

# Bartering and Taxes

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Living in a small town, it's not uncommon to hear people willing to trade their goods or services for your goods or services, but it's not only happening in small towns. It's everywhere...including the Internet.

The Internet term is "ebartering", which can take various forms. There are message boards where people post ads saying they are willing to exchange web site design services (or whatever they have to offer) in exchange for printing or advertising (or whatever they want that you have to offer). There are also bartering exchanges, a central location, where people from all over sell their goods and services for "barter credits" that they can then use to purchase goods and services from other members.

Some people are under the assumption that since no cash is trading hands there are no tax consequences to these transactions. They are wrong.

The IRS considers barter exchanges as if they were "cash exchanges" and therefore they are completely taxable and possibly deductible. When you exchange your goods or services you are required to report the FMV of your goods or services as income received. If you exchanged your goods or services for a deductible business expense, like office supplies or advertising, then you are allowed to deduct the FMV of what you received. If you exchanged your goods or services for something personal in nature, like a round of golf, then you still have to report the barter income your business received, but you are not allowed to deduct the round of golf.

The IRS requires you to report and pay taxes on your barter income in the year in which it accrues, whether you are on the cash basis or the accrual basis of accounting. This is why businesses try to spend all their barter credits before the year ends; otherwise, they will be reporting income from the barter, but no related expense. If you can't find anything in your barter exchange that you want to spend your barter credits on, see if you can contribute your barter credits to a charity such that you can take a charitable donation as your business deduction.

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