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IRS taxation of online game virtual assets inevitable

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NEW YORK--If you are a hard-core player of virtual worlds like World of Warcraft, Second Life, EverQuest or There, IRS form 1099 may someday soon take on a new meaning for you.

That's because game publishers may well in the not-too-distant future have to send the forms--which individuals receive when earning nonemployee income from companies or institutions--to virtual world players engaging in transactions for valuable items like Ultima Online castles, EverQuest weapons or Second Life currency, even when those players don't convert the assets into

Most governments are only beginning to become aware of the substantial economic activity in online games, but the games' rapid growth and the substantial value of the many virtual assets changing hands in them is almost certain to bring them into the popular

"Given growth rates of 10 to 15 percent a month, the question is when, not if, Congress and IRS start paying attention to these issues," said Dan Miller, a senior economist with the Congress' Joint Economic Committee, who is also a fan of virtual worlds. "So it is incumbent on us to set the terms and the debate so we have a shaped tax policy toward virtual worlds and virtual economies in a favorable way.'

Miller's comments came during a Saturday panel called "Tax and Finance" at the State of Play/Terra Nova symposium, the fourth annual gathering at New York Law School of academics, lawyers and other scholars to talk about the legal, social and economic issues surrounding virtual worlds.

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- Dan Miller, senior economist

The panel was formed in the context of recent questions--first raised by author Julian Dibbel in his book Play Money and in an article he wrote earlier in Legal Affairs magazine--about whether the transfer of virtual assets, or players' acquisition of virtual loot by, for example, killing monsters, creates taxable events.

"If you haven't misspent hours battling an Arctic Ogre Lord near an Ice Dungeon or been equally profligate spending time reading the published works of the Internal Revenue Service," Dibbell's article began, "you probably haven't wondered whether the United States government will someday tax your virtual winnings from games played over the Internet. The real question is: Why hasn't it happened already?'

And while Miller's committee began examining these issues in October, his comments Saturday suggested there could be wider future congressional oversight and a revised IRS tax policy. That's in spite of the fact that Miller said his committee, and Congress in general, is not out to gouge virtual world players.

"The Joint Economic Committee is not seeking to impose a new tax on virtual economies," Miller said. "We have a very clear record of supporting lower taxes in free market."

Meanwhile, Miller's fellow panelists also weighed in Saturday on Dibbel's question, and came at it from several different perspectives. → advertisement

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1 of 3 12/6/06 5:49 PM First up was William LaPiana, a wills, trusts and estates professor at New York Law School. He approached the question by examining whether estate taxes would accrue on the transfer to an heir of a sizable collection of valuable virtual assets.

LaPiana said that there is little question that the transfer of such assets could be taxable, since it is property. However, he did say that the taxes would accrue only if the total value of the estate's assets, at the time of death, exceeded the limit set by the state in $% \left\{ 1,2,\ldots ,n\right\}$ which the deceased had lived. In most cases, he said, that amount is \$2 million, though some states, like New York and New Jersey, have

There are not that many instances in which someone has that level of virtual assets, although the recent reports that Second Life land mogul Anshe Chung had amassed \$1 million in virtual land and other holdings certainly suggest her heirs might have some interesting inheritance tax issues if she dies.

CONTINUED: Issues for estate administrators...

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Danger in the notion of IRS taxing virtual anything. dblhndlfgrs_girl

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elleon713

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stlwest

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If this is true...

Jimmu410

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Estate Taxes, Capital Losses, EIC

aon2fish

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Taxing you for someone elses property?

PallStar

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Consider Monopoly(tm) from Parker Brothers

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What purpose?

Kevin Walker

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Get rid of the IRS

CAllenH

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and maybe pay for lag tax too

play7

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Can I pay in loot drops?

Jimmu410

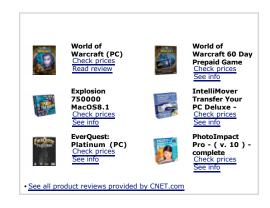
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All I see

c4qibson

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Cool, 1099's for virtual income...

boomslang

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The IRS does tax barter transactions

JHARTLEYCAE

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I don't mind paying taxes, but.

System Tyrant

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Hah! Those buggers will get you everytime.

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