

## Garage and eBay Sales May Be More Than You Bargain For

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### **A Business Out of the Basement or a Sale in the Front Yard, H&R Block Advises When It's Taxable Income**

KANSAS CITY, MO, May 26, 2010 (MARKETWIRE via COMTEX) --Long before eBay existed, garage sales and classified ads helped people unload unwanted items. To figure out if sales have tax implications, H&R Block (NYSE: HRB) advises sellers to know how to determine if the resulting cash is reportable taxable income and if the IRS classifies the particular activity as casual selling, a hobby or a business.

"Generally, transactions resulting in a gain are reportable, regardless of whether the taxpayer is conducting a business," said Gil Charney, principal tax researcher at The Tax Institute at H&R Block. "Even taxpayers who are not operating businesses have tax implications when they sell something for profit."

Whether it is a garage sale, selling in their spare time or running a business from their basement, the following information will help sellers determine if their activities are those of a casual seller, hobbyist or business operator and the tax implications.

#### Casual seller

Sales may not have tax consequences if the seller is not in business and the selling price is less than the original price paid, as is often the case with garage sales. This activity results in a personal loss, which is not tax-deductible.

A taxable gain (a profit) is realized when an item is sold for more than originally purchased. Personal gains like these are reportable.

People who prefer not to sell unwanted belongings may get a tax break by making a charitable donation. Although no cash is generated, the fair market value of the donated items may be eligible to be claimed as itemized tax deductions.

Whether sales occur occasionally or regularly, and if there is intent to make a profit are two factors that separate casual sellers from hobbyists.

#### Hobbyist or business operator?

Every second, \$2,000 worth of goods are sold on eBay. In fact, \$60 billion\* worth of items were sold in 2009, meaning "extra" money for many sellers, whose activities put them in different sales categories. With online sales often comes a gray area as to what's considered a hobby and what's a business.

Hobbyists sell items occasionally without intent to make a profit. However, if sales become frequent activities done to make a profit, the hobby may be considered a business.

A taxpayer with a hobby must report all income generated from sales. As a hobbyist, the taxpayer may deduct all related expenses, but not more than the total revenue from that hobby.

A hobby that supplements income could be considered a business by the IRS. If a taxpayer regularly buys and sells items to the extent that a business results, each sale has a tax consequence. If the taxpayer is the sole proprietor, purchases and sales must be reported on Schedule C.

For example, if a business buys basketballs for inventory at a wholesale price of \$3 each and sells them for \$10 each, the business can deduct the \$3 cost. The \$10 sales price is revenue and the \$7 profit is taxed. If a basketball is sold for \$2, the \$1 loss is tax-deductible. Also, there are several Schedule C tax deductions the business owner may be entitled to.

"Sellers must keep good records about what was purchased, and what was sold, when, to whom and for how much. One good way to help separate personal from business expenses is to have bank accounts used for business only," Charney said. "If income was earned, despite the source and the amount, it is required by law to be reported to the IRS."

For their 2011 tax returns, taxpayers who annually sell more than \$20,000 worth of goods and have more than 200 electronic transactions will receive the new 1099-K Form, which will report payment card and third-party transactions, including PayPal and eBay payments.

For assistance determining if sales activities are that of a business, contact an H&R Block tax professional. To find the nearest H&R Block office, visit [www.hrblock.com](http://www.hrblock.com) or call 800-HRBLOCK.

\* Figures reported by eBay

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