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Trades And Swaps? IRS Gets A Piece (Really)

Ah, summer. As you clean out your garage, get back from vacation or gear up for school in the fall, you might be doing some trading. Is it taxed? You bet.

Whether one-on-one or with multiple parties, the IRS says trading one product or service for another is taxable bartering. Plumbing for dental work? The IRS taxes it. You name the swap, it's income to both sides just like cash.



Both must report the fair market value of goods or services received on their tax returns. See [Do You Barter? The IRS Wants Its Cut](#). It isn't clear how much bartering goes on or is reported, but that could change with the IRS's [Bartering Tax Center](#). A [video interview](#) explains what forms to file. As bartering via the Internet grows, so will the IRS's determination to get a piece of it.

Most casual barter exchanges probably aren't on the tax radar. Parties don't think about taxes or think they're unlikely to get caught. But even simple trades trigger multiple tax rules.

Suppose you receive \$1,000 of dental work for your gardening services. You have \$1,000 of income, and you can't claim a medical expense deduction as you might if you paid the dentist cash. If you swap your wristwatch for a painting, think an even trade is not taxable? Sorry, it's two separate transactions.

Say you originally inherited the watch from your uncle when it was worth \$5,000. If it's doubled in value to \$10,000 and the painting is also worth \$10,000, you have \$5,000 of income. Depending on your facts, it might be long term capital gain. Some swaps (of like-kind business and investment property) are tax-free (called [Section 1031 exchanges](#)), but that probably won't help here.

How will the IRS know about your swap? They probably won't unless you receive a [Form 1099](#). According to [IRS Tax Tip 2008-25](#), you should ask the other party for one. If they don't produce it, you should call the IRS. I doubt that many people follow this advice.

Still, the IRS says you must report any income on your return regardless of whether you receive a Form 1099. See [IRS Form 1099: God Particle Of The Tax System](#). If the barter exchange occurs in employment, there's employment tax on top of income tax. If you're the employer, that can mean a penalty liability for failure to withhold. See [Failing To Pay Employment Taxes Means Personal Liability](#).

Bartering in the old days was probably simple.

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