**Tax Tips**

**Taxation of Barter Income**

As the owner of a business, you may sometimes find it to your advantage to barter for goods and services rather than paying in cash. You should be aware, however, that the fair market value of goods and that you receive in bartering is taxable income, just as if you had received a cash payment.

Exchanges of services result in taxable income for both parties. Say, for example, that a computer consultant agrees to an exchange of services with an advertising agency. Both parties to the transaction are taxed on the fair market value of the services received. This is the amount they would normally charge for the same services. If the parties agree to the value of the services in advance, that will be considered the fair market value unless there is contrary evidence.

Income is also realized where services are exchanged for property. For example, if an architectural firm does work for a corporation in exchange for shares of the corporation's stock, it will have income equal to the fair market value of the stock.

Many business owners join barter clubs that facilitate barter exchanges. These clubs generally use a system of “credit units” that are awarded to members who provide goods and services and can be redeemed for goods and services from other members.

If you participate in a barter club, you'll be taxed on the value of credit units at the time they are added to your account, even if you don't redeem the units for actual goods and services until a later year. For example, say that in Year 1 you earn 2,000 credit units, and that each unit is redeemable for one dollar in goods and services. In Year 1, you'll have $2,000 of income. You won't pay additional tax if you redeem the units in Year 2, since you've already been taxed once on that income.

When you join a barter club, you'll be asked to give the club your social security number or employer identification number and to certify that you aren't subject to backup withholding. Unless you make this certification, the club must withhold tax from your bartering income at a 24% rate.

By Jan. 31 of each year, the barter club will send you a Form 1099-B, which shows the value of cash, property, services, and credits that you received from exchanges during the previous year. This information will also be reported to IRS.

I hope the above is useful to you. Please let me know if you wish to discuss these matters further in connection with your particular circumstances.

If you have any questions concerning the taxation of barter income, please do not hesitate to call me at (562) 698-9891.

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