**Abstract:** During these times of high inflation, many cash-challenged businesses have bartered for goods and services instead of paying dollars for them. Companies that get involved in such transactions need to keep in mind that the fair market value of goods they receive is taxable income. And if a business exchanges services with another business, the transaction results in taxable income for both parties.

**Business bartering is taxable**

During these times of high inflation, many cash-challenged businesses have bartered for goods and services instead of paying dollars for them. If your company gets involved in such transactions, remember that the fair market value of goods that you receive is taxable income. And if you exchange services with another business, the transaction results in taxable income for both parties.

**A couple of examples**

Let’s say a computer consultant agrees to exchange services with an advertising agency. Both parties will be taxed on the fair market value of the services received. This is the amount they’d normally charge for the same services. If the parties agree to the value of the services in advance, that will be considered the fair market value unless contrary evidence exists.

In addition, if services are exchanged for property, income is realized. Say a construction company does work for a retail business in exchange for unsold inventory. The contractor will incur income equal to the inventory’s fair market value.

**Barter exchanges**

Many businesses join barter clubs that facilitate these transactions. Generally, these clubs use a system of “credit units” that are awarded to members who provide goods and services. The credits can be redeemed for goods and services from other members.

Bartering is generally taxable in the year it occurs. If you participate in a barter club, however, you may be taxed on the value of credit units at the time they’re added to your account — even if you don’t redeem them for actual goods and services until a later year.

By January 31 of each year, a barter club will send participants a Form 1099-B, “Proceeds from Broker and Barter Exchange Transactions,” which shows the value of cash, property, services and credits that they received from exchanges during the previous year. The IRS will also receive this information.

If you join a barter club, expect to provide your Social Security number or employer identification number. You’ll also be asked to certify that you aren’t subject to backup withholding. Unless you make this certification, the club will withhold tax from your bartering income.

**Potentially beneficial**

So long as you’re aware of the federal and state tax consequences, business bartering transactions may be beneficial. Contact us if you need assistance or would like more information.

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