

CLIENT REPORT:

Fact Sheet on Auction and Consignment Income

Dear Client:

Many people don't realize that the income they earn from auctions and consignment sales may be taxable. The IRS has released a fact sheet that is designed to help taxpayers understand what income they are required to report, and what deductions they may be entitled to take.

If you sell widgets online or on consignment and make a profit, taxable income must be reported. Business income resulting from an auction or consignment sale is subject to the same taxes as any other business, including income, self-employment, employment, or excise taxes.

Generally, a non-business taxpayer is required to report the gain from an auction or consignment sale equal to the excess of the sales proceeds over the original cost of the item sold. It is not necessary to report the proceeds from an occasional garage or yard sale. However, if you purchase items for resale and have recurring sales, this activity will probably generate business income.

Some people sell online as a hobby. Regardless of whether or not the intention is to make a profit or a living, the resulting income must be reported. Expenses related to the hobby income can be deducted, but only if deductions are itemized on Form 1040, Schedule A.

Traditional or online auction and consignment sellers with a profit motive can generally deduct expenses that are both ordinary and necessary, defined as follows:

- * an ordinary expense is one that is common and accepted in a trade or business; and
- * a necessary expense is one that is helpful and appropriate for a trade or business.

Verifiable auction and consignment fees and commissions are examples of allowable business expenses. Expenses related to personal, living, or family matters are generally not deductible. However, when expenses are partly personal and partly business-related, the business portion of the expense is deductible.

You may be able to deduct expenses for the business use of the home if the "regular use" and "exclusive use" requirements are met. Auction and consignment sellers may allocate their split expenses according to the percentage of space in their home that is used on a regular basis to store inventory and/or product samples (the "exclusive use" requirement does not apply). However, the residence must be the sole fixed location of the auction or consignment business. Allocable expenses may include mortgage interest, insurance utilities, repairs and depreciation.

If you have sold, or anticipate selling, any goods in an auction or consignment activity, we would be happy to help you determine the proper tax treatment and recordkeeping requirements. Please call our office at your earliest convenience to arrange an appointment.