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Buyer's Premium

Many readers ask us about the term Buyer's Premium. Our editor, Stuart Maclaren explains... "What is it?" is reasonably easy to answer, but as we'll see, there is no really satisfactory answer to the question "why is it?"

A buyer's premium is basically a charge levied by the auction house, which is paid by the buyer in addition to the hammer price. The buyer's premium is kept by the auction house and is not passed on to the vendor. This means that you are paying an additional fee to the auction house for the privilege of having bought from them: it's a bit like Tesco's charging you 30 pence for tin of baked beans, and then charging you an additional three pence fee for the pleasure of having shopped in their store.

Say that you successfully bid £100 for a vase (which was the price the auctioneer called out as he knocked it down to you). In the end you will end up having to pay £110 to the auction house if the buyer's premium is set at 10%. If it's 15%, then you'll pay £115, and so on. Christie's now charge an amazing 17.5%, and Sotheby's a truly astonishing 20%! But sadly that's not all...

In many cases, you'll pay more than the buyer's premium because while some salerooms include VAT in their buyer's premium (ie. the 10% you are charged includes a proportion to pay the VAT - they call this the Auctioneer's Margin Scheme) some don't, so then that is 10% plus VAT (meaning it is almost 12% extra to pay, and so on). The Christie's 17.5% is not including VAT, so by the time you pay that as well, you are looking at a buyer's VAT inclusive premium of over 20%! Ouch! Not that it matter very much, but I prefer the salerooms who have included the VAT in the figure that they quote as the buyer's premium - it makes it easier to work out the additional sum you are paying them from the outset with just one calculation.

So that's 'what it is' - but 'why it is' is a more difficult question. What do you get for the privilege of paying this money? Not catalogues, which you have to buy separately. Not a great service either, because the auction houses which charge the most are often the most chaotic. The truth is, you get nothing at all for your additional 10% (or whatever percentage it is). A buyer's premium is purely a tax on your spending, and auction houses charge it because they can, and because it makes them a lot of money.

If they charge 15% buyer's premium to the buyer, and get 15% commission from the seller, they are making 30% on every item that passes through their doors. Not bad, is it? Stick it in the corner, put a sticky label on saying "lot 345" and take 30% of whatever someone will pay for it!

In years gone by there was no buyer's premium, and the price called out by the auctioneer was the price that the successful bidder paid ó there were no hidden extras. Auctioneers made their money by taking a commission from the amount that they paid to the vendor - generally 10 or 15% of the money paid by the buyer. When you think about it, this is entirely sensible, because vendors do get a reasonable service from auction houses. If you want to sell Aunt Maud's Ming, for example, an auction house will examine it, research it, value it, put it in the catalogue, publicise it, and generally encourage as many people as possible to come and bid for it: that's why they earn their commission from those who are selling. But in the 70s the big auction houses realised that there was an another untapped source of profit sitting right in front of them - quite literally: the rows and rows of buyers. Why shouldn't they pay, too? Okay, they don't get anything in return, but so what?

Once introduced, the buyer's premium became unstoppable. It grew from fairly humble percentages in the 70s to its present enormous figure, partly because of the increasing numbers of private buyers who were happy to pay the extra

(although quite a number of dealers cut down on the amount they bought at auction, or stopped going altogether in protest).

Nowadays things are weighted even more heavily against the buyer. Sotheby's recently reduced the commission that vendors pay, while upping the premium that buyers pay. This means that vendors will pay less for the services of the auction houses and be more willing to consign items for sale, while buyers pay more than ever for receiving no service at all.

So that's what it is - a rip off, basically, which buyers pay because even with this shameful tax, auctions can still offer very good value for money. Of course some auction rooms have held out and don't charge a buyer's premium, but sadly most do, and their numbers (and the amounts they charge) are rising all the time.

I have never seen a real justification for this practice, and when questioned as to their motives several auction houses have replied rather limply that 'we do it because everyone else does it' which is the kind of excuse popular in school playgrounds across the country. Besides, you would think that the public would be keener to frequent sales which don't make you pay an additional fee for receiving nothing in return, wouldn't you? This rather explodes the childish logic of the 'we do it 'cos Billy Jenkins does it' argument. They do it, let me say it again, because they know that they can get away with it!

Or can they? There may be some good news on the horizon. Somebody has pointed out that since buyers receive no service in exchange for their 10% buyer's premium (or whatever rate it is charged at) then the buyer's premium is a levy, and such a levy (a tax, or, according to one dictionary definition, an extortion) is illegal under European law... so perhaps the European Court will outlaw this extortion? Maybe, but I wouldn't hold your breath.

So remember the buyer's premium when you are bidding, and avoid the uncomfortable shock of being presented with a final bill which is far larger than you thought. Despite this iniquitous levy, you can still get extraordinary bargains at auction, and you can still find a few auction houses which don't try it on in this way.

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