

# **SPECIAL REPORT: eBay Dropship Profits**



**By Tim Knox**

**There are literally hundreds of companies that will dropship products for you, everything from gifts and housewares to leather goods and designer apparel to power tools and furniture.**

**If you are interested in building a business using dropshipping, this Special Report is for you.**

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It doesn't matter if you're an eBay beginner or an experienced Powerseller, the information in this huge 10 volume set will make your profits soar!

Written by REAL eBay Powersellers and Experts.

### ***The Official Powerseller's Online Auction Tool Kit***

**The Proven, Step-By-Step Method  
To Online Auction Success**



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**SPECIAL REPORT: eBay Dropship Profits**

**Recommended Money Making Opportunities**

The resources listed in this section have been helpful in building hundreds of online businesses. Perhaps they can be as helpful to you. For complete details on all offers visit:

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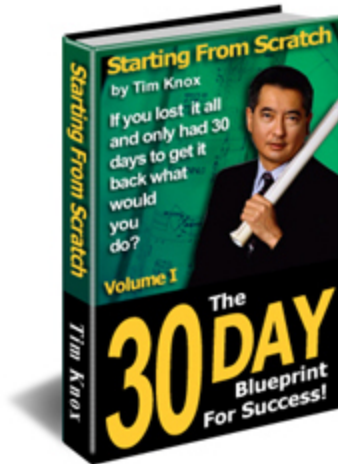
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## **"No Experience, No Money? No Problem"**

We asked 58 of the Internet's Top Money Makers: "If you lost it all tomorrow and had to start over with nothing but the brain in your head and the experience of your years, how would you get back on top in less than 30 days?"

Their answers could make you rich...



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## About The Author

Tim Knox is a self-made entrepreneur who is well qualified to write a report like *SPECIAL REPORT: eBay Dropship Profits*.

Tim became an eBay Powerseller in less than three months using many of the same methods described in this report. Tim literally started with nothing and built a small business empire that grossed one million dollars in annual sales in just a few years.

Tim is the founder, president and CEO of three highly successful technology companies:

- **Digital Graphiti Inc.**, a software development company whose client list includes Time Warner, Mercedes Benz, BooksAMillion, NASA, and over one hundred others.
- **B2Secure Inc.**, a Web-based hiring management software company with numerous clients in the high tech and healthcare industries.
- **DropshipWholesale, Inc.**, an online organization dedicated to helping ordinary people launch and prosper from their own Ebay or online sales business

Tim is an accomplished author and columnist. He is the author of two popular business startup ebooks: *Small Business Success Secrets* and *The Amazing CD Money Machine*, and writes the weekly newspaper column, *Small Business Q&A with Tim Knox*.

Tim also writes the *Ebusiness Expert* columns for *Entrepreneur.com*, the website of the national publication *Entrepreneur Magazine*.

Tim is a board member of the *Alabama Information Technology Association*, an organization committed to growing and supporting the Information Technology industry and those organizations utilizing, supporting, and affiliated with IT in the state of Alabama.

He has also worked with many e-business, technology and Internet start-up companies as an investor and advisor.

Tim has led numerous seminars and has lectured on the subject of small business, technology and e-business for commercial and educational clients.

Prior to becoming a full-time entrepreneur, Tim spent many years as a technology executive for *Boeing Aerospace* and *Teledyne Technologies*.

As a private business consultant, he has led the e-business initiatives for companies like Advance Internet, Mercedes-Benz, Time Warner and a number of city, county and state government agencies.

In previous lives Tim worked as a standup comedian, radio morning show host, an underground newspaper publisher, an award-winning humor columnist, and an almost-syndicated cartoonist.

That series of misadventures is chronicled online at [timknox.com](http://timknox.com).

Tim lives in Huntsville, Alabama, and is married with two daughters.

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## Foreword

Setting up relationships with companies that will ship merchandise directly to your customers for you -- dropshippers, as they're called -- is an excellent way to start your e-business and, if done properly, doesn't have to be a costly or risky endeavor.

There are literally hundreds of companies that will dropship products for you, everything from gifts and housewares to leather goods and designer apparel to power tools and furniture.

Dropshipping has been around since Sears first started selling goods from its mail order catalogs over a hundred years ago.

However, the idea of dropshipping still confuses many people who don't understand exactly how the process works.

Many people are also wrongly afraid to use dropshipping as a method of sales due to the horror stories that fill the Internet about dropshippers who take the money and don't fill the orders, merchandise that is eternally back ordered, unscrupulous middle men posing as dropshippers, etc.

**That is why I have written this SPECIAL REPORT: eBay Dropship Profits: to help you understand – and profit from – dropshipping.**

Make no mistake, the dropshipping industry – like most other industries – does have its share of shady characters who would rob you blind given the chance, but there are also hundreds of honest dropshippers who can help you build a profitable eBay dropship business.

This special report is presented in an easy-to-understand, question and answer format. Having written many newspaper and online articles I have found that the Q&A format is often the easiest to understand.

And since many of you will use the information contained in this report to build your own eBay dropship business, I am including four additional reports:

- The Secrets Of Starting A Successful eBay Business
- Is Selling On eBay Just A Hobby Or A Real Business?
- Do You Pay Taxes On eBay Income?
- Where To Find Dropshippers

So, let's begin with the most basic questions and work our way through the more complex aspects of dropshipping.

By the end of this special report you should have a working knowledge of how dropshipping really works and the ability to put that knowledge to work in your own eBay dropship business.

Here's to your success!

Tim Knox

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## What Is Dropshipping?

Dropshipping is a method of selling and distributing goods wherein the distributor or supplier of the product (the dropshipper) sends the product directly to the end user (your customer) on the retailer's behalf (that's you).

The process of dropshipping is relatively simple. It involves three parties who take a product from manufacturing to market.

Let's use a blue widget as a sample product to demonstrate the process:

- **The blue widget manufacturer:** This is the company that manufactures the blue widgets. This widget manufacturer does not sell directly to the public or supply the retailers who ultimately sell the blue widgets to the end user. They prefer to use distributors to handle the task of taking their blue widgets to market. The manufacturer sells blue widgets by the truckload to distributors and charges \$5 per blue widget.
- **The blue widget distributor (dropshipper):** This is the company that purchases blue widgets in bulk from the manufacturer and supplies them to resellers and retailers at a cost of \$7 each. The distributor does not ship blue widgets to the retailer, but fills orders on the retailer's behalf as the retailer sells the widgets to its customers.
- **The blue widget retailer:** This is the company that sells blue widgets to the public. In this example YOU are the blue widget retailer. The retailer orders the blue widgets from the distributor as they are sold (usually one at a time) and has the distributor ship the blue widget directly to its customer. The retailer sells blue widgets to the public for \$10 each, which means that for every blue widget sold the retailer nets \$3.

Note: It is not unusual for the manufacturer and distributor to be one and the same.

## The Step-By-Step Process For Using A Dropshipper

There are seven steps involved and they are as follows:

### **STEP 1: Choose A Product To Sell**

The very first step in any sales process is deciding what product to sell. This is not a decision to be taken lightly.

There are many factors that should be considered before deciding on a product.

We'll talk more about the product selection process later, but for now let's say that you decide to sell CD players on eBay.

### **STEP 2: Locate A Supplier Who Will Dropship For You**

Using a research tool like Google, Thomas Register, or an industry-specific resource like [The Ultimate eBay Dropship Power Pak](#), you search for and find a company who will dropship CD players for you.

The company offers you a 35% mark up over cost, which means that they will supply the CD players to you for \$100 each and you should be able to retail them for \$135.

### **STEP 3: Set Up An Account With The Dropshipper**

You contact the company that can supply the CD players and set up a reseller account with them. This can often be done online or by phone, but some companies will require that you complete and return a reseller application to open an account.

Some companies may also require a tax ID and business license. If you are serious about your business, you should get these items. We'll discuss this more shortly.

### **STEP 4: Advertise The Product For Sale**

Now that you have your supplier lined up, it's time to make a sale. You advertise the product using an eBay auction. Since you know what you must pay the dropshipper for the product, you know what the minimum amount you will take for the product. In this case you start your auction at \$100 since that is your cost. If you are confident that you can get more than \$100 for the product you can start with a lower price, but remember that if the product goes for less than what it costs you to fill the order, you will lose money. Also remember that the dropshipper will charge shipping, so you should figure that into your sale.

### **STEP 5: The Product Sells**

Great news: your CD player sells \$135 and your customer pays you with a PayPal instant payment. I highly recommend that if you are selling on eBay you use PayPal or some other online processor to accept instant payments. This

allows the customer to pay you immediately, which gets the money in your account immediately, which lets you place the order with the dropshipper immediately. Get the idea?

### **STEP 6: Place The Order With The Dropshipper**

After your customer pays you, you should contact the dropshipper immediately to order the product on your customer's behalf. The dropshipper then ships the order to your customer under your company name and address.

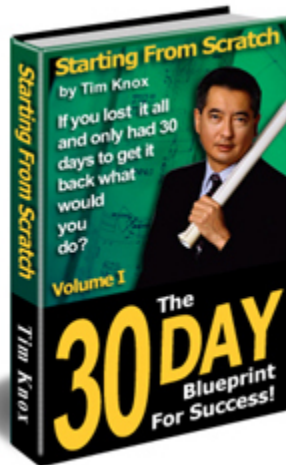
### **STEP 7: Follow Up After The Sale**

This is where many new business people drop the ball. Just because your customer has paid you and you've placed the order with the dropshipper does not mean that you are out of the loop. Quite the contrary, if there are problems with the order you are the one that will be held responsible in the eyes of your customer. Be proactive in your customer relations. Follow up with your customer to let them know that the item has been shipped. Offer yourself as the personal contact for any issues that may arise. This is also a great way to sell that customer more products. Invite them to check out your eBay store or website if you have one.

## **"No Experience, No Money? No Problem"**

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## What Kind Of Profit Margins Can You Expect?

That depends on the product you sell and the company which you get it from. Most dropship margins vary from 25% to 75%.

My advice is this: if you can't make at least 40% on the product, find something else to sell.

### ***Can I Make Money Off The Shipping Charges?***

There is no faster way to turn off potential customers than by padding shipping fees. People are not stupid. They know that it does not cost \$30 to ship a six ounce figurine, so do yourself a favor and don't try this. It will end up costing you more money in lost sales than you would ever make on shipping.

Many sellers take the approach of inflating shipping costs and selling the product for less. This is fine within reason, but grossly over-inflated shipping costs will brand you as a crook in the eyes of the average eBay buyer and they will not buy from you. They think you are trying to rip them off, which in reality, you are.

I recently considered buying an \$800 watch on eBay, then saw that the seller was charging \$35 shipping. I would have expected a \$10 shipping fee, but \$35 was way out of line. I really wanted that watch, but not badly enough to pay such exorbitant fees for shipping.

Find out what the dropshipper charges you for shipping and pass that on to your customer. If you feel you should make a dollar for your troubles that's fine, but don't double the shipping fees or you will lose sales.

On the flip side, always make sure you're charging enough for shipping to cover your costs.

If you are not using a dropshipper, but shipping the item yourself, always charge enough for shipping and handling to cover your entire cost, not just the cost of postage.

My rule of thumb for shipping has always been to take the actual cost of shipping and add a fair amount to compensate me for my materials, time and trouble. This is the honest way to do it.

Remember, it's called shipping and handling, which means you need to cover your costs of packing materials, shipping costs, insurance, your time and effort, etc.

## Do I Need A Tax ID and Business License?

Not all dropshippers require a tax ID and business license, but some do. Many companies require nothing more than a name, address, and credit card on file to do business with them. However, if you want to deal with the best companies and get the best prices, you should get a tax ID and business license.

Having a tax ID number will allow you to purchase goods from a much broader range of wholesalers and perhaps even get you lower prices than you're paying now with the dropshipper.

I am always amazed when people tell me they would do anything to have their own business then freak out when I tell them they should get a tax ID and business license. The process for getting a tax ID and business license is very simple: you fill out a form and you pay a fee. You do not have to turn over your first-born and it doesn't cost an arm and a leg, nor does it invite the IRS to monitor your every move.

It's up to you whether you want to do this as a hobby or as a business. If it's going to be a hobby, then you're probably not going to make much money and you will lose interest quickly.

If you want this to be a real business, then treat it like one and do the things required to do business in a formal manner.

You build a business. You dabble with a hobby.

Getting a tax ID is not a difficult task. To get a federal tax ID just go to the IRS website at <http://www.irs.gov>, click on "Forms and Publications" to download Form SS-4. Fill it out and either mail or fax it to the IRS office indicated in the form's instructions. There is no fee.

Once the IRS issues you a number, you will have to get a tax ID number from each state in which you have a business address. Again, this is a simple process that just requires a few minutes of your time. You fill out a form and pay a small filing fee. That's it.

For a list of state tax offices and their websites, from which you can obtain the appropriate form, go to <http://www.taxsites.com> and click on "State and Local Tax" link.

It typically takes two to three weeks for the IRS to mail your tax ID, but if you're in a rush you can call the IRS and get a tax ID number assigned to you over the phone.

The toll-free number is (866) 816-2065. It helps to have a completed Form SS-4 in front of you since the agent will ask you many of the same questions.

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## What Are The Advantages Of Dropshipping?

The advantages of dropshipping are many, including:

- You can start with little or no out of pocket costs.
- You don't have to pay for an item until it sells and your customer pays you, so your personal cash outlay for the product is zero.
- You never have to handle or warehouse the merchandise.
- You never have to fill orders.
- You can order products one at a time and have them shipped directly to your customers.
- You can also offer a wide variety of items from multiple dropshippers, and your end customer is none the wiser.

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## What Are The Disadvantages?

Dropshipping does have its downside. Still, if you do your homework and establish a good relationship with a reputable dropshipper, the problems you experience should be few.

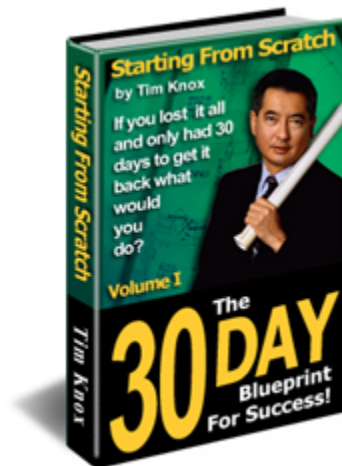
The disadvantages of dropshipping include:

- You have no control over inventory management.
- You do not control product availability.
- You rely on someone else to do order fulfillment.

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Their answers could make you rich...



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## How Do I Deal With Minimum Purchase Requirements?

If you do business with wholesalers you may experience minimum purchase requirements, but you should not run into minimum purchase requirements from reputable dropshippers.

Your goal should be to find a dropshipper that will ship items one at a time instead of requiring that you purchase a fixed minimum number of items each time (single-unit purchases vs. minimum-order purchases).

With this arrangement, you don't have to invest your limited cash reserves in inventory that might not sell (and that sits in your garage for months).

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## Are All Dropshippers Reliable?

In a word: NO! The wholesale and dropship industries are ripe with disreputable companies that concentrate more on stealing your money than supplying you with product.

You should always ask for references and check out the company with the Better Business Bureau before signing on as a reseller.

Ask for the names of some of their current customers and references. If they refuse to provide such references, find another company to do business with.

Thanks to the Internet, you can also search Google for information on the company.

There are many forums and bulletin boards now that concentrate on the dropship industry.

Do a search for these forums and read any reviews on the company you can find. Beware companies with numerous negative reviews.

Ultimately the only way to ensure that a dropshipper is reputable is by doing your homework.

You would be surprised at how many people don't take the time to do this and end up regretting it later.

If you don't invest the time it takes to ensure that a dropshipper is reputable, then don't be surprised when bad things happen.

## What Is A Middleman?

Some companies that claim to be dropshippers are really what's called "middleman" companies. A middleman is someone who positions themselves between a true dropshipper or distributor and you the seller of the product.

Middlemen pretend to be dropshippers but are not. Most often they get their products from a dropshipper that you could deal with directly. Middlemen will eat into your profits and usually don't offer much in the way of customer support and service. Middlemen often come in the guise of buyer's clubs or wholesale distributors.

Before doing business with a dropshipper make sure that they get their products directly from the manufacturer and not from another dropshipper.

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## Who Is Responsible For Customer Service?

You are.

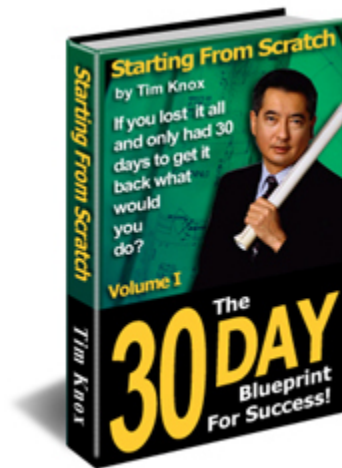
Remember, your customer doesn't know that the product they purchased from you really comes from a dropshipper.

You are their point of contact, so if there is a problem, your customer will come back to you for resolution.

That's why it is important to make sure that the dropshipper you use has a policy for resolving problems quickly.

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## What About Refunds?

Reputable dropshippers will have refund and return policies posted clearly on their website or in their reseller agreement. However, when problems arise you must be proactive since the customer will look to you the seller as the responsible party.

Reassure your customer that you are personally taking care of the problem and will make things right. Then contact the dropshipper and work out the resolution with them.

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## How Can I Be Sure A Product Is In Stock?

Most dropshippers have websites where you can view the number of items they have in stock at any given time. Those that don't have telephone hotlines you can call to check inventory. If a company does not have a mechanism in place that allows you to check inventory, don't do business with that company.

Before you place an item for sale you should make sure that the dropshipper has a good supply on hand. If they have several hundred of an item you shouldn't have to worry, but if they only show a dozen or so, you should either pick another product to sell or wait until their stock is replenished.

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## How Do I Handle Back Orders?

A back order occurs when you mistakenly sell an item that is out of stock. The dropshipper must order more inventory from the manufacturer before it will be able to fill the order for the item you have sold. This rarely makes for a happy customer.

The best way to handle back orders is to avoid them. Make sure an item is in good supply before you ever place a sale on eBay to sell the item.

If you do run into a back order situation, handle the problem quickly and professionally.

Contact your customer and tell him that the item has proved to be so popular that it sold out faster than you expected. Offer to back order the item, replace it with a similar item, or refund their money immediately.

Do not try to wiggle your way out of a refund if the customer asks for one. You are the seller and it is up to you to make things right. Do so quickly, politely and professionally.

Keep in mind that your eBay feedback rating might be negatively affected if you don't take care of the situation as quickly as possible.

## How Do I Handle Returns?

Inevitably you will have a customer who wants to return a product for one reason or another. This is why it's so important that you know the return policy of the dropshipper before attempting to sell an item.

Most dropshippers have a return policy that allows the customer to return an undamaged item within a certain amount of time. There is usually a restocking fee involved, but the customer does get back most of the purchase price.

Also remember that your customer will come back to you for the return, not the dropshipper. As with back orders you should be proactive and respond immediately to your customer's request.

It may be that the dropshipper will not accept the return. It then becomes your decision as to how to handle it. If the customer has a valid reason to return the item, work out the return with them on your own. If the product is in good condition you can just sell it again.

If the customer has used the product and wants to return it in an un-sellable condition, you should refuse the return or negotiate a reduced refund amount.

## If There Is A Problem, Whom Does My Customer Contact?

As far as your customer is concerned you are the point of contact. They bought the product from you, not the dropshipper.

If you buy a Ford and have a problem with it you don't drive it to Detroit, you take it to the dealer you bought the car from. The same holds true here.

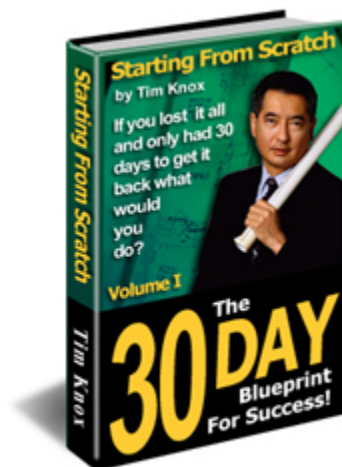
Problems should be dealt with quickly and professionally. And don't make the mistake in thinking that ignoring a problem will make it go away.

The opposite is more true.

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## Is It Better To Buy From A Wholesaler Than A Dropshipper?

That depends on a number of factors, including your budget, the amount of space you have to store inventory, and the amount of time you want to devote to your business.

The advantages of buying merchandise from a wholesaler are:

- You will find a wider range of products and get lower prices. Most dropshippers get their goods from the same wholesalers you can do business with.
- It is easier to develop a relationship with a wholesale company since most will assign a sales rep to your account.

The disadvantages of buying merchandise from a wholesaler are:

- Most require a business license and tax ID.
- Most will not dropship for you. All purchases are shipped to you.
- Most will not sell you one item at a time. You will be required to purchase by the case, the pallet, or even the truckload.
- Most have minimum purchase requirements, i.e. a minimum order of \$200 or 12 cases, etc.
- If you buy in bulk you will need a place to store your inventory
- You must handle shipping yourself.

While it appears that there are more disadvantages than advantages to doing business directly with a wholesaler, the opposite is actually true.

The fact that you can get a better selection and lower prices far outweighs the disadvantages, but again, this decision should be based on your particular situation.

Many sellers are building good, profitable businesses without ever signing on directly with a wholesaler.

You can, too.

## Can You Recommend A Few Dropshippers?

There are literally hundreds of dropship, wholesale, liquidation, discount, and closeout companies that can provide you with merchandise to start your own eBay business.

For help in locating dropship, wholesale, liquidation, discount, and closeout companies check out The Ultimate eBay Dropship Power Pak at the URL shown below:

- <http://www2632.dropshipwholesale.net/>

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## The Secret To Starting A Successful eBay Business

If Fred Sanford were alive today I'm sure he'd be earning his ripple money by selling quality junk on eBay. While it's also true that one man's junk is another man's treasure (I have a garage full of treasure to prove this point), your chances of building a profitable business selling "junk" on eBay (or anywhere else, for that matter) are slim to none.

While there is a lot of junk/treasure for sale on eBay, it is typically sold by individuals who have "I break for yardsales!" bumper stickers on their cars and not serious business people.

For serious entrepreneurs, however, selling on eBay can be a good way to start a new business if you are willing to put in the time and energy required to make the business a success. eBay is also a good option for existing businesses to expand their reach by selling online.

Everyone from small used car dealers to giant companies like Dell Computers have discovered that eBay is an excellent place to hawk their wares simply due to the huge number of folks who visit the eBay site on a daily basis. Nowhere else on earth will you find such a large pool of potential customers.

Consider these numbers:

- There are nearly 69 million eBay users who spend \$59 million every day.
- Most eBay sellers are home-based businesses that sell every- thing from porcelain dolls to locks of Elvis' hair to \$100,000 Mercedes convertibles to \$5 million dollar vacation homes.
- Every minute of every day more than 150 new items are listed for sale, more than 500 bids are placed, and seven new people register to shop on eBay.
- At any given moment, eBay is conducting some 12 million auctions, divided into about 18,000 different categories.
- About two million new items are offered for sale every day, and 62 million registered users scour the site to find them.
- One company is grossing more than \$5 million dollars a year selling brand new pool tables on eBay. Their eBay store is so profitable that they have closed their retail location and now sell solely online.

That's right, \$5 million dollars from the sale of pool tables: proof that you can sell just about anything on eBay if you know how to do it.

Be aware, however, that eBay is no magic bullet. As any eBay PowerSeller will tell you, building a profitable eBay business takes hard work and requires long hours, and often the financial rewards do not make it worth the effort spent.

When it comes down to the mechanics of it all, running an eBay business is no different than running a brick and mortar business. You still have the same considerations regarding product selection, inventory purchasing, product pricing, inventory management, order processing, fulfillment, customer service, etc.

You must also consider the legal and accounting aspects of the business. Just because you're selling online does not mean that Uncle Sam won't expect his piece of the pie. Revenue generated by an eBay business is just as reportable and taxable as revenue generated from a brick and mortar store. And if you sell to customers within your state you may also be responsible for collecting city, county or state sales tax.

One of the biggest obstacles to building a successful eBay business may be the stiffness of the competition. Many sellers sell identical items and the price wars often get ugly, but that's to be expected in a free market place, which is exactly what eBay is.

You may be the only store in town that's selling that one of a kind, custom made just for you, broke the mold after they made it, Dale Earnhart Memorial Bobble Head Action Figure (Earnhart fans would string me up if I called it a Doll), but do a quick search on eBay and you'll probably find a hundred others just like it.

So, can you build a profitable business selling on eBay?

Certainly, thousands of people have done it and so can you.

Here are a few tips to help get you started.

### **Sell Quality Products**

Don't sell junk! Leave the knick-knacks and fake leather jackets to the less informed. You should offer only quality products at a fair price.

### **Research The Competition**

Once you have your product in mind, don't invest a dime on inventory until you have spent some time on eBay to see what the competition is doing. If you want to sell motorcycle helmets, for example, you should look at current auctions to see how many others are selling similar helmets and what prices they are charging. This step is vital since you may discover that you can't compete with current sellers on price or there is simply no market for what you have to offer.

### **Start Slowly**

Many people believe that the more items they have for sale on eBay the better.

They will invest thousands in inventory and spent hundreds on listing fees (yes, eBay charges you to list items for sale and collects a final fee if the item sells). Those are the folks that usually end up with ten thousand Ginsu knives forever in their garage.

### **Test, Test, Test**

A fair portion of eBay auctions result in no sales, so it's best to test the waters before jumping in with both feet.

List a few items and see how they sell. If an item doesn't sell, list it at least twice more. Some items might not sell the first time, but may the second or third, then sell steadily from then on.

If an item gets no bids the first time, consider adjusting your price or your terms. If an item sells well, keep it in stock and then experiment with another item.

### **Do Your Homework**

eBay is too broad a subject to be covered fully here, but there are a multitude of books available that can help you start an eBay business. In fact, I bet you'll find most of them for sale at this very moment at eBay.

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- <http://www2632.dropshipwholesale.net>

## Is Selling On eBay Just A Hobby Or A Real Business?

**Q: I made extra money selling things on eBay last year. These were items I picked up at yardsales mostly. My husband says I am responsible for paying income tax on the money I made, but I disagree. This is just my hobby, not a business. What do you think?**  
**-- Gladys A.**

**A:** With so many people selling on eBay these days this is a question I get all the time. To many eBay sellers the thought of running an actual business is about as appealing as getting negative feedback, so they go out of their way to convince themselves that selling on eBay is really "just a hobby" and therefore, should not be susceptible to income tax laws.

While you might think selling on eBay is just a hobby and the extra money you're making is not reportable as income, depending on the circumstances, the IRS just might disagree with you.

The IRS rules are clear: you must pay taxes on all personal and business income and that includes money you make selling on eBay.

In its most basic sense, the IRS rules mean that if you buy a vase at a garage sale for \$10 and sell it on eBay (or elsewhere) for \$20 you made a \$10 profit and therefore must report it as income and pay Uncle Sam his fair share.

In reality, if you are a casual seller who only sells a few items on eBay every now and then it's doubtful the IRS is going to lose much sleep over the few bucks you make.

However, if you consistently sell on eBay the IRS may deem your activities to be business oriented and you will be required to file a Schedule C and claim the income.

The IRS uses a number of factors to determine if a hobby is really a business. These factors include:

### **Do you carry on the activity in a business-like manner?**

If you conduct your eBay activities in a business-like manner, i.e. you keep business records, track profit and loss, keep a separate checking account, etc. then whether you think so or not, your hobby is really a business.

### **Do you spend considerable time working on your hobby?**

If you put considerable time and effort into your eBay sales, the IRS may contend that you do so for profit and not fun. It seems the folks at the IRS don't believe in doing things strictly for pleasure. My guess is, neither do you. If you weren't

making money selling on eBay I doubt you'd bother getting up at 4 a.m. to hit all those yardsales.

Then again, maybe you would... :o)

**If you depend on income from your eBay activities for your livelihood?**

If so, it's a business, not a hobby.

There are a number of other factors the IRS uses to determine if a hobby is really a business, but that covers the basics.

You can learn more at the IRS website at [www.irs.gov](http://www.irs.gov).

What's eBay's take on all this?

eBay is vehemently opposed to anything tax related (especially the forced collection of sales tax, which is a whole 'nother issue). It's understandable that eBay is not a fan of the IRS since trying to enforce tax rules on buyers and sellers would undoubtedly be detrimental to the way eBay does business.

eBay does not issue 1099 tax forms to sellers, nor does it report seller's sales figures to the IRS. eBay considers itself a facilitator, i.e. they provide a marketplace in which buyers and sellers come together to do business.

However, since eBay is not directly involved in the transactions that take place between buyers and sellers, it would be impossible for eBay to report sales figures. Furthermore, eBay does not track if a seller actually gets paid by the buyer, so they have no idea how much money actually changes hands, making it impossible for eBay to issue accurate 1099s to sellers.

On the bright side, if you do sell on eBay as a business you can deduct a number of business expenses, including the cost of inventory, listing fees, shipping, envelopes, packing materials, etc. You might also be able to deduct things like the purchase of a computer for business use, office space (even if it's a home office), office supplies, and more.

I'm not accountant (nor do I play one on TV), so please do not take any of this as tax advice or legal opinion. Talk to your accountant if there's any doubt as to whether you should or should not be paying taxes on your eBay earnings.

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## Do You Pay Taxes On eBay Income?

One of the questions I get the most is whether or not you are required to report income earned from eBay sales to the IRS. These questions usually come from eBay sellers who are hoping that I can somehow validate their hope that their eBay activities are mere hobbies instead of actual businesses and therefore not susceptible to IRS taxation.

Their argument is always the same. They think that just because their little eBay hobby generates a little cash, that doesn't make it a full blown business.

It seems they consider the income from their little hobby to be financial manna from Heaven and thereby not taxable by earthly tax collectors.

I've always been amused by folks who try to impress me with talk about their "little side business," but when the subject turns to taxes they suddenly refer to it as "my little hobby."

All kidding aside, the truth of the matter is this: while you may think selling on eBay is just a fun pastime and the money you're making is not reportable as income, depending on the circumstances, the IRS will probably disagree with you.

It seems that everyone likes making money, but hates carving off a piece for good old Uncle Sam. Welcome to free enterprise, folks. If you're going to come to the dance you have to pay the fiddler.

The IRS rules are clear: you must pay taxes on all personal and business income and that includes money you make selling on Ebay.

In its most basic sense, the IRS rules can be interpreted to mean that if you buy an old vase at a garage sale for \$10 and sell it on eBay (or elsewhere) for \$20 you made a \$10 profit and therefore must report it as income and pay Uncle Sam his fair share.

In reality, if you are a casual seller who only sells a few items on eBay every now and then it's doubtful the IRS is going to let loose an army of agents to collect taxes on the few bucks you make. However, if you consistently sell on eBay the IRS may deem your activities to be business oriented and you will be required to file a Schedule C and claim the income.

As mentioned last week, the IRS uses a number of factors to determine if an eBay hobby that generates sales revenue is actually a business. These factors include:

- Do you carry on the hobby in a business-like manner?

- Do you spend considerable time working on the hobby?
- Do you depend on income from your hobby for your livelihood?

If the answer to any or all of these question is yes, you're running a business, not carrying on a hobby, and you are responsible for paying taxes on your income.

What's eBay's take on all this? Naturally eBay is vehemently opposed to anything that might rock the eBay boat. eBay does not does not issue 1099 tax forms to sellers, nor does it report seller's sales figures to the IRS.

Ebay considers itself merely to be a facilitator, meaning that they provide a marketplace in which buyers and sellers come together to do business.

Furthermore, under it's current system it would be impossible for eBay to issue accurate 1099s to sellers. eBay does not track if a seller actually gets paid by the buyer, so eBay has no idea how much money - if any - actually changes hands at the end of each transaction.

On the bright side, if you do sell on eBay as a business you can deduct a number of business expenses, including the cost of inventory, listing fees, shipping, envelopes, packing materials, etc.

You might also be able to deduct things like the purchase of a computer for business use, office space (even if it's a home office), office supplies, and more.

Talk to your accountant if there's any doubt as to whether you should or should not be paying taxes on your eBay earnings.

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## Recommended Money Making Opportunities

The resources listed in this section have been helpful in building hundreds of online businesses. Perhaps they can be as helpful to you. For complete details on all offers visit:

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### **"The eBay Powerseller's #1 Product Resource"**

The Ultimate eBay Dropship Power Pak contains everything you need to start your own profitable online business, including access to our private database of over 3,000 dropship and wholesale companies!



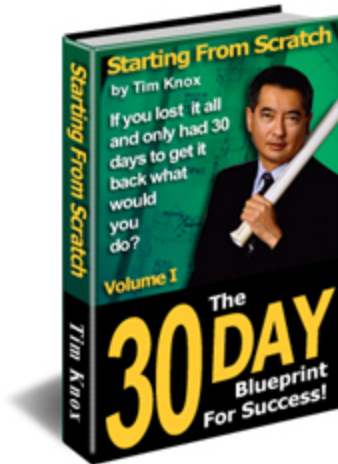
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## **“No Experience, No Money? No Problem”**

We asked 58 of the Internet's Top Money Makers: "If you lost it all tomorrow and had to start over with nothing but the brain in your head and the experience of your years, how would you get back on top in less than 30 days?"

Their answers could make you rich...



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## **“The Amazing CD Money Machine”**

The Amazing CD Money Machine gives you the exact blueprint for success that I have used to build my own home-based business into a \$2,000 A WEEK MONEY MACHINE!



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## **“The Official Powerseller's Online Auction Tool Kit”**

It doesn't matter if you're an eBay beginner or an experienced Powerseller, the information in this huge 10 volume set will make your profits soar!

Written by REAL eBay Powersellers and Experts.

### ***The Official Powerseller's Online Auction Tool Kit***

**The Proven, Step-By-Step Method  
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