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Frequently Asked eBay Tax Questions

If you're running an eBay business, read on to find out if the following tax situations apply to your online business.

By Cliff Ennico

October 31, 2005

Last week I had the privilege to attend the annual meeting of the [Professional eBay Sellers Alliance](#) (PESA), a nonprofit trade association of top eBay merchants. These are the "Imperial Stormtroopers" of the eBay community, folks, and they do not ask easy questions. Here are some that came up during my presentation on "Business Taxes for eBay Sellers":

"My eBay business is based out of my home in New York, but I sell products that several, large, out-of-state distributors drop ship for me. If I sell to a buyer located in the same state as one of these distributors, do I have to charge that state's sales tax?"

When you use a drop shipper, you're selling products that are shipped directly from that company's warehouse. Once you've notified them you've made a sale, they ship the goods to the buyer. Technically, if the drop shipper is using its own address labels on the packages and is accepting returns of damaged or defective items, then they, not you, are the real seller of the items, and they should be charging sales tax to buyers living in any state where they have manufacturing, warehouse or office facilities (not just to buyers located in the same state as the facility you're dealing with). Ask if the drop shipper will use your address labels with your New York address and let you accept returns for credit. If they won't do that for you, then make sure your drop shipper agrees in writing to pay all sales taxes that may be due on sales you generate for them.

"I run an eBay consignment shop. Do I have to pay any sort of taxes on the items I take from people that I sell on eBay?"

You should check with your local accountant, but in most states, you won't have to pay sales or inventory taxes on goods you take on consignment. Also, the goods aren't considered part of your "inventory" for income tax purposes, as you don't have legal title to them, so you shouldn't have to pay income taxes on them either. If you sell something on consignment to a buyer in your state, however, you'll have to charge the buyer sales tax and remit it to your state tax authority.

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"I started selling on eBay part time last year and made about \$20,000. I expect to do slightly better this year. Do I have to pay estimated taxes on the income from my eBay business?"

Absolutely. If you make more than \$400 in self-employment income in any calendar year, you must pay your income taxes in quarterly estimated installments. Welcome to the club!

"I buy all my packaging, such as boxes, labels and plastic peanuts, in large quantities, and I pay a fortune for them. Should I be charging my buyers sales tax on these items, since they're really being sold along with the goods themselves?"

No. Packaging materials are considered "supplies," not inventory, for income tax purposes. If you buy them from a local supplier, you'll have to pay sales tax on them since you're "consuming" them in your business, not buying them for resale. If you buy them from an out-of-state supplier, you may have to pay "use tax" on these purchases.

Many eBay sellers try to cover these costs by imposing a handling fee on each sale in addition to the shipping and other charges. The handling fee would cover the cost of any supplies you consume in fulfilling a buyer's order, as well as your time in processing the order. But don't be greedy--eBay buyers hate it if they think they're being gouged on your shipping and handling charges.

"I'm currently operating a Subchapter S corporation for my eBay business. My accountant told me I should convert to a C corporation but hasn't really explained why. Is this a good move for me taxwise?"

Generally, regular or C corporations can deduct a ton of stuff that Subchapter S corporations can't. While C corporations are taxable entities, they usually (not always) pay taxes at a lower rate than Subchapter S corporations, where everything is taxed at your personal tax rate. Ask your accountant to prepare a "pro forma" tax return for your corporation showing you what the tax savings would be if you had been a C corporation for the 2005 calendar year. If the tax savings are significant, it'll be easy for you to convert to a C corporation. Just remember that if you convert to a C corporation, you'll have to wait three years before you can elect Subchapter S status again.

Cliff Ennico is a syndicated columnist, author and host of the PBS television series MoneyHunt. His latest book is [Small Business Survival Guide](#) (Adams Media). This column is no substitute for legal, tax or financial advice, which can be furnished only by a qualified professional licensed in your state. Copyright 2005 Clifford R. Ennico. Distributed by [Creators Syndicate Inc.](#)

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