is taken into account. Within a month, we will send you a P45 Form showing the amount of tax deducted.

At the end of the current tax year, HM Revenue & Customs (HMRC) will check if you have paid the correct amount of tax. If not, they will contact you. However, if you think you have paid too much tax you can contact HMRC for a tax refund now – you do not have to wait until the end of the tax year.

To claim a refund, you need to complete a form from HMRC. The form will either be:

- P50Z – if you have no other PAYE or pension income (other than the state pension), or:
- P53Z – if you have any other employments or pensions.

You will need to send your P45 with the form.

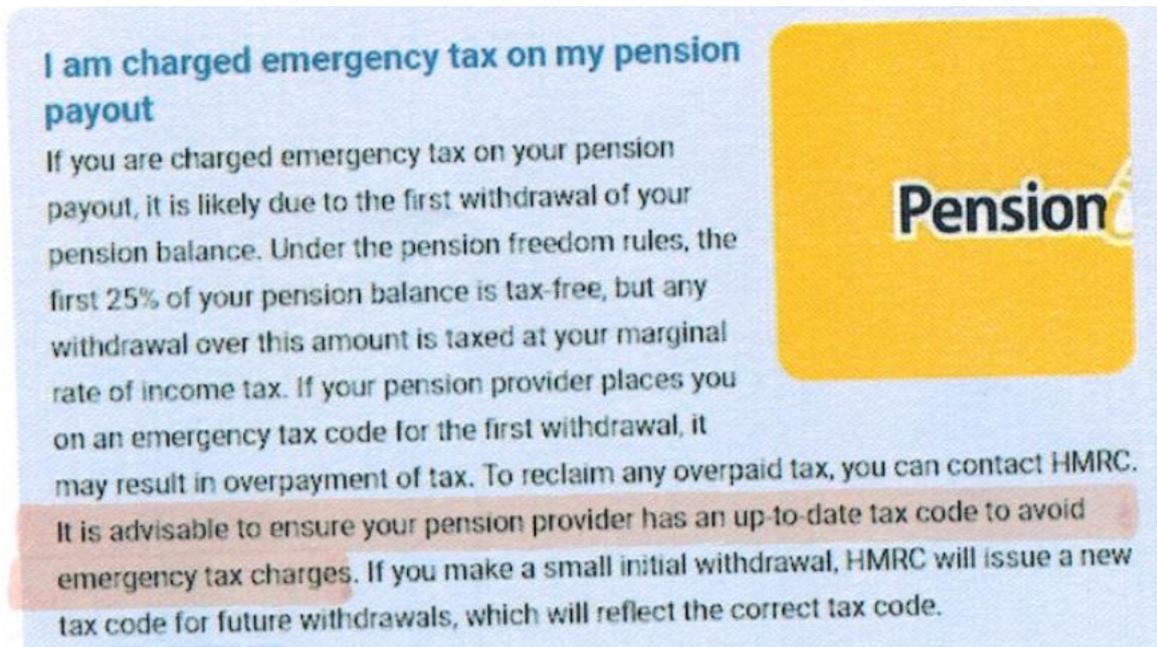
After being taxed at the emergency rate, Mr T complained to Wesleyan. Mr T said Wesleyan should have asked him for his tax-code or a p45. And that it did not tell him how much the emergency tax would be. He says because of Wesleyan's error he will have to wait months for his money and has been inconvenienced by having to contact HMRC.

Wesleyan didn't uphold the complaint, it said it had told Mr T that it may be taxed at an emergency rate and that it did not set the tax-code, it was HMRC who set the rules and tax code to be applied in this situation.

Our investigator looked into matters but didn't uphold the complaint. He agreed with Wesleyan's points that it had given Mr T clear information about the likelihood of an emergency tax code being applied. And that it couldn't choose what to tax Mr T at.

Mr T didn't agree he said the investigator was incorrect and pension providers can use a

person's actual tax-code to determine a tax deduction. He said he had enclosed confirmation of this. He enclosed a screenshot from the Pensionbee website which said:



And he also enclosed a letter from HMRC, his tax-code notice which said:

Your tax code is used by your employer(s) and/or pension provider(s) to work out how much Income Tax to collect from your pay or pension. We send them a separate tax code notice.

The investigator explained in response, that the purpose of letter from HMRC was letting Mr T know what his tax-code was going forward. And that it would be informing pension providers of this tax code. Not that Mr T could use this to tell pension providers what his tax code was. And at the point of Mr T's withdrawal, when the emergency tax-code was used, Wesleyan wouldn't have had an up to date code, as HMRC wouldn't yet have calculated it as it was his first withdrawal from them, hence the need for an emergency or temporary rate. He said the Pensionbee screenshot also confirmed that emergency tax might be used for the first withdrawal – as was the case here.

Mr T still didn't agree, he said Wesleyan didn't even bother to ask him for his tax code as it should have.

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.

And having done so I agree with the outcome reached by the investigator and for broadly the same reasons.

I appreciate it may have been a frustrating process for Mr T to reclaim the tax back from HMRC but I don't think Wesleyan has done anything wrong here.

It explained to him in the initial call that he would likely pay emergency tax and Mr T had the opportunity then to ask any questions about this process but he said he understood that this was the case. It also gave him a written explanation as well, which set out that Mr T may have to contact HMRC if the emergency taxation means he has overpaid tax. But again Mr T

didn't raise any objections then.

I think Wesleyan was clear in its communications with Mr T that he may be taxed at an emergency rate. Mr T knew that this could be the case but chose to proceed with the withdrawal. He then complained when he was taxed at the emergency rate.

It is commonplace in this situation across pension providers for a lump sum withdrawal to be taxed at an emergency rate, hence Wesleyan including this on the information given to Mr T prior to the withdrawal occurring. Unless the pension provider already has an accurate personalised tax code from HMRC, it is instructed to use the default emergency tax code on the first withdrawal. This assumes the amount withdrawn is a monthly income. Customers can then contact HMRC to reclaim the tax immediately or wait until the end of the year when their annual tax will be worked out.

There may be ways around being taxed at this emergency rate as suggested in the Pensionbee screenshot, such as making a small initial withdrawal (subject to any minimum limit) but Mr T didn't do this. I appreciate Mr T may not have known about this at the time, but as I've said he didn't raise any concerns with Wesleyan when he was informed about the potential emergency rate. He said he understood this and it was fine. So Wesleyan went ahead and made the withdrawal as instructed by Mr T.

In conclusion, I do not uphold this complaint because Wesleyan gave Mr T clear information about what may happen, the process is instructed by HMRC and is used as standard across the market and Mr T didn't raise any concerns about this until afterwards. I therefore cannot reasonably conclude that Wesleyan has made an error or done anything wrong here.

My final decision

For the reasons explained above, I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 30 December 2025.

Simon Hollingshead
Ombudsman