

How To Value Your Ebay Inventory For Tax Purposes

Author:
Resale Rights

Created On: 14 Oct 2009 12:30 PM

One of the questions I hear most often from eBay sellers is how to value inventory for purposes of preparing their tax return, especially if it was purchased at a garage sale, or if you used the item before you sold it on eBay.

For new items that you purchase for inventory, make sure you keep all of your receipts. In addition, you might want to keep a spreadsheet with a description of the item purchased, date, and the purchase price, including shipping costs.

For items that you purchase from a garage sale or thrift store, you may not get an itemized receipt from the seller. So, I would encourage you to write up a receipt (carry a small notepad with you while garage sale shopping or thrift store shopping), while you are still at the garage sale or thrift store. Record a description of the items purchased, date, amount paid, and the location. Ask the seller to sign the receipt you wrote up.

The hardest inventory to value is inventory that you used for personal use before you sold it on eBay, such as clothes you bought for your children that they have outgrown. Before you sell these items on eBay, you should research similar items to see what they have sold for on eBay or similar auctions. For tax purposes, the value of your inventory is the average selling price on the similar items you researched. Print out your research, and be sure to enter the average selling price on your inventory spreadsheet, in case the IRS comes knocking.

If you clean out your garage and list the items on eBay for sale, you cannot claim a loss on their sale. The amount used as your cost basis in inventory converted from nonbusiness use can be no greater than its fair market value at their time of conversion. You also must be able to prove the property's cost or you may be denied any basis (you'll have to report the entire proceeds as gain).

The most important thing to remember is to keep good documents. If the IRS audits you and you can't provide documents showing how much you paid for an item, they may claim that your cost basis is \$0, which means you will pay tax on 100% of the sale price instead of just paying tax on the profit.