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IRS taxation of online game virtual assets inevitable

By [Daniel Terdiman](#)
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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 cash.

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 consciousness.

"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," Dibbel'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.

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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 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 lower limits.

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.

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Danger in the notion of IRS taxing virtual anything.

dbihndfgrs_girl

Dec 6, 2006, 1:06 PM PST

Capitalism by any other name...

elleon713

Dec 6, 2006, 7:57 AM PST

This is the nuttiest thing ever

Iczelion

Dec 5, 2006, 10:07 PM PST

Whose smoking what?

stlwest

Dec 5, 2006, 3:38 PM PST

If this is true...

Jimmu410

Dec 5, 2006, 1:37 PM PST

Estate Taxes, Capital Losses, EIC

gon2fish

Dec 5, 2006, 9:32 AM PST

Taxing you for someone elses property?

PallStar

Dec 5, 2006, 9:08 AM PST

Consider Monopoly(tm) from Parker Brothers

wwwwebster

Dec 5, 2006, 6:20 AM PST

What purpose?

Kevin Walker

Dec 5, 2006, 12:32 AM PST

Get rid of the IRS

CAllenH

Dec 4, 2006, 6:45 PM PST

and maybe pay for lag tax too

play7

Dec 4, 2006, 5:32 PM PST

Can I pay in loot drops?

Jimmu410

Dec 4, 2006, 5:24 PM PST







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All I see

c4gibson

Dec 4, 2006, 3:36 PM PST

Cool, 1099's for virtual income...

boomslang

Dec 4, 2006, 3:21 PM PST

The IRS does tax barter transactions

JHARTLEYCAE

Dec 4, 2006, 2:08 PM PST

I don't mind paying taxes, but.

System Tyrant

Dec 4, 2006, 2:04 PM PST

Move the online games into Indian Territory!

Sylectra

Dec 4, 2006, 1:59 PM PST

Sledgehammer

Skorp79

Dec 4, 2006, 1:22 PM PST

There Might Be A Good Side

markdoiron

Dec 4, 2006, 12:22 PM PST

Hah! Those buggers will get you everytime.

Sol999

Dec 4, 2006, 12:05 PM PST

DANGEROUS precedent

Eddie-c

Dec 4, 2006, 11:44 AM PST

This tax will force companies to change policy

generatedname

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There is no income tax anyways.....

Jeff419

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