

Tax help series

Paying tax if you buy and sell things from home - what you need to know

If you work from home buying or selling things, for example on the internet, on auction websites, at car boot sales or in other ways, you need to know whether you should be registered for tax and/or VAT and what you may need to pay tax on.

Here we tell you:

- what we consider to be trading
- what you need to do if you are trading
- what taxes you might need to register for and how to do it
- what you need to pay tax on
- what records you need to keep
- about buying things from abroad on the internet
- where to get more help.

What we consider to be trading

It can sometimes be difficult to tell the difference between trading and not trading.

You are most probably trading if:

- you want to make a profit
- you have bought goods to sell them on
- you sell things often or regularly
- you register as a business seller on an internet auction site
- you sell from a market stall
- you buy things wholesale or through trade suppliers
- you change or improve things before selling them on
- you sell things that you have just bought
- you sell things that are related to another business that you run
- you have borrowed money to pay for the things that you are selling and you need to repay that loan.

You are probably not regarded as trading if:

- you only sell things to cover your costs
- you sell a personal possession or something that you have been given or have inherited
- you only make sales occasionally
- you are not registered as an online shop or trader on an internet auction site
- you make no changes or improvements to the items that you sell
- you occasionally sell a personal possession that you have acquired or bought some time ago.

What you need to do if you are trading

If you are trading you will need to register with HMRC. Most people will be self-employed. To register as self-employed, go to www.hmrc.gov.uk/selfemployed/register-selfemp.htm

For information about starting up in business including case studies and video material, go to www.businesslink.gov.uk/taxhelp

Customers with particular needs

If you need extra help, please let us know. For example, if:

- English is not your first language
- you would like us to use a certain format to communicate with you, for example, Braille or Text Relay. If you use Text Relay by
 - textphone, dial **18001 + number**
 - phone, dial **18002 + number**
- you would like us to visit you at home because it is difficult for you to get to one of our offices.

What if you are unhappy with our service

If you are unhappy with our service, please contact the person or office you have been dealing with. They will try to put things right. If you are still unhappy, they will tell you how to complain.

Our factsheet *C/FS Complaints*, also tells you how to make a complaint. You can get a copy of this from our website.

Go to www.hmrc.gov.uk and look for C/FS within the search facility or under the *quick links* menu select *Complaints & Appeals*.

Your rights and obligations

Your Charter explains what you can expect from us and what we expect from you. For further information please go to www.hmrc.gov.uk and under *Quick links* select *Your Charter*.

What taxes you might need to register for and how to do it

Income Tax and National Insurance contributions (NICs)

If you are trading, you'll need to pay Income Tax. You'll have to do this by Self Assessment.

You will need to submit a Self Assessment tax return each year to tell us about your income from trading, and will have to pay tax and Class 2 and Class 4 NICs if your income goes above a certain limit.

If the income from your business is small, you may not have to complete the full tax return and you may not have to pay NICs. For further information, go to www.hmrc.gov.uk/factsheet/three-line-account.pdf and www.hmrc.gov.uk/factsheet/working-for-yourself.pdf

VAT

You must register for VAT if your taxable annual turnover is more than the current threshold (£70,000 for the 2010-11 year). It may also be appropriate for you to register for VAT, even if your turnover is below the VAT threshold. For further information and about how to register for VAT, go to www.hmrc.gov.uk/vat/start

Corporation Tax

You must register for Corporation Tax if you have formed a limited company. For more information on what you need to know, go to www.hmrc.gov.uk/ct or take a look at the factsheet at www.hmrc.gov.uk/factsheet/starting-limited-company.pdf

PAYE

If you are trading as a limited company or employing people, you need to register as an employer. For information about registering and getting started with PAYE, go to www.hmrc.gov.uk/employers/ or take a look at the factsheet at www.hmrc.gov.uk/factsheet/first-time-employer.pdf

What you need to pay tax on

You pay Income Tax (or Corporation Tax, if appropriate) on your profit, not your sales. From your total sales figure you can take away allowable business expenses and purchase costs. For more information go to, www.hmrc.gov.uk/factsheet/expenses-allowances.pdf The amount left is your profit. All your trading sales (whether you sold through the internet, at car boot sales, through the small advertisements or any other means) should be included in your total sales figure.

If you are VAT registered, you charge VAT on sales to your customers, and can normally reclaim any VAT charged to your business.

Remember to include any sales to friends and family and don't forget to include cash sales.

What records do I need to keep?

It is really important to keep full and accurate records of all your income and expenses from the start. For more information go to, www.hmrc.gov.uk/factsheet/record-keeping.pdf To find out what records you should be keeping, use this interactive tool www.businesslink.gov.uk/recordkeepingcheck

Capital Gains tax

Even if what you are doing isn't classified as trading you might have to pay Capital Gains tax. Capital Gains tax is a tax on the profit or gain you make when you sell or dispose of an asset. You usually dispose of an asset when you cease to own it - that is if you sell it, give it away as a gift or transfer it to someone else.

Possessions worth up to £6,000 each, such as jewellery, paintings or antiques are exempt.

It's the gain you make - not the amount of money you receive for the asset - that's taxed. For more information, go to www.hmrc.gov.uk/cgt/intro/basics.htm

Where to get more help

For information about setting up in business, including videos about record keeping, VAT and other useful information, go to

www.businesslink.gov.uk/taxhelp

For further information about help that is available in your area, go to www.businesslink.gov.uk and *click* on the 'Local Business Link' from the drop down menu.

If you are thinking of working for yourself or have just started, HMRC offer free workshops where you'll get practical advice on:

- record keeping
- business expenses and capital allowances
- filling in your Self Assessment tax return.

For further information go to:

- www.hmrc.gov.uk/bst/index.htm
- phone 0845 603 2691.

Exporting and importing

For help and advice on international trade please see the factsheet at www.hmrc.gov.uk/factsheet/import-export.pdf or phone the VAT, Excise & Customs helpline on 0845 010 9000. Open from 8am to 8pm, Monday to Friday.

Buying goods from abroad on the internet

When purchasing goods from abroad through the internet, you should be aware that in most cases you will have to pay:

- customs duty if the amount of duty is £9 or over (value of goods over £135)
- import VAT if the value of the goods is £18 or over
- excise duty for goods such as alcohol and tobacco.

The Post Office or courier company will generally collect these charges directly from you on delivery. Go to, www.businesslink.gov.uk/postalimportexport

For more information and to hear a podcast go to www.hmrc.gov.uk/internetshoppingpodcast

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.
Customer Information Team
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