The Barter System

trading goods and services instead of using money

The word "barter" often conjures up visions of haggling over prices in a Bali street market; and the same practice isn't foreign to those of us trying to get a better deal from a seller who might be prepared to accept a lower figure. This isn't a problem if the transaction is all above board. As long as payment for the goods or services is recorded in a form that is acceptable to the tax department there will be no likelihood of repercussions. Of course, there are situations when the usual rules don't seem to apply, especially if the amount changing hands is small. Who would really care about giving $20 cash-in-hand to a mechanic for replacing a globe in the car? Not the driver who has to pay for it anyway; and certainly not the mechanic, because if he put it through the books it would be worth considerably less after tax. So, everyone wins; all, that is, except for the revenue people who get very upset when they miss out.

Despite being essentially honest, most of us take this road from time to time, considering it to be a fair trade that harms no-one; actually, it affects us all in the long run. Those seemingly inconsequential "cashies" deprive the taxman of his cut and the total cost runs into millions. When he comes up short in one area, he has no option but to load another to compensate. This might be in the form of increased sales tax, income tax rates, or perhaps a levy. An even worse-case scenario is the reduction of government services such as health and education. This does seem unfair when people are already struggling, but in many instances we've brought it on ourselves.

There are times, however, when cash payment doesn't come into it. A commercial fisherman might give a chef a couple of lobsters in exchange for a free meal at the restaurant. A carpenter could make a new cupboard for an accountant who reciprocates by preparing the tradesman's annual return at no charge. The taxman, however, keeps a weather eye on this type of practice. Australian tax laws seem to be relatively strict, classifying any and all barter arrangements as subject to tax. Participants of barter trading are obliged to declare the monetary value of whatever they have provided, even when no cash changes hands as part of the deal. So, in a situation where a person who makes a living as a tailor repairs a farmer's torn suit-jacket in exchange for a sack of potatoes, both must declare their side of the transaction. That amount should be the equivalent of what would have been charged under normal trading terms.

Apparently, this doesn't apply if the reciprocal exchange is not allied to specific trades or professions. The tailor might help with digging a drainage trench, in return for which the farmer gives a hand re-painting the tailor's cutting room. It may seem that each benefits in a way that is business-related; but, under normal circumstances, neither would have derived an income from the labours they performed for the other. Perhaps the Australian Tax Office has already considered this possibility and has taken steps to plug the loop-hole. One would hope such petty nitpicking is unthinkable, even by the money-hungry taxman; hoping, however, doesn't make it so.

Bear in mind that the above may only apply to Australia. Revenue departments elsewhere take a more relaxed approach, initially anyway. Research indicates that the tax collectors of countries such as USA, New Zealand, Canada and South Africa aren't too bothered about friends doing each other the odd favour, even when the goods or services exchanged would usually contribute to their income; but when it becomes a regular thing it's a different matter. Instances repeated frequently will be regarded as tax-avoidance if the values of the transactions aren't declared. The IRS and CDA take a dim view of those failing to declare the monetary value of frequent barter transactions that would normally provide part of their income. Attempting to reduce the tax owed by undervaluing or charging a nominal fee simply won't wash either, and both are likely to be dismissed as unacceptable. Another way might be to deduct a portion of the value as a discount, but this amount will only pass muster if such a concession was usually made available to other clients under the terms of normal trading as opposed to bartering.

The kind of barter-trading mentioned wouldn't seem to cost too much in lost revenue, but in real terms it adds up. Much more has the potential to disappear via the online business conducted by franchised, member-only barter clubs. These work on a credit-based principle where the value of goods or services is calculated in dollars, and that amount is credited to the seller. In other words, Joe's Flooring wishes to offer for trade 10 rolls of carpet, normal market value $5,000, plus 10 hours of laying-time costed out at $800. As credits are usually calculated on a one-for-one basis with the US dollar, Joe's Flooring will then have 5,800 credits in the club bank. Now, the Island Dream Group needs a carpet re-fit at one of its resorts and they already have 7,000 credits of holiday-deals for sale. Keeping it simple, they make a trade for all of the carpet and labour, leaving them with 1,200 credits, while Joe's Flooring has none. From the tax department's point of view it is irrelevant that no money has changed hands. $5,800 has effectively been traded by both parties and will be regarded just as if Joe's Flooring bought a holiday-package with company money and the hotel group paid for a carpet job, all in cash. Both will be required to declare their respective sales and purchases in real-dollar value.

If this isn't sufficiently complex, add another tax hike and it's a wonder people bother to deal in anything but real money. In Australia we have GST the same as New Zealand, while the UK and South Africa charge VAT. USA has both GST and VAT. Canada is quite complicated, levying PST, GST and HST – it depends on the province or territory. These are taxes levied on most transactions of goods and services, and the barter system isn't immune. Consumers have to pay these taxes on the majority of purchases, whether made online or in regular stores; barter trading is subject to those very same rules. Individuals and corporations going out of their way to side-step the process are being grossly unfair; not only to the government, but in particular to the wider community which will suffer as a consequence.

Being honest, most of us would agree that taxes are a pain, but we all have to pay them. Sure, if we can get away with the odd cashie or swap, those are the perks of life that help balance the budget. As long as we aren't knowingly trying to be dishonest, no-one really cares; but perpetrators making a business out of deception and a considerable profit from it will eventually come under the taxman's spotlight. It is an accepted fact that ignorance of the law is no excuse; so, probably the best way to avoid falling foul of the system is to find out exactly what can and can't be done within the current laws of the country in which you live, then do the right thing. When everyone eventually follows the rules to the letter, surely we'll all be better off, tax-wise at least? Then again, pigs growing wings could be more likely!

For more detailed information try the following links:

Canada Revenue Agency	www.cra-arc.gc.ca/menu-eng.html
New Zealand	http://www.ird.govt.nz/
US Internal Revenue System	www.irs.gov/
HM Revenue & Customs	https://www.gov.uk/income-tax/overview (Income)
	https://www.gov.uk/government/organisations/hm-revenue-customs (VAT)
South Africa	http://www.sars.gov.za/Pages/default.aspx

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