



A Short
Backgrounder
to Barter & Tax

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Barter & Tax: An Overview

As a mechanism for earning additional income there are no tax advantages or disadvantages to barter. The tax code treats barter transactions identically to cash transactions. Barter sales are considered taxable income in the year they are credited; barter purchases and related barter expenses are considered tax deductible expenses.

It is also important to keep in mind that all barter income is dealt with on a cash basis, and the taxation authorities treat barter as income received, whether businesses use accrual-basis or cash-basis accounting. Also, participants must report and pay taxes on barter income for the year in which it accrues; if a business is profitable they should try not to have unspent barter credits at the end of the fiscal year. *(If they are unprofitable, and their barter income does not make them profitable, it won't be taxed.)*

Following are official revenue service treatments of barter for both commercial and non-commercial activities in five different jurisdictions:

Australia

Commercial Barter	Non-Commercial Barter
<p>The extent to which the consideration received or receivable during a barter or counter-trade transaction (either in terms of cash, credit units, goods or services) represents assessable income under subsection 25(1) depends upon the nature of the consideration in the hands of the recipient. The essential principle when dealing with barter or counter-trade transactions is that these transactions are assessable and deductible only to the same extent as a similar cash or credit transaction. Similarly, timing principles for the derivation of income and the incurring of expenditure that apply to cash or credit transactions apply equally to barter and counter-trade transactions.^{1 2}</p>	<p>The Australian Taxation Office ruling on LETS, released in February 13th 1991 states that there are no Taxation implications for personal arrangements, social arrangements, hobbies or pass-times. These constitute about 70 to 80% of all LETS transactions. The Commissioner for Taxation has to date exhibited no interest in taxing ordinary LETS members anywhere in Australia.</p> <p>Section 11 of the Taxation Ruling No. IT 2668 states the following:</p> <p><i>“By way of contrast, consideration which is merely the proceeds of a hobby, pastime, domestic or social arrangement, or the receipt of a windfall gain would not fall within the concept of income in subsection 25(1). For example, neighbours who exchange some home-grown vegetables over the back fence will not have derived income in terms of subsection 25(1). Also, benefits derived from the use of informal babysitting clubs would not fall for assessment under subsection 25(1). It is noted that a large proportion of transactions made through community-based counter-trade organisations would not fall within the concept</i></p>

¹ Commissioner of Taxation, (1992)., Taxation Ruling No. IT 2668. Australian Taxation Office (13 Feb 1992)

² Commissioner of Taxation, (2005)., Creation of Goods and Service Tax (GST) input tax credits by barter exchanges. Taxpayer Alert TA 2005/4. Australian Taxation Office.

of income in subsection 25(1). Only those transactions within these organisations which arise from the carrying on of a business or the provision of skilled services would generally fall for consideration as assessable income.”³

With regards to GST, Section 17 of the GSTR 2003/14 Tax Ruling states:

“The community-based schemes are usually run on a non-profit basis and their membership may consist of individuals, businesses or other organisations. Members of community-based schemes are often not registered or required to be registered for GST or do not make supplies in the course or furtherance of their enterprise. However, where members of community-based schemes are registered or required to be registered for GST and make supplies in the course or furtherance of their enterprise, this Ruling applies to them.”⁴

Australian Taxation Office provided example of the treatment of barter dollars and GST⁵

“Harvey and Tracey are registered for GST and are both members of the Better Bartering Exchange. Harvey is a bookkeeper and provides bookkeeping services to Tracey who operates a courier service. Harvey’s trading account is credited with 440 Better Bartering credits (BBs) for the supply of services to Tracey.

Under the rules of the exchange, one BB equals \$1 and the commercial value of the services is \$440. The price of the supply is 440 BBs. Before calculating the value of the supply, the 440 BBs are converted to their Australian dollar equivalent – \$440. The value of the taxable supply that Harvey makes is \$440 x 10/11, which is \$400. The GST on the supply is therefore \$40 (that is, 10% of \$400).

Harvey will declare \$400 as assessable income on his income tax return, and Tracey will claim \$400 as a deduction on her tax return.”

³ Commissioner of Taxation, (1992)., Taxation Ruling No. IT 2668. Australian Taxation Office (13 February 1992)

⁴ Commissioner of Taxation, (1992)., Goods and services tax: the GST implications of transactions between members of a barter scheme conducted by a trade exchange, GSTR 2003/14, Australian Taxation Office.

⁵ Australian Commissioner of Taxation, (2004)., What is the tax treatment of bartering transactions - Fact Sheet, Australian Taxation office (12 March)

Canada

Commercial Barter	Non-Commercial Barter
Revenue Canada recognizes and accounts for one barter dollar as equivalent to one Canadian dollar. ⁶	In general, participants only have to pay taxes on a trade in LETS dollars if the same trade in Canadian currency would have been taxable. (i.e.: if the transaction " <i>is of the kind generally provided by him in the course of earning income from, or related to, a business or profession carried on by him...occasional help given to a friend or neighbour in exchange for something would not be taxable unless the taxpayer made a regular habit of providing such services for cash or barter.</i> " ⁷

⁶ Revenue Canada Bulletin, Income Tax Act, Barter Transactions, no. IT-490, Section 3

⁷ Revenue Canada Bulletin, Income Tax Act, Barter Transactions, no. IT-490, Section 3

New Zealand

Commercial Barter	Non-Commercial Barter
<p><i>“Turnover is the total value of taxable supplies for all your taxable activities, excluding GST. In a normal business it will be the total value of your sales and income. It will also include the value of any grants or subsidies you receive, or barter transactions you make.”⁸</i></p>	<p>The view of the IRD with respect to community work appears to be that, as long as the work offered, is not the same as the participants (cash) income generating work then there is no tax involved.</p> <p><i>“As long as the primary purposes of the organisation are not changed by the activity of the Time Bank, the Time Bank comes within the constitution of Project Port Lyttelton, and anyone using the Time Bank facility is not doing so as a part of their taxable activity or business, Project Port Lyttelton will retain their approval for tax exempt status under section CW 33(1)(a)(ii) of the Income Tax Act 2004 as a District Improvements Society.”⁹</i></p>

⁸ Commissioner of Taxation, (2003), Introducing Goods and Services Tax. Department of Inland Revenue (June). <http://www.yourbiz.co.nz/Downloads/ir365.pdf>
⁹ <http://relocalize.net/taxonomy/term/165>

United Kingdom

Commercial Barter	Non-Commercial Barter
<p>The service or product provided must be at market value and a 'contemporaneous' sales invoice must be made with sequential sales/fee invoice number and date. The business records must show how the invoice was settled. Advice regarding the recording of such revenue is given in the Inland Revenue Booklet 'Self Assessment – A General Guide to Keeping Records'. To quote direct from the booklet:</p> <p><i>"Even if you do not record these through a till, you will need to make a record at the time the transaction takes place of the goods taken or supplied and their retail selling price."</i>¹⁰</p> <p>Revenue is measured at the fair value of the consideration received or receivable. The consideration is usually cash. If the inflow of cash is significantly deferred, and there is no interest or a below-market rate of interest, the fair value of the consideration is determined by discounting expected future receipts. If dissimilar goods or services are exchanged (as in barter transactions), revenue is the fair value of the goods or services received or, if this is not reliably measurable, the fair value of the goods or services given up.¹¹</p>	<p>Unknown</p>

¹⁰ Commissioner of Taxation, (2003)., SABK4 - Self Assessment - A general guide to keeping records, Inland Revenue Marketing and Communications (June)

¹¹ The Institute of Charter Accountants in England and Wales summarising the accounting treatment under IAS 18. <http://www.taxationweb.co.uk/businessstax/article.php?id=266>

United States

Commercial Barter	Non-Commercial Barter
<p>In the United States, trade exchanges were classified by law, as of August 1982, as 3rd party record keepers as defined by the TEFRA Act of 1982. As such, trade exchanges have the same reporting requirements as banks, savings and loans, credit unions, and stock exchanges. They are required to report to you and to the IRS your sales for the year on a form 1099B. All tax payments are applicable as if the trade credit revenues and purchases were made in cash.¹²</p>	<p>The IRS has issued three local rulings that Time Dollars are tax exempt^{13 14 15} They have given three reasons for this status.</p> <ol style="list-style-type: none"> 1. An hour is always an hour, regardless of what is offered 2. They are backed only by a moral obligation and are not legally binding. 3. Their purpose is charitable.

¹² IRTA et al, (2005)., Fact Sheet, International Reciprocal Trade Association

¹³ Coulter, J (1996) ., PLR 9608009 1996WL76443(I.R.S.), Internal Revenue Service

¹⁴ Kennedy, E.L. (1985)., Letter to Mr. Hillhouse from E. L. Kennedy Chief, Specialty Tax Branch; Internal Revenue Service.

¹⁵ Kennedy, E.L. (1985)., CC;IND:S:1:3, Internal Revenue Service (12 Jun)