



Case study: Investment/Funds

MISLEADING PENSION PLAN ENCASHMENT ADVICE LEADS TO ADDITIONAL TAX CHARGES

Themes: Encashment; process and procedures; tax implications.

This complaint relates to tax charges that the complainant incurred on a pension plan encashment when she was incorrectly advised of possible tax implications.

In December 2018, Mrs W held a pension plan and requested an adviser to encash this on her behalf. The adviser dealt with the encashment and sent a letter to Mrs W providing a breakdown of the pension plan, to include; the current fluctuating value of the pension, the value of a tax-free sum that was part of the pension plan, the value of the gross proceeds and the fees that the arranger charged for their advice and administration.

Using this report to complete her tax return, Mrs W excluded details of the tax-free sum. However, she was contacted by the tax authorities who stated she was required to pay tax on the full amount, including the tax-free sum as she had not made an application to the tax authorities to declare this sum. The tax authority also increased her tax rate to incorporate the tax-free sum. Mrs W had relied on the information provided by the adviser and made a complaint to them, requesting a refund of the fees she had paid, approximately £250 and the additional tax she was now liable for, approximately £650. The adviser made an offer to compensate Mrs W but she refused this and referred her complaint to CIFO.

CIFO investigated and noted that Mrs W had relied on the report provided by the arranger, detailing the breakdown of her pension plan, and subsequently had completed her tax return using this information. As the information omitted the need to make an application to the tax authorities for the tax-free sum, CIFO felt that the adviser had misled Mrs W into believing she was not liable to pay tax on that sum. As a result, she lost the opportunity to claim the tax-free sum. CIFO concluded that the arranger should cover the additional tax Ms W had paid, along with a refund of the fees Mrs W had to pay for their advice and administration. CIFO upheld the complaint and recommended the arranger compensate Mrs W £900 in total. Both parties accepted the recommendation.