DRN-6053319

The complaint

Mr W complains that Scottish Equitable Plc (trading as Aegon) incorrectly calculated the income tax that was due on pension income it paid to him in April and May 2025.

What happened

Mr W holds pension savings with Aegon across five different income access accounts. He generally takes an income payment from four of the plans each year in April, followed by an income payment from the remaining plan the following month.

For reasons I will explain later in this decision, Aegon generally deducts too much income tax from the payments when they are made to Mr W. So Aegon runs a manual process to calculate, after the May payment has been made, what income tax should be due. It then provides Mr W with a rebate of the overpaid income tax.

In May 2025 Aegon paid a tax rebate of £2,551.73 to Mr W. But he says he was later told by HMRC that the payment had been made in error, and he owed a similar amount of unpaid tax. Mr W complained to Aegon that it held an incorrect tax code for him and that he thought the error had caused the incorrect tax calculation.

Aegon didn't agree with Mr W's complaint. It said that it had correctly applied the tax code it had been sent by HMRC and as such no further tax rebate was due. But it paid Mr W £150 for any inconvenience he might have been caused. Unhappy with that response Mr W brought his complaint to us.

Mr W's complaint has been assessed by one of our investigators. She didn't think Aegon had done anything wrong. The investigator thought that Aegon had reasonably applied the tax codes that it held on its systems. And she noted that, even if an incorrect tax code had been used, it wouldn't account for the amount of tax Mr W said was owing.

Mr W didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr W and by Aegon. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words, I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead, this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

I think there are two aspects to Mr W's complaint that I will deal with in turn. I will first look at the tax code that Aegon has applied to the pension income payments in 2025. And then I will consider how Aegon applied income tax deductions to Mr W's pension payments.

Pension income is paid using the PAYE system. Each paying organisation is notified of a tax code for each beneficiary by HMRC. That tax code is then used to ensure that any annual allowances are fairly applied to income payments, and in most cases results in correct deductions being made.

I have looked carefully at the information Aegon says that it holds in its records for Mr W's tax code. That information shows me the date that any tax code changes were notified, and the tax code that should be applied. But Mr W has also provided me with information from HMRC that shows the tax code information it says it sent to Aegon to apply to his income payments.

The two sets of tax code information do not match. There is an obvious discrepancy between the information HMRC says it sent, and the information that Aegon says it received. I don't have any way of knowing whether that information is different because the updates weren't correctly sent by HMRC, or because they weren't correctly applied by Aegon.

But I don't think the conclusion to that question is material to the complaint Mr W has made here. The tax code that Aegon says it held was K149 whereas the tax code HMRC says it had sent was K201. If Aegon had used the tax code that HMRC says was sent, an additional £104 income tax would have been payable on the income that Mr W received in April and May 2025. That is significantly less than the amount of the tax underpayment that Mr W has referenced in his complaint.

The way in which pension payments should be treated by administrators such as Aegon is set out by HMRC. As I said earlier income is taxed using the PAYE system that is familiar to most people who are paid a salary by their employer. But the PAYE system is designed around an expectation that income payments will repeat on a regular cycle throughout the tax year that runs from 6 April each year. So, the timing of a pension income payment, particularly where it is the only income payment taken in that tax year, will affect the amount of income tax that an administrator is required to deduct.

So, as Mr W has been aware for many years, this results in the pension income he is paid in April and May each year suffering a greater income tax deduction that is actually due. I am sure that is very frustrating for him, but there is little Aegon can do until it is sure that it has paid all the income due to Mr W for that tax year.

In my experience this sort of tax overpayment would normally be refunded to a consumer by HMRC several months later. But Aegon has put in place a manual process that reassesses the income tax that is due following the final payment being made. In 2025 those calculations indicated that Mr W's income payments had seen an excess income tax deduction of £2,551.73. So Aegon arranged for a rebate of that value to be paid to Mr W. I think that calculation was a correct reflection of the information that Aegon held. And, as I've said above, even if Aegon had held the updated tax code, the rebate would only have been reduced by £104.

The tax code issued to Mr W by HMRC is a negative code. That would seem to suggest that he receives significant other income – the negative code allows HMRC to recoup more than the standard amount of tax from the income payments Mr W receives from Aegon. So, I think it is likely that the additional tax he is being asked to pay by HMRC is as a result of income from elsewhere, rather than the income he received from Aegon. It appears to me that the income he received from Aegon has been correctly taxed, in line with the tax code it held from HMRC. Aegon would not be aware of any other income Mr W received that might also result in an additional income tax liability.

Ultimately, as I set out above, my aim in any decision would be to ensure that Mr W has not lost out financially as a result of any error. It is the responsibility of HMRC to calculate the income tax that Mr W is liable to pay on the whole of his income. Regardless of any actions by Aegon, that calculation will be unchanged. At the very worst, an overgenerous rebate from Aegon would simply result in the deferral of Mr W's income tax liabilities on the payments from the time they were paid until after the end of the tax year. Although that might have some administrative inconvenience for Mr W it would actually result in him having the use of the money needed to pay the tax that was due for an extended period of time.

I appreciate that this decision will be disappointing for Mr W. But I haven't seen anything to make me think Aegon has done something wrong that has caused him to lose out. I think the income tax it calculated (including the rebate it paid to Mr W) was correct. And I haven't seen anything to persuade me that Aegon failed to apply a tax code to Mr W's income payments that it had received from HMRC.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Scottish Equitable Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 3 March 2026.

Paul Reilly
Ombudsman