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HMRC CLAMP DOWN ON ONLINE SELLING

HM Revenue & Customs (HMRC) is bringing in new rules requiring online sales platforms to make an annual report to them with the details of individual sellers so that HMRC can check whether the individuals have paid tax correctly on such sales, where applicable.

From 1 January 2024, these online platforms (such as Etsy, eBay, Vinted and Amazon etc.) are required to collect and report seller information and income direct to HMRC. These online platforms must report sellers' income by January 2025. The changes are an internationally agreed set of rules requiring online platforms to report certain information to HMRC. Among the information requested will be the tax ID, bank account details and the total amount of transactions.

If you sell goods or services on these platforms, you should get a copy of this information. You can use this information to help you check the amount of income and expenses incurred through these platforms, which may be helpful in determining whether tax is due on any profits.

Do I need to pay tax on all items I sell online?

The short answer is 'No', since in order to pay tax on the goods or services you sell online, you either have to be trading or have made a Capital Gain. If you are just selling some unwanted items that have been laying around your home, such as the contents of a loft or garage, it is unlikely that you will have to pay tax on those items.

If you buy goods for resale or make goods with the intention of selling them for a profit, then you are likely to be trading and will have to pay tax on your profits and in most cases will also have to register as self-employed in order to complete a Tax Return. Profits from such trading have always been taxable, all that is happening now is that HMRC are adding to the resources available to them to track down the sellers.

However, if your total income from trading or providing services (whether online or not) is less than £1,000 (before deducting expenses) in the tax year, you would not be required to inform HMRC nor pay any tax on that profit. This 'trading allowance' of £1,000 has been in force since 2017 but it is important to appreciate that the £1,000 relates to total income received (turnover), not profit, so it is only those traders with very small amounts of income received over the tax year who won't need to register for self-assessment or pay tax on this income.

HMRC have published in their guidance some common scenarios involving different types of online sellers which can be helpful in determining whether or not a liability to tax arises. A couple of their examples are as follows:

Sally clears out her attic and decides to sell her unwanted items online. This is a one-off activity for Sally and the items sold are for less or the same as the original purchase price. As these are her personal possessions, she is unlikely to be trading.

After making some money from selling unwanted clothes, Josh begins to buy items from car boot sales and charity shops which he then sells through online marketplaces, aiming to sell them for more than he paid. Josh does this activity consistently, honing his skills of picking up items which he hopes to sell for a profit after fees and postage. This is likely to be trading, and the profits would be taxable.

It is worth noting that in HMRC's example above, even if Sally had sold some of her items for more than she bought them for, it is unlikely that this would be deemed to be trading, since she hasn't acquired them with a view to selling them on at a profit.

What about Capital Gains Tax?

It is possible that the sale of some items, if sold for more than their original cost, might in principle give rise to a charge to Capital Gains Tax (CGT). This can often be the case where antiques or suchlike are involved.

However, there is an exemption from CGT if the sale proceeds for individual items are less than £6,000, under the rules relating to 'chattels'.

It is also worth remembering that modest Capital Gains may also be covered by the CGT annual exemption, which is currently £6,000 and falls to £3,000 per annum from 6 April 2024.

What should I do if I have made online sales and made a profit?

If you have sold items online (or indeed elsewhere) and think you fall within the definition of trading, then it is important to take action sooner rather than later, in order to notify HMRC of this and register as self-employed, so that you can complete a Tax Return and pay any tax (and National Insurance) due.

You should not wait for HMRC to contact you first, since any penalties and interest on overdue tax for earlier tax years will be higher if they get to you first. You may need to make a voluntary disclosure to HMRC for any profits from earlier tax years that you haven't declared and it is important to do this as soon as possible (and before HMRC contact you), to mitigate the interest and penalties arising.

We can help you with bringing your tax affairs up to date, so please contact us for further information or if you would like assistance.

The above is for general guidance only and no action should be taken without obtaining specific advice.

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