

# BEST TAX PRACTICE -

## ***Barter & Trading***

Yep, it's a taxable event to both parties

Exchanging your goods and or services with someone for their goods and or services? The IRS calls it "barter" or "trading" and it is taxable to all the parties involved in the transaction.

*EXAMPLE: You agree to work off legal fees incurred by doing lawn maintenance for the attorney who provided you a legal service. In this scenario, the fair market value (FMV) of the legal service provided you is taxable to you for having done the lawn maintenance for the attorney. Likewise, the FMV of the lawn maintenance service you provided the attorney is taxable to the attorney.*

This type of transaction - bartering or trading, must be claimed as income on the tax return for each party's respective tax return (individual and or business).

Usual and ordinary expenses incurred in providing your goods and or services are allowed to be taken against the income. The IRS requires that your gross income (income before expenses) be declared and then list your expenses. Do NOT list the net results (income - expenses = net).

- Even if the exchange of the lawn maintenance is determined to be of an equal value to the legal services, both must declare the income on their tax return.
  - **EXAMPLE:** The lawn maintenance you provide the attorney is valued at \$500 and the legal services provided to you by the attorney are valued at \$500. Even though these are otherwise an "equal trade," the IRS requires that both parties report the \$500 of their respective income on their tax return.

When considering record keeping requirements, barter and trade transactions should be treated just like any other financial transaction or exchange as though money changed hands.

- Original costs of goods being bartered or traded, transaction dates, fair market value (FMV) at the time of the transaction, and other pertinent details should be recorded to assist in the preparation of tax returns and records held for (at least) 3-years.

Lastly, the same rules prevail even if there was an exchange of goods. Using the example from above, this time the attorney needs some graphics work for the firm. As payment, the attorney is going to give you a graphics program and computer on which you can do the graphics work and after the work is done you get to keep the program and computer. The FMV of that software and computer package is all "income" to you and must be declared by you and likewise the attorney must declare the FMV of your graphics work as income.

For more details on barter and trade transactions, visit the Bartering Tax Center at [IRS.gov](https://www.irs.gov/barter). Additional IRS resources:

- Tax Topic 420 - Bartering Income
- Publication 525 - Taxable and Nontaxable Income
- IRS YouTube Channel - Miscellaneous Income