Bartering Businesses Can't Cut Uncle Sam Out of the Deal

Bartering may seem like something that happened only in ancient times, but the practice is still common today. And the general definition remains the same: the exchange of goods and services without the exchange of money.

Because, in a typical barter transaction, no cash exchanges hands, it's easy to forget about taxes. But, as one might expect, you can't cut Uncle Sam out of the deal. The IRS treats a barter exchange the same as a transaction, so you must report the fair market value of the products or services you receive as income.

Any income arising from a bartering arrangement is generally taxable in the year you receive the bartered product or service. And income tax liability isn't the only thing you'll need to consider. Barter activities may also trigger self-employment taxes, employment taxes or an excise tax.

You may wish to arrange a bartering deal through an exchange company. For a fee, one of these firms can allow you to network with other businesses looking to trade goods and services. For tax purposes, a barter exchange typically must issue a Form 1099-B, "Proceeds from Broker and Barter Exchange Transactions," annually to its clients or members.

Although bartering may appear cut and dried, the tax implications can complicate the deal. We can help you assess a bartering arrangement and manage the tax impact.

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