

Legalities of Bartering

Is Bartering Legal?

I'm amazed how often this question is asked. Speaking to people I get the "good way to avoid taxes" with a nudge, nudge...wink, wink. This coming from successful business owners who I thought would have known better.

If you're business bartering, all trades are treated as cash transactions, therefore it's up to you to claim any trades on your taxes according to your government's laws.

The only thing that is not legal is failing to claim bartering on your taxes. Treat all trades as you would cash transactions. Any barter transaction is reported on Schedule C, Profit or Loss from Business Form 1040.

Examples of Bartering

If you own a business and trade \$500 worth of goods in an even trade, the \$500 worth of goods/services you supply counts as a sale and the \$500 worth of goods/services you receive counts as an expense. That's it.

There is no tax benefit. The benefit is that your expense has your profit built in and this is probably a customer you would have not done business with through normal channels. Treat it just like a cash transaction when doing your bookkeeping.

If you're from a country that has a Goods & Services Tax, that amount is collected from the other party and remitted when doing your taxes.

If a person has a \$500 bike and they trade it for a \$500 computer, again the transaction is treated as cash. If you sold the bike in the local paper for \$500, would you claim it on your taxes? No. The bike was purchased new for \$800 and applicable sales taxes were paid at that time. The bike was also purchased with "after tax" dollars.

Capital Gain

Now Lucky Mary is out at a garage sale and picks up a painting for \$25. She then gets it appraised and finds out it is worth \$5,000. She then trades it for a car. Does she pay taxes on that trade? Yes. Treating the trade just like cash Mary has a \$4,975 capital gain on which taxes are applicable.

If you follow that simple rule you'll be well on your way to successful bartering.