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Factors To Consider When Calculating Taxes For Barter Transactions

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BARTER BASICS

If you are new to barter, you may be wondering how to manage and report your barter transactions as the tax filing deadline fast approaches. Since barter is simply the exchange of goods and services, it is governed by the same Internal Revenue Service and New York State tax reporting rules as cash transactions.

A transaction between a buyer and a seller, whether you are using cash or trade, sets the fair market value of the transaction in U.S. dollars. This value, if you are on the receiving end, is counted as a sale and reported as revenue. If you are the buyer, the transaction is counted as a purchase and will be reported as either a business or personal expense.

Sales accumulate as barter credits in your business account; while purchases will cause barter credits to be transferred from your account to that of the seller. As an active trading member, your company could generate hundreds, even thousands, of transactions over the course of a year. Throughout the year, you will receive a monthly report from your trade exchange detailing your account activity.

Chances are your bookkeeper or accountant has been processing each monthly report in much the same way that one would track deposits and withdrawals from a checking account. Think of the monthly trade exchange report as an account statement, and take the opportunity to keep your trade account balanced in the same way you do your cash accounts. Staying on top of monthly bookkeeping tasks will also streamline record collection at tax time.

Reporting Revenue & Deductions

In 1982, Congress passed the Tax Equity and Fiscal Responsibility Act (TEFRA) which named barter companies, along with banks and other fiduciary services, as third-party record keepers, and requiring them to prepare a 1099-B form, which summarizes sales processed on behalf of each client. The 1099-B form, issued each January, is also distributed to the federal and state tax authorities in the same way that banks



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and financial institutions are legally obligated to report interest and dividend income.

Bear in mind that whether you spend the trade dollars from sales transactions or they accumulate in your trade account; revenue generated throughout the year will be counted as income under federal and state guidelines.

When it comes time to calculating your taxes, barter purchases of business products and services will either be attributed to the "Cost of Goods Sold" or the business overhead category. Expenses related to the Cost of Goods Sold category must be integral to producing your product or service. Other deductions, including advertising, supplies, printing, entertainment, maintenance, etc., are considered overhead costs needed to support the administrative side your business. Both categories are valid business deductions and can be reported on Schedule C

of your federal tax return.

In addition to this recordkeeping function, the trade exchange delivers educational programs, networking events and customized marketing programs for a small administrative fee expressed as a percentage of your sales activity. This fee is considered a sales commission, and is fully deductible on Schedule C as well.

Throughout this article, I've given general guidelines. Remember to consult with your own accountant for specific tax advice.

Looking back on a year of barter, tax time should make you keenly aware of the new customers and new markets you've found for your business. It will also confirm the wide range of new, high quality suppliers you've been connected with. Unfortunately, the only thing you can't use barter for is paying your taxes, but we're working on it.

Stephen E. Webster is president and CEO of Alliance Barter, a 25-year-old Rochester-based company with offices in Toronto, Buffalo and Syracuse. Webster is past president of the International Reciprocal Trade Association (IRTA) and presently serves on the board of governors of its universal currency. He is a lifelong resident of the area.