ZAZEN TAX

# The Maker's UK Tax Handbook

If you make things and sell them, you are trading from the first sale, whatever the volume and whatever you call it. This is what follows from that: what you can deduct, what your equipment does to your tax, why your stock is worth more than you think, and how to charge for the hours nobody sees.

Ten chapters. Rates and rules as at August 2026.

> **WHO THIS IS FOR**
>
> Anyone making things and selling them, on Etsy, at fairs, through their own site or all three. Potters, printers, jewellers, bakers, sewers, woodworkers and everybody else who has ever been asked what they do and hesitated.

CHAPTER ONE

# You are trading, and that is fine

Making something in order to sell it is trading from the very first sale. There is no volume test, no grace period and no threshold below which it does not count. That surprises people who knit or bake or print as a hobby and sell the surplus, so it is worth saying plainly at the start.

## Why making is different from clearing out

Selling your own used possessions is not trading at any level. Selling things you made is, because the object did not exist until you made it to sell. The fact that you enjoyed making it changes nothing, and neither does the fact that it started as a hobby.

> SAID ONCE, PLAINLY
>
> If you made it to sell, it is trading income. If you owned it and used it, it is not. Almost every hard case in this area is really a question about which of those two describes what happened.

## What saves most small makers

The trading allowance. If your total trading income for the year is £1,000 or less, there is nothing to declare and nothing to register for. That covers an enormous number of hobby sellers completely.

The trap is that it is measured on income and not on profit. Materials are expensive and handmade margins are thin, so a maker turning over £3,000 and making £600 is well over the allowance despite the modest profit. The test is the £3,000.

| Income | Materials and costs | Profit | Over it? |
|---|---:|---:|---:|
| £800 | £300 | £500 | No |
| £1,000 | £400 | £600 | No, exactly at it |
| £3,000 | £2,400 | £600 | Yes |
| £12,000 | £9,800 | £2,200 | Yes |

## Once you are over it

You choose each year between deducting the flat £1,000 or your actual costs. For a maker with real materials, actual costs almost always win, and the rest of this book is about what those actually are.

CHAPTER TWO

# What you can deduct

The rule is that a cost is deductible if it is wholly and exclusively for the business. For a maker that catches almost everything, and the arguments are nearly always about apportionment rather than about principle.

## The obvious list

- Materials: clay, glaze, fabric, thread, wire, wax, wool, ink, paper, timber, findings, blanks.
- Consumables: sandpaper, glue, brushes, blades, gloves, cleaning things.
- Packaging: boxes, tissue, tape, labels, cards, filler.
- Postage, and any postage insurance.
- Platform and payment fees: Etsy, card readers, your own website.
- Advertising: Etsy Ads, Offsite Ads, printed cards, a stall banner.
- Stall fees, and the pitch at a market.
- Photography props and backgrounds, if they are for product photographs.
- Software: bookkeeping, design, a website, cloud storage.
- Insurance: public liability for fairs, stock and equipment cover.
- Training that maintains or updates the skills you already trade on.

## The one everybody forgets

Your own travel. Going to buy materials, going to a fair, delivering a commission, taking work to be photographed. It is deductible and almost nobody logs it, which is dealt with properly in chapter five.

## Where it gets argued

| The cost | The question |
|---|---:|
| A tool you also use at home | What proportion is business? Apportion it honestly and write down how. |
| Fabric you also made a dress from | Same. Buy separately if you can, it is far easier to evidence. |
| Clothes to wear at a fair | Not deductible unless they are protective or a uniform with a logo. |
| A course in a craft you do not yet sell | New skill rather than maintaining an existing one, so usually not. |
| Lunch at a fair | Not deductible. Everybody has to eat. |
| A phone you use for everything | Apportion by use, and keep the basis of the split. |

THE HABIT THAT MAKES ALL OF THIS EASY

> A separate bank account, and a photograph of every receipt on the day. Not because either is legally required for a sole trader, but because the alternative is reconstructing a year of purchases from a bank statement that does not say what anything was.

CHAPTER THREE

# Equipment, and the year you buy it

A kiln, a laser cutter, a sewing machine, a lathe, a good camera. These are not ordinary expenses, and the way they are treated is more generous than most makers realise.

## The Annual Investment Allowance

Equipment normally gets relief over several years. The Annual Investment Allowance lets you take the whole cost against your profit in the year you buy it instead, up to £1,000,000 a year. That limit is permanent and no maker is going to trouble it.

So in practice, a £2,400 kiln bought in a year when you made £9,000 reduces your taxable profit to £6,600 in that year, rather than dribbling relief out over the next decade.

> WHICH MEANS TIMING MATTERS
>
> Buying equipment just before your year end brings the whole relief into this year. Buying it a fortnight later pushes all of it into next. If you are near a threshold or having an unusually good year, that fortnight is worth thinking about.

## What counts

Plant and machinery, which is broader than it sounds. Kilns, wheels, looms, presses, sewing and knitting machines, laser cutters, 3D printers, cameras used for product photography, computers, workbenches, shelving and tools. Cars are excluded and have their own rules.

## Equipment you already owned

If you bring something you already own into the business, you can claim on its market value at the point it came in, not on what you originally paid. A sewing machine bought years ago as a hobbyist and now used for the business has a value, and it is worth establishing one rather than treating it as worth nothing.

## Selling it later

If you claimed the full cost and later sell the equipment, the sale proceeds come back into your profit. That is not a penalty, it is the other half of having had the relief up front, and it surprises people who have forgotten they claimed it.

CHAPTER FOUR

# The studio at home

Most makers work at home, and there are two ways to claim for it. One takes a minute a year and the other is usually worth more.

## The flat rate

HMRC's simplified expenses let a sole trader claim a flat monthly amount based on hours worked at home, with no receipts and no room-by-room arithmetic.

| Hours a month at home | A month | A year |
|---|---:|---:|
| 25 to 50 | £10 | £120 |
| 51 to 100 | £18 | £216 |
| 101 or more | £26 | £312 |

It is available to sole traders and partnerships, not to limited companies. It takes no time at all and for a maker working most of the week at home it is usually worth less than the alternative.

## The actual cost method

Work out the running costs of the property, then apportion them by the space used and the time it is used for. Rent or mortgage interest, council tax, electricity, gas, water, broadband and contents insurance all go in.

A potter using one room of six, and using it for business two thirds of the time, claims a sixth of the costs multiplied by two thirds. Write the calculation down once and reuse it, and revisit it if the space or the hours change.

> THE KILN MAKES THIS WORTH DOING PROPERLY
>
> A maker running a kiln, a compressor or a laser cutter at home is using far more electricity than a person with a laptop. The flat rate does not know that. The actual method does, and on a firing schedule it can be worth several hundred pounds a year more.

## The trap to avoid

Do not use any part of your home exclusively for business. Keep some private use of every room, however small. A room used only for the business can lose part of your capital gains tax relief when you sell the house, and the tax saved on the running costs will not come close to covering it.

CHAPTER FIVE

# Getting there

Travel is the deduction makers lose most of, because it happens in small amounts on ordinary days and nobody writes it down.

## The mileage rate

For a car you can claim a flat rate per business mile instead of working out the actual running costs. From 6 April 2026 it is 55p a mile for the first 10,000 business miles in the year and 25p after that, the first increase since 2011.

| Miles a year | The claim | Worth at 26 per cent |
|---|---:|---:|
| 500 | £275 | £71 |
| 1,500 | £825 | £215 |
| 3,000 | £1,650 | £429 |
| 10,000 | £5,500 | £1,430 |

## What counts as a business mile

- Going to buy materials, and coming back.
- Travelling to a fair or market, both ways.
- Delivering a commission or dropping off wholesale stock.
- Going to the post office or a collection point.
- Travelling to a course, a photographer, or a trade show.

Once you choose the mileage rate for a vehicle you stay with it for that vehicle, so you cannot switch to actual costs in a year when the car needs a gearbox. Choose deliberately.

> THE LOG IS THE WHOLE THING
>
> Date, where, why, miles. Four columns. A note on your phone at the time is worth far more than a reconstruction from your diary in January, and without any record the claim is very hard to defend.

CHAPTER SIX

# Stock, and the three kinds of it

This is the chapter that changes a maker's numbers most, and it is the one least often got right.

## You cannot deduct stock you have not sold

Buying materials is not an expense in the year you buy them. It becomes an expense when the thing made from them is sold. Until then it is an asset sitting on your balance sheet, and the arithmetic is opening stock plus purchases less closing stock.

That is why a big buying month feels like a terrible month and is not, and why the month you sell it all feels wonderful and is not either.

## Three kinds, and most makers count one

| What it is | What is in it | Valued at |
|---|---:|---:|
| Raw materials | Clay, fabric, wire, wax, blanks | What you paid |
| Work in progress | Thrown but not fired, cut but not sewn | Materials plus the work done so far |
| Finished goods | Made, listed and unsold | What it cost to make |

A maker counting only the finished shelf is missing the shelf of materials and the tray of half-made things, and on a real workshop those are often half the total again.

> WHAT UNDERSTATING STOCK ACTUALLY DOES
>
> It overstates your cost of sales, which understates your profit. It feels like a smaller tax bill this year and it is simply wrong, because the profit belongs in the year you sell the work rather than the year you make it.

## Value at cost, never at the listing price

Stock goes in at the lower of what it cost you and what you could actually get for it. A mug that cost £5.49 to make and lists at £28 is stock worth £5.49. Valuing it at £28 books a profit you have not made.

## Scrap

Work that comes out wrong is not stock and never was. Its cost is carried by the pieces that survived, which means the cost per good item is the batch cost divided by the good ones and not by the ones you made. On a batch of thirty-six with eight failures, that difference is over twenty per cent.

CHAPTER SEVEN

# Pricing, and the hours nobody sees

Not strictly a tax chapter, and the one most likely to change what you earn.

## Materials multipliers do not work

Multiply materials by three and a mug using £4.80 of clay prices at £14.40. A silver ring using £4.80 of metal and taking four hours prices at £14.40 too. One pays a reasonable wage and the other pays about £2 an hour.

The multiplier is blind to the input that varies most between handmade things, which is time. That is why makers who price this way end up loving their fast cheap products and quietly resenting the slow expensive ones.

## Four costs that get left out

- Waste. If one piece in eight fails, the seven that survive carry the eighth.
- Setting up and cleaning down. Time the whole job, not the making part.
- Overheads. Studio, power, tools, insurance, software, divided by output.
- Your own labour, which is the only cost you can choose not to pay, which is exactly why it disappears.

## The two hourly rates

There is the bench rate, which is what you earn per hour of making, and the business rate, which is what you earn per hour of everything. Photography, listings, packing, messages, bookkeeping and social media are all real hours and none of them are making.

On a typical logged month, making is about half the week. Which means a costing that charges only bench time is understating your labour by roughly a factor of two, and the honest hourly figure is half what you thought.

> THE ANSWER IS NOT TO WORK LONGER
>
> It is to put the other hours into the price, either by loading the bench rate or by adding an overhead per item, and then to look hard at which of the non-making hours is buying you anything. Photography pays for years. Two hours a week of social media that sells nothing does not.

CHAPTER EIGHT

# VAT, and when it arrives

Most makers never get near the threshold. The ones who do usually get there faster than they expected, because a good Christmas can carry a rolling twelve months over it in January.

## The threshold is rolling

Registration is required when taxable turnover in any twelve consecutive months exceeds £90,000. Not your accounting year, not the calendar year. Any twelve months.

For a seasonal maker that is a real trap. A shop doing forty-five per cent of its year in November and December can cross the line in January on the strength of a Christmas it has already banked and spent.

## What changes when you register

— You charge VAT on your sales, which means either raising prices or absorbing a sixth of what you charge now.

— You reclaim VAT on materials, equipment and most costs, which for a maker buying clay and machinery is worth having.

— Etsy stops adding VAT to its fees once it has your number, so your platform costs fall by a sixth.

— You file returns and keep digital records.

## The maker's particular problem

Selling mostly to the public means your buyers cannot reclaim what you charge them, so VAT is a straight price rise or a straight margin cut. Selling to shops changes that entirely, because a VAT-registered shop reclaims it and does not care.

> DIGITAL DOWNLOADS ARE DIFFERENT
>
> If you sell digital files to consumers through a marketplace, the marketplace is usually the deemed supplier and accounts for the VAT itself. That does not automatically put those sales outside your own threshold, and the treatment depends on how your supply to the platform is characterised. Worth a straight answer before you rely on either reading.

CHAPTER NINE

# Fairs, wholesale and commissions

Three ways of selling that behave differently from a listing, and each has a tax and a costing wrinkle.

## Craft fairs

The stall fee, the travel, the insurance for the day and a share of the gazebo are all deductible. The card reader fee is deductible. Your own time is not a deduction, because you cannot pay yourself a wage as a sole trader, but it is a real cost and it belongs in the decision even though it never appears in the accounts.

The arithmetic that matters is that a fair is almost all fixed cost. There are two break-evens: the items that cover the day, and the many more that beat having sold the same stock online. The second is usually three times the first and almost nobody works it out.

## Wholesale

Selling to a shop at half your retail price is not half the margin, because you lose the platform fees, the postage per item and most of the packing time as well. Work it out properly before deciding it is not worth it. Frequently it is.

Wholesale also brings payment terms, which is a cash flow problem you did not have when a buyer paid at checkout. Thirty days from a shop is thirty days you are financing.

## Commissions

A deposit taken for a commission is income when you receive it if you use cash basis accounting, and when the work is done if you use traditional accounting. That distinction matters most across a year end, when a December deposit for a February piece could fall either side.

> KEEP A COMMISSION FILE
>
> The brief, the deposit, the dates and what was agreed. Commissions are where disputes happen and a written trail is worth more than a good memory.

CHAPTER TEN

# The year, in order

What to do and roughly when, for a sole trader with a 5 April year end.

| When | What |
|---|---|
| As you go | Photograph every receipt. Log every business mile. Note every purchase you paid cash for, with who and where. |
| Monthly | Reconcile the Etsy deposits to the bank. Put the tax money in a separate account. |
| Quarterly | Check the rolling twelve month turnover against £90,000, particularly in January. |
| Before your year end | Decide on equipment. Buying before the year end brings the whole relief forward. |
| At your year end | Count the stock. All three kinds, on the same day, written down. |
| By 5 October | Register for Self Assessment if this was your first year of trading. |
| By 31 January | File and pay. And pay the first payment on account, which is the one that catches people. |

## The three habits that make the rest easy

- A separate bank account, from the first sale.
- A photograph of every receipt, on the day, in one folder.
- A note of every cash purchase at the moment it happens: date, seller, where, amount.

## And the one number to watch

Not turnover and not profit. The lowest point your bank balance reaches over the next thirteen weeks. A maker buys materials months before selling anything made from them, so a business can have an excellent year and still be unable to pay for clay in October.

> THE ONE LINE TO KEEP
>
> You are trading from the first thing you made to sell. Everything in this book follows from that, and none of it is as complicated as the first year makes it feel.

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