

Bartering transactions are taxable

Barter transactions are considered income for tax reporting purposes and are subject to business and occupation (B&O) tax and retail sales tax, if appropriate. The measure of tax on a barter transaction is the value of goods or services 'actually received or accrued' in lieu of any monetary payment for such goods or services.

For example, imagine coming to work at your accounting business on a Monday morning and finding that the plumbing in the employee washroom has been leaking over the weekend. While insurance will cover the water damage, it will not pay for the new plumbing work. Fortunately, one of your clients is a plumber. So, you call Jake the Plumber and tell him your problem. The two of you agree that the work will cost an amount equivalent to six months' accounting work. Jake does the plumbing work, you do his accounting work, and no money changes hands.

Is there any tax liability associated with this barter transaction? Yes!

Both you and Jake have a tax liability to report on your tax returns. Jake will report a retail sale of his plumbing services under both the retail sales tax and Retailing B&O tax lines. The amount he will report is the value of six months of accounting services that you will provide. Jake should also collect sales tax from you based on this value.

You will report the value of the plumbing services under the service and other activities B&O tax classification for the accounting services you will provide Jake. You do not need to collect sales tax for your services.

For more information on this subject, see: WAC 458-20-112 and RCW 82.04.090.