

Apparently, you can't take them with you



*Big-ticket cards are attractive but are only a fraction of the cards in the sale of collections.*



By George Vrechek

When you bought your first package of gum with trading cards inside the wrapper, you probably didn't think - what am I ultimately going to do with this stuff? You chewed the gum, threw away the wrapper, looked at the cards, read the backs and carefully wrapped them up with rubber bands in some kind of order. The next week, you took your discretionary income to the store and bought some more cards.

Perhaps the only worry about your cards was whether your mom was going to throw them out some day when you weren't paying attention.

You didn't immediately wonder what tax basis you might have in the cards, what the capital gains rate might be when you disposed of them, what selling commissions might run, what it would cost to have any cards entombed and whether your estate would get a step-up in basis for the cards if you didn't take them with you to the great beyond.

But now that some of us have gotten a little older, we may have thought about what to do with a collection that has been painstakingly assembled over many years. A collector I know reported on his results in selling parts of his collection, and I thought it was applicable to many of us. I realize readers who have been through this will have closer-to-home stories, that dealers understand the economics from their viewpoints and that my personal experience at selling cards is almost zero. However, people can be confused about the economics of the process, and I have tried to figure it out myself in advance. My apologies for peppering this article with minutiae from the exciting world of selling costs and taxation.

The biggest discovery that I took away from the collector's report was that dealers, auction houses or online consignment agents need to make money selling your cards. Who knew? But more specifically, the economics work better for them, if they make enough money on each card sold. The more expensive the card, the better.

### **Big ticket cards**

If you attend a current version of the local card show, you will see a host of shiny modern cards that seem to create a lot of interest from the typical customers. If such dealers bring any vintage cards, they seem to be high-end items, like graded cards of Mickey Mantle or other super superstars. Plain old Hall of Famers don't seem to be worth lugging around. As for bargain bins, you can forget them. Vintage non-sports cards at these shows are like looking for hens' teeth. But if you could find them, they would likely be key cards from the most popular, older sets in the best condition and graded.

### **Consignment sellers on eBay**

Look online at some of the big consignment sellers on eBay. The impression is that they focus on cards that are worth their trouble. For example, if you have a card that is worth \$25, the commission on selling the card may barely be worth the effort spent by the consignment seller, according to the collector's report. You might say that most of your individual cards are not worth even \$25, but your nice set of 132 cards is worth say \$1,000 which should be enough to attract some interest. However, many prospective buyers aren't looking to buy a set. Heck, they

have been working on the set for years. They enjoy putting a set together and now just need a few key cards to complete the set or upgrade.

Non-sports sets may have a leg up on sport sets when it comes time to sell. Such sets are smaller, they aren't dominated by a few rookies or star cards, and there usually aren't scarce high numbers or variations. Buyers may be more inclined to buy a complete set, and consignment sellers might be more interested in selling them that way.

However, the problem remains that the consignment seller would rather sell a stack of high-numbered Hitlers in the Horrors of War set or a Look 'N See Rembrandt than a bunch of common cards in average shape. If your collection includes big ticket items, the consignment seller is more likely to deal with the commons but don't expect as much attention. The collector who shared his experience with me was delighted with the prices realized for the most expensive cards and a bit disappointed that the numbers on the rest of what he consigned were not as robust.

A dealer offered some additional thoughts. A typical collection might have 1% of the cards that have the highest demand, and 50% of the cards will take some time to liquidate. Most collectors underestimate the effort involved in selling, and the commission charged can vary based on the effort needed.

Consignment sellers' online feedback ratings usually give buyers more comfort as to the condition and authenticity of cards posted. They pay eBay for each sale just like our collector friend would. They might pay eBay a lower percentage than we would, but they have to make money on what is left out of the commission they charge you, which might run 20% to 30% of the selling price. Consequently, the \$25 card, by itself, doesn't get them very excited.

### **Auction houses and selling sets**

Another option is using an auction house that handles its own auctions and will take entire sets. They may also act as online consignment sellers at the same time. Many of these agents have been around for years, although keep in mind that you are not dealing with an FDIC-insured financial institution, but card dealers. You send them your cards and trust that they will be cared for until sold. (Although, I guess, there is such a thing as bonded guarantees to cover cards once they are out of your control.)

My collector contact used both – an eBay consignment seller for the oldest and biggest ticket items and an auction house for most everything else. He investigated several firms and got recommendations from other collectors before selecting people to sell his collection. One long-time collector I knew put his trust in an auctioneer he had known for years to sell his significant collection. By the time the sales were completed, the auctioneer's reliability had been brought into question. The collector was never sure that he received what he was expecting.

Since they are usually not going through eBay, such auction houses may charge their commission in two ways: one attractive percentage to the seller (like 15% or less) and the rest of what they need (like 20%) as a buyer's premium. But make no mistake, all fees come out of the seller's hide one way or the other. Alert readers will realize the net result is roughly the same –

you get perhaps 30% less than what the buyer pays. The buyer isn't looking to pay any more than what they believe the market price to be.

You should also ask about any costs which might be deducted by your agent such as storage, insurance, mailings, photography, authentication or any other fees they might imagine that aren't covered by the percentage commission. If they say they will pay for any grading, they likely mean that they will pay for it and then deduct the cost from the proceeds to you in addition to their normal percentage commission.

| Examples with and without buyer's premium                    | eBay consignment   | Auction house        |
|--------------------------------------------------------------|--------------------|----------------------|
|                                                              | No buyer's premium | With buyer's premium |
| What buyer is willing to pay before sales taxes and shipping | \$ 90.00           | \$ 90.00             |
| Buyer's premium charged at 20% of bid                        | -                  | (15.00)              |
| What buyer will bid taking into account any premium          | 90.00              | 75.00                |
| Commission charged seller at 30%                             | (27.00)            |                      |
| Commission charged seller at 15%                             |                    | (11.25)              |
| Net to seller                                                | \$ 63.00           | \$ 63.75             |
| Net to seller as % of what buyer pays                        | 70%                | 71%                  |
| Effective total commission percentage                        | 30%                | 29%                  |

### **Selling them yourself on eBay**

For some of his collection, my friend felt that no one was going to be as knowledgeable as he was in describing the cards and their scarcity. For example, variation cards can be difficult to find and confusing to understand. He felt he was better off handling those sales himself through eBay. He got to do the photographing, describing, listing and shipping. Costs can vary for eBay listings, but 16.5% of the winning bid before taxes and shipping is a believable budget percentage to me.

### **Do it yourself**

Even if you have taken tables at shows or are a part-time dealer, you probably won't find it cost effective to continue lugging a shrinking inventory of cards to show after show to dispose of your complete inventory. Dealers usually only sell a fraction of their inventory at each show. Like Macy's, you will likely wind up with a bunch of stuff that didn't sell quickly. However, you can always advertise in *The Wrapper* and not lug the cards to shows. Lower the prices until all the stuff sells. Les will appreciate the continual ads!

Another option is to sell to a dealer or collector. While they will likely pay you less than what might be realized from an auction, the net to you, the risks avoided and the time saved may be more attractive than you first think. You could also trade your piles of cards for a few cards that will be easier to sell someday and have the trade qualify as a like-kind, tax-free exchange – just like when you were a kid.

### Let's check the numbers for selling Rembrandt

The 1952 Look 'N See Rembrandt that you paid 1 cent for as a kid may now be worth, let's say \$100 on a good day, according to some price guide. To make the math easier, let's assume you bought the Rembrandt years ago for \$1. You sell it through a consignment seller on eBay, who will get a commission of let's assume 30%. Some sellers may have sliding rates for each lot with lower overall percentages for the big-ticket items and higher percentages for the common stuff, but a 30% commission overall probably isn't a bad assumption.

While shipping costs and state sales taxes can be thought of as "pass-throughs," I feel that buyers take such costs into effect when considering what they are willing to pay for your \$100 card, all-in. At a card show, \$100 in cash will get you a \$100 card. Online, with sales tax and shipping, \$100 may only get you a \$90 card. It may be conservative, but I think you need to deflate price guide numbers by 10% to account for what buyers are willing to pay – which is \$100 all-in. The shipping costs for getting your cards to the consignment seller need to be considered as well. Let's throw them in with the 10% factor.

You might want to argue that buyers have gotten used to paying shipping, sales taxes and buyer's premiums in addition to their budget numbers, and that they rationalize away the add-on costs, don't read the fine print, like to pay more than market or are bad at math.

Now maybe your consignment agent can get top dollar for Rembrandt, as in the case of the collector's experience. You may get a bid of say \$120 instead of \$90 for your \$100 card. Such pleasant surprises will improve your numbers, but you probably can't count on them for the collection as a whole.

|                                                                                                |  |               |          |          |
|------------------------------------------------------------------------------------------------|--|---------------|----------|----------|
| "Market value" of your card on a good day                                                      |  |               |          | \$100.00 |
| Less 10% to compensate for buyers taking into account shipping and sales taxes on their offers |  |               |          | (10.00)  |
| Price realized at auction                                                                      |  |               |          | \$ 90.00 |
| Less 30% commission to third-party agent                                                       |  |               |          | (27.00)  |
| Net amount realized by seller                                                                  |  |               |          | \$ 63.00 |
| Less income taxes at 25%                                                                       |  | proceeds      | \$ 63.00 |          |
|                                                                                                |  | cost basis    | (1.00)   |          |
|                                                                                                |  | profit        | 62.00    |          |
|                                                                                                |  | 25% of profit | 15.50    | (15.50)  |
| Net to seller after taxes                                                                      |  |               |          | \$ 47.50 |
| Percent of value realized                                                                      |  |               |          | 47.5%    |

### Income and taxes – two words that go together, now more than ever

Effective in 2023, TPSOs (Third-Party Settlement Organizations, like eBay) are required to send a 1099-K form to IRS and to taxpayers to report collectible sales if they exceed \$600 for the year AND meet all the complicated definitions described by IRS. This \$600 threshold had been

\$20,000 and was to go into effect in 2022 but was deferred until 2023. The complicated definitions involve who is supposed to be reporting all these transactions, which are taxable whether they are reported to you or not. (After this article appeared in 2023, IRS announced in November 2024 that the \$600 threshold for reporting such 1099-K transactions would be phased in. In 2024 the threshold for reporting by TPSOs was increased to \$5,000 for 2024, \$2,500 for 2025 and \$600 for 2026 – unless they change it again. Update 2025 – You guessed it. They changed the reporting rules so that the threshold is “permanently” back to \$20,000 – but don’t bet it will stay that way. This threshold is for REPORTING to you on a 1099-K. The income is still technically TAXABLE to you even if it is less than \$20,000 – if that makes any sense. Whether you report it on your tax return is another matter.)

The IRS definitions describe “third-party network transactions” using “payment cards.” However, the devil is often in the details as to how an auction house or dealer may view and deal with the reporting requirement. It is possible the definitions and effective dates for all this will continue to morph, but you get the idea that IRS would like to get their piece of the action.

Assuming you get one of these 1099-Ks and you are not considered a “dealer” by IRS, you report the income as a capital gain upon sale of a collectible. Capital gain tax rates for selling collectibles are higher than the rates for selling stocks or real estate. For most taxpayers, the tax rate will be the same as for ordinary income. Depending on your bracket, you may pay up to 28% in federal taxes as well as state taxes. Let’s be optimistic and use just a 25% tax for combined federal and state taxes or \$15.50 on your net proceeds. The \$100 Rembrandt card may net you only a lousy \$47.50 as shown in the example.

Perhaps there are some allowable costs that can be added to your \$1 original Rembrandt cost to increase your tax basis and decrease your taxes. Maybe you sold your duplicate Rembrandt, which you paid \$50 for, insured it and hired an armed guard to watch over it at a safe deposit box site. You will need some way of substantiating such “reasonable” costs.

For this example, I assumed that any cost to have a card graded would be offset by the value received for that card as graded rather than raw. Such assumptions may not reflect reality. You might find that the reputation of the consignment seller will be sufficient to get good prices without going to the expense and fun of getting a card graded – at least up to a certain card value. Keep in mind that individual cards sold through eBay for more than \$250 get sent to eBay for authentication at “no cost to you” – at least that’s what they say.

### **Your estate sells instead**

It can be a lot of work to put a collection together, but it can also be a lot of work to sell it. Even if you have no one among your heirs who would like to have your collection, you may want them to have it anyway, giving them the job of deciding what to do with it. Most children haven’t developed our collecting bug or attachment to eras before they were born, and they will immediately look to sell the collection. This actually may not be a bad way to handle the disposition – at least from a tax standpoint.

If you leave your \$100 Rembrandt card for the estate to sell soon after you are gone, the estate gets a basis of the fair market value at date of death – what is called a step-up in basis. There would be no capital gain tax to the estate or tax to your descendants, assuming you are like

most people and not subject to estate taxes. Therefore, the proceeds to your estate, in this example, would be \$63 and not \$47.50. Add several zeroes to think about your collection in its entirety. You also get to continue to look at your collection every day. If your estate or beneficiaries hang onto the cards, and they appreciate following the date of death, they get to pay some more taxes on any appreciation when eventually sold.

However, leaving the disposition to your heirs to save some taxes, may not be the present you want to leave them. The “Ask Amy” newspaper advice column is evidence that you may not want to create any ill-will among heirs in dealing with such burdens in your estate. Cash is easier to divide, and you don’t need any rubber bands.

### **Report on reporting**

Now, wait a minute, you might say. I have held, in effect, garage sales every month for the last umpteen years, and I have never paid any taxes on such things. That is probably true. However, if you are holding a garage sale, you are likely trying to sell household goods and clothing for \$10 that originally cost you \$100, and the tax authorities aren’t very interested in something that is a losing proposition, a non-deductible “hobby loss,” technically.

However, in the case of collectibles, there are plenty of examples of the attic find generating substantial proceeds. When your hobby makes money, things change. Why wouldn’t tax authorities be interested? Specifically, what is different from your garage sale versus public hobby sales today is the 1099-K reporting. (Which has been changed back to \$20,000. See above update.)

If you have any collectible sales that would result in losses, you can sell them to offset gains you might have on other collectibles sold in the same year, rather than having losses that are non-deductible. Maybe you want to sell your \$5,999 collection over 10 years, or through several third parties? Maybe you have always lived and collected in the Cayman Islands? The point is – figure out the applicability of any income taxes before you sell your cards.

### **Missing the cards and keeping some**

Collectors have wondered how much they will miss the cards they might sell. Some collectors have hung onto their favorite sets or even started re-collecting those favorites to stay involved in the hobby. However, I haven’t heard of many collectors saying that they regretted simplifying life for their heirs, successors and assigns, as they say in the trade.

Another factor is the continual care of a collection. Unfortunately, as values have increased so have worries about safeguarding cards, insuring them, moving them around and keeping them out of the rain. Therefore, it makes sense to me that collectors sell the bulk of their collections before their estate does, but it also makes sense that you might hang onto a few cards that are worth more to you than to anyone else. They likely have been bent a few times or might even have at least a pin hole in them, but they bring back memories which are nice to have. You can even take those cards with you.

As the humorist Dave Barry quipped in his book “Money Secrets” – if you carefully follow the financial and tax advice I have presented here, I can guarantee that you will be the first person

ever to do so. Therefore, consult your financial or tax advisor if you want to know even more about this thrilling topic.

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