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CHARTERED ACCOUNTANTS

NEWS UPDATE - 16 June 2025

Contents

Will simple assessment take you by surprise?

In June, HMRC begins sending out simple assessments. They will come as a surprise to many recipients.

From June 2025, HMRC will begin to issue simple assessment letters to those who are not required to make full self assessment returns. As a rule, you will receive a simple assessment letter if you:

- owe income tax that cannot be automatically taken out of your income;
- owe HMRC £3,000 or more;
- have tax to pay on your State pension;
- either do not have a PAYE code or HMRC cannot collect the tax due via an adjustment to your code.

The letter covers the 2024/25 tax year and gives:

- a detailed calculation of the tax due;
- the latest date by which you must pay the tax (31 January 2026 for the 2024/25 tax year);
- how you pay the tax;
- what action to take if you disagree with HMRC's numbers.

HMRC says that while some people receive a simple assessment every year, for most recipients the letter will come out of the blue. One major reason why that happens, and happens in growing numbers, is the freeze in the personal allowance. This has been fixed at £12,570 since April 2021 and is currently not due to rise until 2028/29.

The basic levels of old and new State pensions are currently (2025/26) below the level of the personal allowance. However, if you have additional State pension (which increased by 6.7% in 2024/25), it could be enough, in combination with the main State pension, to take your total State benefits over £12,570. The same could be true if you deferred your State pension(s), resulting in an increased payment.

To further complicate matters, if you owe tax on bank and/or building society interest, HMRC may send you two simple assessment letters for 2024/25, depending on when they receive the interest information. In those circumstances, any amount due on the second assessment is independent from the first.

What HMRC is likely dreading is an overall increase in the new State pension of 5% or more from the current level (£230.25 a week) before the 2028/29 tax year begins. If that happens, the new State pension alone will exceed the personal allowance, potentially dragging anyone receiving a full new State pension into tax. With inflation presently above 3% and around 5.5% earnings growth, that 5% threshold could be breached in 2026/27.

You can find out about simple assessment letters from HMRC from the link below:

https://www.gov.uk/check-simple-assessment

Lack of awareness around Making Tax Digital

With less than a year until quarterly filing under Making Tax Digital (MTD) is introduced, a recent survey has found that nearly one-third of sole traders are oblivious to the changes.

Furthermore, for the other two-thirds of sole traders who are aware of MTD, there is a large proportion who have not made any preparations. With an estimated three million sole traders, this translates to a worrying number who are not ready for MTD. The survey did not cover landlords.

From April 2026, MTD will become mandatory for sole traders and landlords with an annual income of more than £50,000. The threshold will drop to £30,000 in 2027 and to £20,000 in 2028.

Generational gap

The number of self-employed people has fallen considerably in recent years, although numbers have started to pick up again. Much of the recent increase is due to people working beyond the traditional retirement age, with nearly a quarter of self-employed people now aged 60 or older.

It is the older cohort of sole traders who may struggle the most with MTD. The survey found that those in the 25-to-34 age group were more likely to be well-prepared for April 2026, with a majority feeling the changes will have a positive impact on their approach to filing taxes.

Impact

Some sole traders have deliberately kept their income below £90,000 so that they do not have to worry about VAT registration:

- Although they will be able to use a three-line account approach based on total income and expense figures, the additional administration requirements are unlikely to be welcomed.
- The deadlines for quarterly MTD submissions are considerably tighter than the self assessment tax return deadline of 10 months; with just over a month in which to make each quarterly submission.
- Late submissions will lead to penalties.

One loophole to delay mandatory MTD is to change a sole tradership into a partnership. Rather than, for example, employing a spouse, civil partner or family member, that person could be brought in as a junior partner. MTD requirements would then be postponed, possibly for at least three years.

HMRC's guidance to find out if and when you need to use MTD for income tax can be found from the link below:

https://www.gov.uk/guidance/check-if-youre-eligible-for-making-tax-digital-for-income-tax

Inheritance tax and lifetime gifts

With the inheritance tax (IHT) nil rate bands unchanged for 16 years, more individuals are making lifetime gifts to minimise IHT liability when they ultimately die. However, anyone making gifts needs to be aware of the available exemptions.

Gifts, regardless of their size, are exempt from IHT if the donor then lives for seven years. However, it is always prudent – especially for older donors – to make use of available exemptions.

The most useful exemptions are those for gifts to a spouse or a civil partner, the annual exemption and gifts from income.

Spouse or civil partner

Although a gift to a spouse or civil partner is exempt from IHT, such a gift will not reduce the value of a couple's combined estate. However, if one spouse or civil partner is younger or in better health than the other, it makes sense for that individual to have sufficient funds so they can then make family gifts.

Annual exemption

The exemption is only £3,000 a year, although any unused amount can be carried forward to the following year; with the current year's exemption used before any brought forward amount. A couple could use this exemption to invest £6,000 a year into a Junior Individual Savings Account (JISA) for a grandchild.

Gifts from income

Probably the most useful of the exemptions is gifts from income, given that the amount of gift is, in theory, unlimited each year. It's also the most complicated, with three conditions to be met:

- The gift must be made out of income, not capital (income is after paying income tax, with HMRC arguing that income becomes capital two years after it is received);
- The gift must be part of the donor's normal expenditure (this means the expenditure has to be habitual or regular); and
- The donor is left with sufficient income to maintain their usual standard of living (so, it is essentially just surplus income that qualifies).

This exemption is ideal for paying school fees for grandchildren. However, it would be of no use where a parent or grandparent helps with a house deposit, because such a gift would not be habitual or regular.

HMRC's basic guide to how IHT works, including details of various exemptions, can be found from the link below:

https://www.gov.uk/inheritance-tax

What you may rely on in court may not be AI

Representing yourself at the First Tier Tribunal is one thing, but relying on artificial intelligence (AI) as a basis for appealing an HMRC decision, without human verification, is quite another.

Discovery assessment

A recently heard case concerned a discovery assessment for just over £2,500 in tax from a high-income child benefit charge for 2018/19. The delay was largely caused by uncertainty over whether HMRC could rely on discovery assessments. The government subsequently legislated in HMRC's favour, meaning the use of a discovery assessment cannot be used as a basis for defence even though the legislation is retrospective in its application.

Artificial, not entirely intelligent

The taxpayer's entire defence was suspect due to over-reliance on AI:

- One aspect of the defence put forward was that HMRC should have notified the taxpayer of the charge, despite the primary responsibility for declaring tax liabilities resting with the taxpayer.

- Although none of the cases pulled up and cited by the AI used were entirely fictitious, the cases that were put forward in the taxpayer's defence were irrelevant to the tax charge in question.

This is, of course, the problem with AI if not used correctly – the AI may not fully understand what is being asked or may miss relevant information. The result is an answer that seems plausible, but is not relevant or accurate. Indeed, the judge for the case said that there is no reason why AI should not be used to research a defence, but the results need to be checked carefully.

HMRC's use of AI

HMRC itself, of course, makes extensive use of AI, for example, to analyse large amounts of data, such as when a taxpayer's declared income is insufficient to support their lifestyle. Landlords should be aware that AI allows HMRC to search a range of databases, including the Land Registry, listing websites and various tenants' deposit schemes to establish whether property income is being correctly declared.

Although aimed at public bodies, the government's artificial intelligence playbook clearly explains the limitations of AI.
The playbook can be found from the link below:

https://www.gov.uk/government/publications/ai-playbook-for-the-uk-government

Employment status revised for hair and beauty salons

HMRC has recently published guidance on whether people working in the hair and beauty industry should be treated as employed or self-employed. This is an important distinction for owners of such businesses who are renting out chairs.

There is a growing trend of salon owners renting out chairs to other salon businesses. This business model, itself, can blur the lines between employment and self-employment for those working in salons, making it essential to understand the distinctions used by HMRC.

Incorrect classification can have serious tax consequences, especially if the mistake comes to light following an HMRC compliance check.

Self-employment

The classification for some salons will be straightforward, such as where the owner doesn't work themselves, but rents a number of chairs to people who each work on an independent basis. However, other salons may consist of a mix of working owners, employees and chair renters. The classification here will often be less clear-cut, especially as the salon may want to present a common brand identity.

Some aspects of establishing self-employed status should be simple to implement, if the salon has not already done so. For example, chair renters should:

- Have their own business bank accounts and business insurance;
- Buy their own products and equipment;
- Have their own client list; and
- Keep business records.

A common till or card machine is not an issue as long as income is separated for each chair renter.

Problem areas

Ideally, chair renters should be able to decide the hours they work, and when to take time off. However, if a salon has walk-in customers, the owner will want to have a minimum number of personnel available. The decision may, therefore, be something of a compromise, but make sure the input from chair renters is documented.

Similarly, chair renters should be setting their own prices, but this will be problematic if everyone is offering the same services. Clearly, chair renters should set their own prices for any exclusive services they offer. Even if there is a common pricing, each chair renter should display their own price list.

The recently published guidance (along with a link to the check employment status for tax (CEST) tool) can be found from the link below:

https://www.gov.uk/guidance/check-employment-status-if-you-work-in-hair-and-beauty

Should you wish to discuss this News Update in further detail please contact BGM at: communications@bgm.co.uk