

Bartering Produces Taxable Income and Reporting Requirements

Bartering is the trading of one product or service for another. Often there is no exchange of cash. Some businesses barter to get products or services they need. For example, a gardener might trade landscape work with a plumber for plumbing work.

If you barter, you should know that the value of products or services from bartering is normally taxable income. This is true even if you are not in business.

A few facts about bartering:

- **Bartering income.** Both parties must report the fair market value of the product or service they get as income on their tax return.
- **Barter exchanges.** A barter exchange is an organized marketplace where members barter products or services. Some operate out of an office and others over the Internet. All barter exchanges are required to issue Form 1099-B, Proceeds from Broker and Barter Exchange Transactions. Exchanges must give a copy of the form to its members who barter each year. They must also file a copy with the IRS.
- **Trade Dollars.** Exchanges trade barter or trade dollars as their unit of exchange in most cases. Barter and trade dollars are the same as U.S. currency for tax purposes. If you earn trade and barter dollars, you must report the amount you earn on your tax return.
- **Tax implications.** Bartering is taxable in the year it occurs. The tax rules may vary based on the type of bartering that takes place. Barterers may owe income taxes, self-employment taxes, employment taxes or excise taxes on their bartering income.

Reporting rules. How you report bartering on a tax return varies. If you are in a trade or business, you normally report it on Form 1040, Schedule C, Profit or Loss from Business.

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