

Abstract: When cash is tight, many businesses barter for goods and services instead of paying dollars for them. Companies involved in such transactions need to remember that the fair market value of goods they receive is taxable income. And if a business exchanges services with another business, the transaction results in taxable income for both parties.

Business bartering: Yes, it is taxable income

When cash is tight, many businesses turn to bartering for goods and services instead of paying dollars for them. If your company gets involved in such transactions, remember that there are tax consequences.

Bartering defined

Bartering is simply the exchange of services or property, and it's a taxable event. For example, suppose a computer consultant trades services with an advertising agency. In that case, each must report income equal to the fair market value of the services they received — typically the amount the service provider would normally charge. If both parties agree on the value beforehand, that amount is used unless evidence suggests otherwise.

If services are exchanged for property, the recipient still realizes income. For example, if a construction company accepts unsold inventory as payment, it must report income equal to the inventory's fair market value.

Barter clubs

Some businesses participate in barter clubs that manage these exchanges using "credit units." Members earn credits by providing goods or services and redeem them later.

Generally, bartering is taxable in the year it occurs. However, when participating in a barter club, you might owe taxes when credits are added to your account, rather than when they're used.

Barter clubs must send participants IRS Form 1099-B (Proceeds from Broker and Barter Transactions) by January 31 each year. This form reports the total cash, property, services, and credits received. The IRS also receives a copy.

When joining a barter club, you'll be asked to provide your Social Security Number or Employer Identification Number and to certify that you're not subject to backup withholding. Without this certification, the club will withhold taxes from your barter income.

Consider the tax

Business bartering transactions may be beneficial as long as you're aware of the federal and state tax consequences. Contact us if you need assistance or would like more information.