ZAZEN TAX

Digital Products and VAT

Sell a printable through Etsy and the platform handles the VAT. Sell exactly the same file from your own website and you are responsible for it, in every country your buyers live in, from the first sale and with no threshold. This book is about that gap and how to stay on the right side of it.

Ten chapters. Rates and rules as at August 2026.

> **WHO THIS IS FOR**
> Anyone selling files: printables, patterns, presets, templates, fonts, e-books, courses and audio. On a marketplace, from your own site, or both.

CHAPTER ONE

Why digital is a different problem

VAT on physical goods follows the goods. VAT on digital services follows the customer. That single difference is where all the difficulty comes from.

The place of supply

For a digital service sold to a consumer, the supply is treated as taking place where the customer is, not where you are. So a UK maker selling a printable to a buyer in Berlin has made a supply in Germany, and German VAT is in principle due on it.

Multiply that by twenty-seven member states and it becomes obvious why the rules could not be left as they were, and why the answer everybody arrived at was to make the platforms deal with it.

There is no threshold to hide behind

The UK's £90,000 registration threshold is available to UK-established businesses for UK supplies. It does not apply to a supply made in another country. For cross-border digital sales to consumers the threshold is nil, and it has been since 2015.

> THE SENTENCE THAT CATCHES PEOPLE
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> Selling one two-pound printable to one buyer in France creates a French VAT liability in principle. Not at ten thousand euros, not at any number. At the first sale.

What actually saves most sellers

Selling through a marketplace. If Etsy is the deemed supplier, the liability is Etsy's rather than yours, and that is the reason most digital sellers never have to think about any of this. The rest of the book is mostly about when that protection applies and when it stops.

CHAPTER TWO

What counts as digital

The definition is narrower than it sounds, and the boundary matters because it decides which set of rules applies.

The test

A digital service is one delivered over the internet, essentially automated, and with minimal or no human intervention. All three parts matter, and the third is the one that moves things across the line.

This	Because
A printable delivered instantly on payment	Digital. Automated, no human involved.
A pattern PDF downloaded from your shop	Digital. Same reasoning.
A font, a preset, a template, a sample pack	Digital.
A pre-recorded course a buyer works through alone	Digital.
A live online class you actually teach	Not digital. There is real human intervention.
A design you email over after discussing it	Not digital. You did the work for that customer.
A file you personalise by hand before sending	Not digital, though this one is genuinely arguable.

> WHY THE BOUNDARY IS WORTH KNOWING
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> Digital services follow the customer's country from the first sale. Other services generally follow your own establishment and sit under your ordinary threshold. Two files that look identical to a buyer can be on opposite sides of that line, and the difference is whether a person did something.

The personalisation question

A printable with a name typed into a template before sending is close to the line. If the process is automated it stays digital. If you open the file and do the work yourself it probably is not. Nobody will thank you for building a business that depends on the answer, so if you are near the line, ask before you scale.

CHAPTER THREE

The deemed supplier rule

This is the mechanism that lets most digital sellers ignore chapters one and two entirely, so it is worth understanding rather than just relying on.

What it does

Where a marketplace facilitates a digital sale to a consumer, the rules treat the transaction as two supplies rather than one. You supply the marketplace, and the marketplace supplies the consumer.

The consumer-facing supply is the marketplace's, so the marketplace charges the consumer the right VAT for their country, collects it and pays it over. You never touch it.

	What happens
The buyer pays	The listing price, with the VAT for their country inside it
Etsy accounts for	That VAT, to that country's authority
You receive	The price less the VAT and less Etsy's fees
You are responsible for	Your own supply to Etsy, and nothing in the buyer's country

What it does not do

It does not make the money disappear from your business. The gross figure still passed through your shop, and how it is treated for your own turnover depends on how your supply to the platform is characterised.

> BE CAREFUL HERE, AND THIS IS THE HONEST POSITION
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> It is widely written that platform-collected VAT means digital sales sit outside your own registration threshold. That does not follow automatically, and published guidance is not consistent on it. If you sell physical items as well and the two together are near £90,000, get a straight answer for your own facts rather than relying on a blog, including this one.

Check it is actually happening

Look at a real order. If the marketplace has collected VAT you will see it on the transaction, and the amount deposited will be net of it. If you cannot find it, do not assume it happened.

CHAPTER FOUR

Selling from your own site

The chapter that matters most, because this is where sellers move when they get tired of paying Etsy, and where the protection stops.

You become the supplier

Sell the same file from your own website and there is no marketplace between you and the buyer. You are making the supply, so the place of supply rules apply to you, and for a consumer in another country that means VAT in their country from the first sale.

> THE MOVE THAT GOES WRONG
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> A seller shifts their printables from Etsy to their own shop to save the fees, and inherits a VAT obligation in every country they sell into that they did not have the day before. The fee saving is real. So is the obligation.

Three ways to handle it

- Register for the non-Union One Stop Shop and file a single return covering all your EU sales. One registration, one return, one payment, distributed by the authority you file with.
- Sell only to UK customers, and block or refuse everyone else. Crude, entirely legal, and what a great many small sellers actually do.
- Sell through a marketplace that takes the liability, which is where you started.

Payment processors are not marketplaces

Taking payment through a processor on your own checkout does not make anybody else the supplier. The supply is still yours. Some platforms genuinely act as merchant of record and do take the liability, and it is worth knowing which of the two you are using, because they look identical from the seller's dashboard and are completely different in law.

Evidence of where the customer is

If you are the supplier you need to hold evidence of the customer's location, normally two non-contradictory pieces such as billing address and the country of the payment method or IP address. Most checkout software captures this; the point is knowing that it must, and that you have to keep it.

CHAPTER FIVE

The UK sales

Your own country is the simple part and still has two things worth getting right.

UK consumers, sold direct

A UK business selling a digital product to a UK consumer from its own site makes an ordinary UK supply. It counts towards your £90,000 threshold like any other sale, and below the threshold there is no VAT to charge.

UK business customers

Selling to a UK business is still a UK supply and still ordinary. Selling to a business in another country is not: for business customers the reverse charge normally applies, the customer accounts for the VAT, and you charge none. That is why B2B digital sales are far simpler than B2C and why some sellers deliberately sell only to businesses.

> THE PRACTICAL DIFFICULTY
>
> Knowing whether a buyer is a business. On a self-service checkout you are relying on them telling you, usually by supplying a VAT number. No number means treat them as a consumer.

Zero-rated does not mean digital

Physical books are zero-rated in the UK and so are e-books and e-newspapers. Not everything digital and readable is: a downloadable pattern, a template or a course is standard-rated. If your product is genuinely a book, that is worth checking properly rather than assuming either way, because the difference is a fifth of your price.

CHAPTER SIX

The arithmetic of a download

A short chapter with one point, because the economics of digital are unlike anything else a maker sells.

No marginal cost, so the fees are everything

A download has no materials, no postage and no packaging. What Etsy charges is the entire cost of the sale, and Etsy's charges are about forty pence of flat fees plus roughly eleven per cent.

Price	Etsy takes	Of which flat	You keep
£2.00	37.2%	65%	£1.26
£5.00	22.8%	42%	£3.86
£12.00	17.2%	23%	£9.94
£20.00	15.6%	15%	£16.88

Nothing about the product changes down that table. The only thing that moves is the share the flat charges take, and at the bottom they take most of it. Below about fifty-five pence a download costs more in fees than it earns.

> WHICH GIVES YOU THE ONE PRACTICAL ANSWER
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> Bundle. Three files in one listing at three times the price pays the flat charges once rather than three times, and the buyer usually prefers it anyway.

The design cost is real and it is a one-off

Six hours of design at fifteen pounds an hour is ninety pounds, spread across every copy you ever sell. At a contribution of £3.86 that is twenty-four sales to break even, and everything after that is contribution with no cost behind it at all. That asymmetry is the whole attraction of digital and it is why the first version is worth doing properly.

CHAPTER SEVEN

Records

What to keep, and for how long, when a large part of the transaction happened inside somebody else's system.

What you need

- The platform's transaction report for every period, downloaded and kept. Platforms do not keep them for ever.
- Evidence of what the platform collected and remitted, so you can show why that money is not yours.
- If you sell direct, the customer location evidence for every sale.
- Your own sales records reconciled to the deposits, so the gap between the two is explained rather than assumed.

How long

Six years for VAT records, and six years from the filing deadline for income tax. Where digital sales to EU consumers are involved the relevant record retention can be longer, so if you have ever used a One Stop Shop scheme, keep those records for ten.

> THE ONE THAT GETS LOST
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> The platform report. It is the only document that ties your sales figure to your bank, and it is the one nobody downloads until they need it, by which time the window has often closed. Download it monthly and put it somewhere that is not the platform.

CHAPTER EIGHT

Where it goes wrong

Four failure modes, in the order they are seen.

Moving off the marketplace without noticing

By a distance the commonest. The fees were annoying, the seller opened their own shop, and nobody mentioned that the VAT position changed completely on the same day. Usually discovered a year or two later.

Treating collected VAT as income

The gross figure lands in the sales column and the VAT the platform kept never comes out again. Turnover is overstated, which matters if it pushes you towards a threshold you have not really crossed, and the profit is wrong too.

Assuming the threshold does not apply

The reverse of the last one. A seller decides that because the platform handles the VAT the sales are invisible to their own threshold, and stops counting them altogether while also selling physical items. That is a much more expensive assumption than the first.

No location evidence on direct sales

Selling from your own site without capturing where the customer was. It is not usually a problem until it is, and by then the transactions are historic and the evidence is gone.

> IF YOU FIND ONE OF THESE IN YOUR OWN AFFAIRS
>
> Correcting it yourself is materially cheaper than being found. Unprompted disclosures attract substantially lower penalties, and for a genuine misunderstanding of a genuinely confusing rule, often none at all.

CHAPTER NINE

Deciding where to sell

The fee saving and the compliance cost point in opposite directions, and the right answer depends on scale.

	Marketplace	Your own site
Fees	About 15 to 23 per cent	Payment processing only, 2 to 3 per cent
Who owes the VAT	The marketplace	You
Cross-border admin	None	Registration, returns and evidence
Customer relationship	Theirs	Yours
Traffic	Comes with it	You have to bring it
Worth it when	Starting, or small volume	Volume is high and you have traffic of your own

A rough shape

On a £5 file, Etsy takes about £1.14 and your own checkout takes about £0.30. The eighty-four pence a sale you save is worth having, and it has to cover whatever the cross-border position costs you in registration, filing and time.

At two hundred sales a year that is £168 of saving, which will not cover the admin. At five thousand sales a year it is £4,200, which comfortably will. Somewhere between those two the answer flips, and it is worth working out where rather than following advice written for the other end of the scale.

> THE MIDDLE PATH MOST SELLERS ACTUALLY TAKE
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> Both. The marketplace for reach and for the customers who arrive through it, and your own site for the buyers who come to you directly. It doubles the bookkeeping and it is still usually right.

CHAPTER TEN

Where you stand

Five questions. They will tell you which of the two positions you are in.

	Question	If yes
1	Is the product delivered automatically, with no human step?	Digital rules apply
2	Do you sell it only through a marketplace?	The marketplace owes the VAT
3	Do you also sell it from your own site?	You owe it on those sales
4	Do any of those direct sales go outside the UK?	From the first one, with no threshold
5	Do you also sell physical items?	Count everything against £90,000

If you sell only through a marketplace

— Check on a real order that the VAT is actually being collected.

— Keep the transaction reports, monthly, off the platform.

— Do not book the collected VAT as your income.

— Keep counting the sales when you look at your threshold, and get advice if you are near it.

If you sell from your own site as well

— Work out whether any of those sales are to consumers outside the UK.

— If they are, decide between registering for a One Stop Shop scheme and restricting where you sell.

— Make sure your checkout is capturing and keeping customer location evidence.

— Find out whether your payment platform is a processor or a merchant of record, because only one of those takes the liability.

> THE ONE LINE TO KEEP
>
> Through a marketplace, the VAT is somebody else's problem. From your own site, it is yours in every country you sell into, from the first sale. The file is the same either way, which is exactly why this catches people.

General information, not advice for your circumstances. Rates and rules are those applying in 2026/27 for the UK. Cross-border VAT on digital services is genuinely complicated, the treatment of platform-collected VAT against your own registration threshold is not settled by published guidance, and the rules in other countries differ. Take advice before selling digital products direct across a border.