

Bartering Income

What is Bartering Income?

Bartering occurs when you exchange goods or services without exchanging money. An example of bartering is a plumber exchanging plumbing services for the dental services of a dentist.

Tax Treatment:

- Both parties must include the fair market value of goods or services rendered in gross income in the year of receipt. In most cases, the fair market value is already known—it's the normal sale price of the item.
- If the barter is through your business you can record the expense, if it is a valid business expense, at the fair market value of the product or service received. The sale of your goods or services is valued at the purchase price of the goods you are receiving.
- If you exchange services with another person and you both have agreed ahead of time on the value of the services, that value will be accepted as fair market value unless the value can be shown to be otherwise.
- You must keep good records of the trades you make so they can be properly taxed.
- If you barter business assets you may have capital gains or ordinary gains and depreciation recapture to report.

Tax Credits or Offsets:

If you have extra trade credits with a bartering service, you can donate them to a charity.

May qualify for a 1031 if your company replaced what it traded with something of equal or greater value, so that it qualifies as a form of capital reinvestment for business purposes.

*This information should be used as a guideline. Specific questions regarding this “Biz Facts” should be directed to a Business by Design, Inc. tax professional.