ZAZEN TAX

The Online Seller's
UK Tax Handbook

Everything a Shopify, Amazon, eBay or Etsy seller needs to know about UK tax, in one place, on 2026/27 rates

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Sixteen chapters. Written to be read once and kept.

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Contents

This handbook is arranged in the order the questions actually arrive. If you are just starting, read it in order. If you have been trading for years, the parts you need are almost certainly three and four.

Part one

Getting the basics right

Three questions decide the shape of everything that follows: whether you are trading at all, what legal form you trade in, and what you have to tell HMRC and when.

1 Are you actually trading?

Selling things is not automatically a business. Doing it repeatedly, with a view to profit, usually is.

There is no single test. HMRC looks at what are called the badges of trade: whether you buy things intending to sell them, how often you do it, whether you modify or repackage them, how quickly you sell, and whether you advertise. Clearing out your loft is not trading. Buying stock to sell on is, from the first sale.

The £1,000 trading allowance

If your total income from self-employment and casual sales is £1,000 or less in a tax year, you do not need to declare it. Above that you must register and file, even if you made no profit at all.

Note it is measured on income, not profit. Sell £3,000 of goods that cost you £2,800 and you have £200 of profit but £3,000 of income, so you must register. This catches a great many hobby sellers who assume the small profit means small obligations.

The platforms now tell HMRC about you

Online marketplaces report seller data to HMRC directly, including your name, address and total sales. If your declared income does not match what the platform reported, the discrepancy is visible without anyone opening an enquiry.

> **IF YOU THINK YOU SHOULD HAVE REGISTERED EARLIER**
>
> Do it now rather than waiting to be asked. Penalties for failing to notify are calculated on the tax due and are reduced substantially, sometimes to nothing, where the disclosure is unprompted. Once HMRC contacts you first, that reduction largely disappears.

2 Sole trader or limited company

The short version of a question that deserves its own book, which it has.

As a sole trader you and the business are the same person. You pay income tax and Class 4 National Insurance on the profit, whether or not you take it out, through one Self Assessment return.

A company is separate. It pays corporation tax on its profits, and you are taxed again personally when you extract money as salary or dividends. In exchange you get limited liability, the ability to issue shares, and the option of leaving profits inside the company.

What the arithmetic says on current rates

Profit	Sole trader keeps	Company keeps	Difference
£30,000	£25,468.20	£24,403.45	sole ahead £1,064.75
£60,000	£46,111.40	£46,091.20	level, £20.20 apart
£120,000	£76,911.40	£74,654.37	sole ahead £2,257.03

Those figures assume a single-director company taking a £12,570 salary and extracting everything else as dividends. On that basis there is no tax saving from incorporating at any of these levels, which is not what most guidance still says. Corporation tax rose to 25 per cent for larger profits, dividend rates rose again in April 2026, and employer National Insurance went to 15 per cent. Six changes, all one way.

Where the company still wins

On profit you do not take out. Leave it inside and only corporation tax applies; the dividend tax arrives whenever you extract it, which might be years later or never. At £120,000 of profit the company's immediate bill is £18,670.56 lower. That is a deferral rather than a saving, but for a business reinvesting everything in stock it is the single most important number in this handbook.

> THE QUESTION THAT DECIDES IT
>
> Not how much you earn, but how much of it you need to live on. Need all of it and the comparison above is your answer. Reinvesting most of it and the company case is strong. Our separate guide, Sole Trader or Limited Company, works this through in full.

3 Registering, and what follows

Different registrations, different deadlines, none of them aligned.

As a sole trader

Register for Self Assessment by 5 October following the end of the tax year in which you started. Start trading in June 2026 and you are in the 2026/27 tax year, so you must register by 5 October 2027 and file by 31 January 2028.

As a company

Incorporate at Companies House, then register for corporation tax within three months of starting to trade. Registering the company is not the same as registering for tax, and people miss the second step regularly.

For VAT

Only when you are required to, or when you choose to. Chapter eleven deals with this properly, because getting the timing wrong is expensive.

For PAYE

Before the first payday, if you pay anyone including yourself as a director on a salary. Registration takes a few days, and you cannot run a compliant payroll retrospectively without penalties.

Registration	Deadline
Self Assessment	5 October after the tax year you started
Corporation tax	within 3 months of starting to trade
PAYE	before the first payment to an employee or director
VAT, compulsory	30 days from the end of the month you went over
VAT, voluntary	whenever you choose

ONE THING TO DO ON DAY ONE

Open a separate bank account, even as a sole trader where the law does not require it. Reconstructing a year of business transactions from a personal account is the single most expensive hour of bookkeeping anyone ever buys, and it makes every other question in this handbook harder to answer.

Part two

The money

What counts as income, what comes off it, and why stock makes selling physical goods different from every other kind of business.

4 What counts as your income

Not what landed in your bank. Almost never what landed in your bank.

This is the most common mistake in e-commerce bookkeeping, and it is understandable: the payout is the number you can see. But a payout has already had fees taken out of it, has had refunds netted against it, may be holding a reserve back, and covers a period that does not match your accounting month.

The bridge from sales to bank

	Amount	Running
Gross charges taken from customers	£54,390	£54,390
Less refunds issued	£1,830	£52,560
Less payment processing fees	£1,120	£51,440
Less chargebacks and their fees	£255	£51,185
Less reserve movement and timing	£850	£50,335
What actually reached the bank		**£50,335**

Your income for tax is the £54,390 of gross charges, not the £50,335 that arrived. The fees are a deductible expense, recorded separately. Recording only the net deposit understates both your income and your costs by the same amount, which happens to leave the profit right, but produces a turnover figure that is wrong by thousands and a VAT position that can be wrong too.

Three things inside that figure that are not revenue

- VAT collected, if you are registered. It is in the deposit and it belongs to HMRC. Record it as a liability, never as income.
- Shipping charged to customers. It is income, but keep it separate from product sales or your margins will lie to you.
- Gift cards sold. Money in, but no sale yet. It is a liability until redeemed, and it is a common year-end error.

> WHY TURNOVER MATTERS EVEN WHEN PROFIT IS RIGHT
>
> Your turnover decides whether you cross the VAT threshold, whether Making Tax Digital applies to you, and what HMRC expects your business to look like. A netted-down turnover figure can hide a VAT registration obligation you have already triggered.

5 What you can deduct

The test is whether the cost was incurred wholly and exclusively for the business.

That phrase does a lot of work. A cost with a private element is not automatically disallowed, but it must be apportioned honestly, and the business part must be identifiable. A laptop used four days a week for the business and three for the family is a legitimate partial claim, not an all-or-nothing question.

The ones online sellers commonly miss

Cost	What people get wrong
Mileage	55p a mile for the first 10,000 business miles from April 2026, up from 45p, then 25p. Trips to the post office and suppliers count.
Working from home	Sole traders can claim a flat £10 to £26 a month, or apportion actual costs, which is usually worth more.
Postage and packaging	Bought in bulk and often never allocated to the business at all.
Payment and platform fees	Netted off the payout, so they never appear as an expense unless you look for them.
Software subscriptions	Small monthly amounts that add up to hundreds a year.
Professional fees	Accountancy, and legal costs of trading, though not of buying capital assets.
Bank charges and interest	On business accounts and genuine business borrowing.

And the ones that are not allowable, however much it feels like they should be

— Client entertaining. Never deductible, whatever the occasion or the intent.

— Ordinary clothing, even if you only wear it for work. Protective gear and genuine uniforms are different.

— Travel between home and a permanent workplace, which is commuting.

— Fines and penalties of any kind, including parking tickets picked up while delivering.

Capital is different from cost

A laptop, a van, shelving or machinery are capital, not day-to-day costs. They are usually relieved through capital allowances instead, with the Annual Investment Allowance covering most small businesses' purchases in full in the year of purchase. The relief is often the same in the end; the treatment is not, and getting it wrong makes accounts inconsistent.

> THE RULE THAT BEATS EVERY LIST
>
> Keep the receipt and write on it what it was for. A year later the receipt alone will not tell you, and a cost you cannot explain is a cost you cannot defend. This is genuinely most of the work.

6 Stock, and why it changes everything

Buying stock is not a cost. It is swapping one asset for another.

This is the single largest conceptual difference between selling goods and selling services, and it is where most e-commerce accounts go wrong. When you spend £10,000 on inventory, your profit does not fall by £10,000. You have converted cash into stock, and the cost only reaches your profit and loss when the goods are sold.

It follows that a business can be profitable and broke at the same time, which is exactly what happens to growing online sellers. The profit is real; it is sitting in a warehouse.

What stock is worth

Stock is carried at the lower of cost and net realisable value. Cost means landed cost: what you paid the supplier plus freight, duty and handling to get it here. Net realisable value is what you could actually sell it for, less the cost of selling it.

For healthy stock, cost is far below what you can sell it for and nothing happens. For damaged, obsolete or heavily discounted stock, net realisable value falls below cost and you must write it down. That write-down increases your cost of sales and therefore reduces your tax, in the year the stock went bad rather than the year you finally scrap it.

A worked count

	At cost	At the lower of the two
Good stock, ten lines	£8,473.50	£8,473.50
Damaged seconds	£168.00	£102.00
Slow-moving clearance line	£220.00	£170.00
Closing stock	**£8,861.50**	**£8,745.50**

The £116 difference is a write-down. Leave it out and you overstate closing stock, understate cost of sales, overstate profit, and pay tax on money you did not make.

> COUNT IT PROPERLY, ONCE A YEAR AT LEAST
>
> Include stock wherever it physically sits: your shelves, a fulfilment centre, an Amazon warehouse, or on a ship if title has passed. Exclude anything held on consignment that you have not bought. And watch the cut-off, because goods received but not yet invoiced are the commonest reason a stock count refuses to agree with the books.

7 Cost of sales and the timing trap

Cost of sales measures what you sold, not what you bought.

The formula is short: opening stock, plus purchases, minus closing stock. What went in and is no longer there must have been sold, and that is what reaches your profit and loss.

	Amount
Opening stock	£7,245.50
Purchases and direct costs in the year	£76,500.00
Less closing stock	£8,745.50
Cost of sales	**£75,000.00**
Revenue	£180,000.00
Gross profit	**£105,000.00**

A gross margin of 58.3 per cent, on a business turning over £180,000. Watch that percentage year on year: if it drifts down without a price change, either buying costs moved and prices did not follow, or stock is going missing.

Where the timing trap bites

A seller who buys heavily in March for a spring launch, with a 31 March year end, will have spent the cash but not sold the goods. If they treat the purchase as a cost, their accounts show a loss that did not happen. If they treat it correctly as closing stock, the profit is right and the cash position is simply tight, which is a different problem with different solutions.

> THE BRIDGE THAT MUST HOLD
>
> Cost of sales in your accounts, closing stock on your balance sheet, and the stock count on your shelf all have to agree. When they do not, it is almost always cut-off: goods counted but not invoiced, or invoiced but not counted.

Part three

The taxes

The rates, the bands and the thresholds, for both structures, with the things that catch people out flagged as they arise.

8 Income tax and National Insurance

For sole traders, and for anyone taking a salary from their own company.

Band of income	Income tax	Class 4 NI, self-employed
Up to £12,570	nothing	nothing
£12,570 to £50,270	20%	6%
£50,270 to £125,140	40%	2%
Over £125,140	45%	2%

Class 2 National Insurance was abolished as a compulsory charge in April 2024. Self-employed people with profits above the small profits threshold now get their State Pension credit through Class 4 without a separate bill.

The sixty per cent band

Between £100,000 and £125,140 the personal allowance is withdrawn at £1 for every £2 of income. Each extra pound therefore costs 40p of tax on itself and 40p on the allowance it removes, which is an effective rate of about 60 per cent before National Insurance. A pension contribution that brings income back below £100,000 is unusually valuable in that band.

Payments on account

Sole traders with a tax bill over £1,000 pay in three instalments: the balance for the year plus half of next year's estimate on 31 January, and the other half on 31 July. In your first profitable year that means paying roughly one and a half years of tax in a single January, which is the single most common cash shock in self-employment.

> **PUT THE MONEY ASIDE AS YOU EARN IT**
>
> A separate savings account with a fixed percentage of every payout moved into it is worth more than any amount of forecasting. Around 30 per cent covers most basic-rate sole traders once Class 4 is counted; higher earners should set aside more.

9 Corporation tax

Two rates, and a strange middle that catches profitable small companies.

Profits	Rate	Effective rate on that slice
Up to £50,000	19%	19%
£50,000 to £250,000	25% with marginal relief	26.5%
Over £250,000	25%	25%

The middle band is the surprise. Marginal relief tapers the small profits rate into the main rate, and the arithmetic means every pound of profit between £50,000 and £250,000 is effectively taxed at 26.5 per cent, which is higher than the main rate itself. A company in that band saves 26.5p for every pound of allowable spend, which makes timing a pension contribution or a capital purchase unusually worthwhile.

Associated companies

The £50,000 and £250,000 limits are divided by the number of associated companies plus one. Two companies under common control each get limits of £25,000 and £125,000, so both hit the higher rates sooner. If you have set up a second company for a separate venture, this is worth checking before it costs you.

When it is due

Nine months and one day after your accounting period ends, which is three months before the company tax return that works out the figure is due. The money comes first. It is the most common cash surprise in a small company's first profitable year.

10 Getting money out of a company

Three routes, taxed three different ways, and one trap.

Salary

Deductible for the company, so it saves corporation tax, but it attracts employer National Insurance at 15 per cent above £5,000 and, above £12,570, income tax and employee National Insurance. For a single-director company the sweet spot is a salary of £12,570, and that is not a rule of thumb: it beats every alternative when you test every salary from zero upwards.

Dividends

Paid from profits after corporation tax, so not deductible. The first £500 is tax free, then 10.75 per cent within the basic rate band, 35.75 per cent in the higher band and 39.35 per cent above that. Both the basic and higher rates rose two points in April 2026.

Dividends must be paid from distributable profits and properly documented. A dividend voted when the company has no profits available is not a dividend at all; it is a loan, with the consequences below.

A director's loan, which is the trap

Money taken out that is neither salary nor dividend is a loan from the company to you. Nothing wrong with that in itself, but leave the account overdrawn nine months and one day after the year end and the company pays a charge on the outstanding balance.

	Rate or threshold
Section 455 charge, loans advanced before 6 April 2026	33.75%
Section 455 charge, loans advanced from 6 April 2026	35.75%
Benefit in kind threshold, at any point in the year	£10,000
Official rate of interest, 2026/27	3.75%
Class 1A National Insurance on the benefit	15%

Two details make this worse than people expect. The charge is refundable but only nine months after the end of the period in which you repay, so the money can sit at HMRC for the better part of two years. And repayments are matched against the oldest advances first, so paying money back clears the cheaper pre-April borrowing and leaves the more expensive borrowing behind.

> **BED AND BREAKFASTING DOES NOT WORK**
>
> Repaying just before the deadline and withdrawing again afterwards is specifically blocked. Where £5,000 or more is repaid and similar amounts are taken within 30 days, the repayment is matched against the new borrowing and the charge stands anyway.

11 VAT: the ninety thousand pound question

The threshold is not a tax year and not a calendar year. It is any rolling twelve months.

That single detail catches more sellers than any other rule in this handbook. A business can sail through two clean tax years and still have crossed the threshold in a twelve-month window that straddles them both.

The two tests

- The backward look. At the end of every month, add up taxable turnover for the last twelve months. Over £90,000 and you must tell HMRC within 30 days of the end of that month, with registration effective from the first day of the second month after you went over.
- The forward look. If at any point you expect to exceed £90,000 in the next 30 days alone, register immediately, effective from the date you realised. One unusually large order can trigger this with the rolling total nowhere near the threshold.

What counts towards it

Everything standard-rated, reduced-rated and zero-rated. Zero-rated sales carry no VAT but they do count towards the threshold, which surprises food and children's clothing sellers every year. Exempt supplies and sales of capital assets do not count.

> LATE REGISTRATION DOES NOT DELAY THE BILL
>
> You owe VAT from the date registration should have taken effect, whether or not you charged it to your customers. Going back to customers months later to ask for twenty per cent more is rarely possible, so the money usually comes out of your own margin, with a penalty on top.

Deregistration and voluntary registration

You can deregister when taxable turnover falls below £88,000. And you can register voluntarily at any level, which is often worthwhile for importers, for zero-rated sellers, and for anyone selling mainly to other VAT-registered businesses who reclaim whatever you charge them.

12 VAT: what changes the day you register

It is a pricing event before it is a compliance event.

From your effective date, a fifth of everything a consumer pays you belongs to HMRC. You face a choice you cannot avoid: raise your prices, or absorb it. Most sellers assume absorbing it costs them the full twenty per cent. It does not, because registration cuts both ways: you also start reclaiming VAT on your costs.

On a £45 product	Before	Absorbing	Passing on
Shelf price	£45.00	£45.00	£50.50
VAT handed over	none	£7.50	£8.42
Revenue kept	£45.00	£37.50	£42.08
Costs, net of reclaimed VAT	£20.11	£17.03	£17.18
Contribution	**£24.89**	**£20.47**	**£24.90**

Absorbing the VAT costs about eighteen per cent of your contribution, not twenty. And restoring it takes a twelve per cent price rise, not twenty, because the reclaim on your costs does the rest of the work. That is a very different conversation to have with your customers.

Which scheme

- Standard accounting. Charge VAT on sales, reclaim it on costs, pay the difference quarterly. Right for most sellers who buy stock.
- Cash accounting. The same, but based on money received and paid rather than invoice dates. Helpful when customers pay slowly, which is rare in retail and common in wholesale.
- The Flat Rate Scheme. Pay a fixed percentage of gross turnover and generally do not reclaim input VAT. Simpler, and occasionally cheaper, but rarely right for a business buying significant stock.

Selling abroad

Sales to customers outside the UK have their own rules, and marketplaces often account for the VAT themselves on your behalf. If you sell into the EU, or hold stock abroad, get specific advice: storing goods in another country can create a registration obligation there regardless of your UK position.

Part four

Staying out of trouble

Records, digital filing, dates, and the handful of mistakes that account for most of the money lost.

13 Records, and how long to keep them

The obligation is not to keep receipts. It is to be able to show how every figure was arrived at.

How long

	Keep for
Sole trader records	5 years after the 31 January filing deadline
Company records	6 years from the end of the accounting period
VAT records	6 years
Anything involving an asset you still own	until it is sold, plus the periods above

What to keep

- Sales records: platform reports, invoices, and the payout statements that bridge them to your bank.
- Purchase records: supplier invoices, import documents showing duty and freight, and the allocation you used to spread them across products.
- Bank statements for every account the business used, including a personal one if business money went through it.
- Your stock count at each year end, with the workings, including any write-downs and why.
- Mileage and home-office workings, which are the two most commonly challenged claims and the two most commonly undocumented.

> **DIGITAL COPIES ARE FINE**
>
> HMRC accepts scans and photographs, provided everything is legible and complete. A phone photograph of a receipt taken at the till, filed in a dated folder, is a better record than a shoebox of faded thermal paper, and takes less time.

14 Making Tax Digital

Already live, and the threshold falls further.

From April 2026, sole traders and landlords with qualifying income over £50,000 must keep digital records and send quarterly updates to HMRC through compatible software, in addition to a final declaration after the year end. A spreadsheet alone does not satisfy this unless it is bridged to HMRC by software.

The quarters

Period ending	Update due by
5 July	7 August
5 October	7 November
5 January	7 February
5 April	7 May

The quarterly updates are summaries, not full returns, and no tax is payable with them. The final declaration after the year end is what confirms the position and triggers payment, on the usual 31 January date.

> **WHAT TO DO IF YOU ARE CLOSE TO £50,000**
>
> Qualifying income is gross income from self-employment and property before expenses, not profit. A seller turning over £60,000 with £25,000 of costs is inside the regime, despite profits well under the threshold. If you are near it, assume you are in and get the software sorted before the first quarter rather than after it.

15 Your deadline calendar

Four regimes, four anchors, nothing lining up with anything.

Deadline	When
Company accounts to Companies House	9 months after the year end
Corporation tax payment	9 months and 1 day after the year end
Company tax return	12 months after the year end
Confirmation statement	14 days after your own review date
VAT return and payment	1 month and 7 days after the quarter end
PAYE payment	22nd of the following month, electronically
P60s to employees	31 May
P11D benefits returns	6 July
Class 1A National Insurance	22 July
Self Assessment and balancing payment	31 January
Second payment on account	31 July

What late costs

- Company accounts: £150 up to a month late, rising to £1,500 beyond six months, and doubled if you were late the previous year too.
- Company tax return: £100 immediately, £100 more at three months, then ten per cent of the unpaid tax at six months.
- Self Assessment: £100 the moment you miss 31 January even if you owe nothing, then £10 a day from three months.
- VAT: a points-based system, with a £200 penalty once you reach the threshold and £200 for every late return after that.

> **THE ONE TO DIARISE SEPARATELY**
>
> Corporation tax falls due three months before the return that calculates it. Put the payment date in your diary as its own entry, not as part of the filing date, because they are not the same day and the money one comes first.

16 The mistakes that cost the most

In rough order of how much they cost the people who make them.

Treating the payout as the sale

It understates turnover, hides the fees you could have deducted, and can conceal a VAT registration obligation you have already triggered. Fix it by recording gross charges and fees separately, every month.

Treating stock purchases as costs

It makes a profitable business look like a loss-making one, and produces accounts that will not survive a moment's scrutiny. Stock is an asset until it sells.

Missing the VAT threshold by watching the wrong window

The rolling twelve months is not your accounting year. Watch it monthly, because registering late means paying VAT you never collected.

Taking money out of a company casually

Every unclassified withdrawal is a director's loan. Left overdrawn past the deadline it costs the company 35.75 per cent of the balance, refundable eventually but not for a long time.

Under-claiming out of caution

Mileage, working from home, and the small subscriptions people feel awkward claiming add up to thousands over a few years. A properly documented claim is not aggressive; it is accurate. Guessing downwards is not safer, it is just wrong in the direction that costs you.

Leaving it all to January

Every problem in this handbook is cheaper to fix in month three than in month thirteen. By January the year is closed, the choices are gone, and all that remains is calculating what the decisions you did not know you were making have cost.

What good looks like

It is a shorter list than you would think.

- A separate business bank account, with no personal spending running through it.
- Ten minutes a week reconciling payouts, so that fees, refunds and reserves are recorded rather than reconstructed.
- A monthly figure for turnover you actually trust, and a rolling twelve-month total watched against £90,000.
- A stock count at the year end, valued at landed cost, with write-downs shown separately.
- A separate savings account holding the tax you already know you owe.
- Deadlines in a calendar rather than a memory, with the corporation tax payment date entered separately from the filing date.

None of that is sophisticated. All of it is the difference between a January that is an administrative task and a January that is a nasty surprise.

> FREE TOOLS FOR EVERYTHING IN THIS HANDBOOK
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> Every calculation here has a free calculator or Excel workbook on zazentax.com: VAT, corporation tax, dividend tax, take-home pay, cost of goods sold, landed cost, inventory counts, payout reconciliation, the tax calendar and more. They all use the same rates as this book.

And when to stop reading and ask

Handbooks are good at the general case. They are useless at the specific one, which is where your actual money is. If you are approaching the VAT threshold, deciding on structure, holding stock abroad, employing anyone, or looking at a director's loan you did not realise you had, those are all situations where twenty minutes of advice costs less than the mistake.

Zazen Tax

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