

# focus

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# Barter for business

## How to exchange services while growing your company

**M**ost business owners are familiar with the concept of barter. A painter, for example, might provide his or her services to a law firm in exchange for legal help.

But in many situations, barter takes place through a barter “exchange.” These exchanges, in fact, are now a worldwide phenomenon: According to the International Reciprocal Trade Association, in 2011 some 400,000 businesses around the world traded about \$12 billion worth of goods and services on barter exchanges.

### How it works

A barter exchange acts as the middleman between its members, who earn barter credit when they provide goods or services to another exchange member. Members can then use the barter credit for goods or services from other businesses in the exchange.

An architect, for example, uses the services of a printer obtained through the exchange. The printer then takes the barter credit earned and

purchases a contract for cleaning services, enabling the cleaner to use barter credit to hire a caterer for its annual employee party, and so on, and so on.

***In a barter exchange, a business earns the retail value (in barter credit) of the goods or services it provides, while incurring only variable costs.***

Along with its role as a middleman, the exchange tracks the barter credit that its members earn and use. For this, the exchange usually receives a monthly fee or a small percentage of the value of each transaction.

### Save cash, boost business

Before you rush to sign up with a barter exchange, keep in mind that barter makes the most sense for businesses that have unused capacity or extra inventory. By putting these assets to work, they earn barter credit that can be used to purchase a range of products or services, without cutting into their bottom line.

Barter also can help businesses generate new customers, at least some of whom will likely pay cash. Here’s how this scenario might play out: A disk jockey exchanges his or her services for advertising in a local newspaper. A few readers who see the ad then contact the DJ and become clients.

What’s more, in a barter exchange, a business earns the *retail* value (in barter credit) of the goods or services it provides, while incurring only *variable* costs. For instance, while a hotel that makes some of its rooms available via barter will have the expense of cleaning the room,



its other expenses — say, for utilities or a mortgage on the property — probably won't be affected. Yet it will receive barter credit for the retail value of the room.

### Cashless exchanges are still taxed

Although barter, by definition, doesn't involve cash, the IRS still considers barter credit to be income. Each year, barter exchanges issue Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*, to their members and the IRS, detailing just how much each business has earned from its barter transactions. Those businesses then pay taxes on the value of the barter dollars earned.

If a business barter directly with another business rather than going through an exchange, it probably won't receive a Form 1099-B. Even so, the IRS expects both parties to account for the transaction, which it considers a sale transaction, when they calculate their tax obligations.

While the law is well settled with respect to reporting *income* from barter transactions, there's some ambiguity about deductions related to such transactions. For example, suppose you barter \$1,000 of your professional time for a website for your business. Had you written a check to the Web designer, the expense would be deductible. If you take the position that a barter transaction is the same as a cash transaction minus the cash, you'd conclude that paying for the Web design service via barter would have the same tax consequence as paying for services in cash and thus the \$1,000 would be deductible.

Unfortunately, the IRS seems to be of two minds: There have been IRS pronouncements that support this position and others that seem to go against it. Until this issue is settled, you

### Bringing barter to the "hood"

Barter isn't only for businesses. In fact, neighborhoods around the country have formed community barter networks. Personal bartering allows you to conserve cash while still obtaining the goods or services you need. And it's a great way to connect with others in your community.

A barter network member interested in a transaction typically contacts the individual in charge or the network's website to determine if a trade can be made. Assuming the transaction is doable, the parties involved can negotiate the details. The trade also needs to be recorded in the members' accounts.

If you're interested in barter but not up for creating a network, check online for networks already in place, such as [u-exchange.com](http://u-exchange.com). Craigslist also includes items available for barter.



may want to barter only for goods or services whose costs wouldn't be deductible even if you paid for them with cash.

### Is barter right for you?

Barter can help numerous types of businesses conserve cash and generate business. But keep in mind that you'll need to carefully document the transaction and consult your tax advisor for guidance. ♦

# Protect yourself and your tax return

**S**ay the words “identity theft,” and many people envision a criminal getting ahold of their Social Security number (SSN) and wreaking havoc with their credit. Indeed, this type of identity theft is a serious problem. But another form that’s grown over the past few years is identity theft involving an individual’s tax records.

## Why you should care

The number of incidents of tax-related identity theft jumped from about 52,000 in 2008 to 248,000 in 2010, according to a 2011 report by the U.S. Government Accountability Office. While that’s just a tiny fraction of the 144 million individual returns filed, the impact on taxpayers directly involved can be significant.

***If you receive an IRS notice stating that another return has been filed with your information, it’s possible that your identity has been stolen.***

Identity theft can intersect with individuals’ tax records in several ways. Under what the IRS calls “refund fraud,” a thief steals a legitimate taxpayer’s name and SSN and uses them to file a fraudulent return, claiming he or she is owed a refund. Most thieves try to file early enough in the year that the actual taxpayer hasn’t yet filed his or her return. What’s more, the IRS may actually issue the refund to the fraudster, because the name and SSN on the return appear legitimate.

Alternatively, in a phishing scheme you might receive an e-mail, phone call or letter purportedly from the IRS that asks you to provide

your SSN or other personal information. If you provide it, the thief may use that information to take out credit in your name, put it to some other nefarious purpose or sell it to others with ill intentions.

## Protect your identity

While nothing can guarantee complete immunity from identity theft, you can take a few steps to reduce its likelihood. For starters, do all you can to protect your SSN. Provide your SSN and other personal information only when absolutely necessary — and only when you’ve verified the identity of the party you’re giving it to.

Keep in mind that the legitimate IRS website is [irs.gov](http://irs.gov). The IRS doesn’t use e-mail or social media to request personal information — such as your SSN or bank account password — or to provide a refund or initiate an audit. Instead, the IRS most often contacts taxpayers through the U.S. Postal Service, although, when notifying a taxpayer of an audit, it may call first and then follow up with a letter. If you receive an e-mail claiming to be from the IRS and asking for personal information, don’t reply, open any attachments or click on any links.





If you receive a phone call or letter claiming to be from the IRS, you can contact the IRS (a number of contact options are available at [irs.gov/contact](http://irs.gov/contact)) to determine whether the contact is legitimate. With a phone call, you also can ask for an employee badge number. Once you've confirmed the legitimacy of the call or letter, you can take whatever steps are appropriate.

If you think you're at risk of identity theft — perhaps your wallet or purse was lost or stolen, or you were a victim of identity theft outside the tax system — contact the IRS immediately and alert them to the situation.

### Tips for victims

If you receive an IRS notice stating that another return has been filed with your information or that you received wages from an employer other than your actual one, it's possible that your identity has been stolen. In such cases, call the IRS Identity Protection Specialized Unit at 1-800-908-4490 to check the legitimacy of the letter and follow up, as appropriate.

And, if you receive a notice from the IRS stating that you've been a victim of identity theft, follow all the instructions included in the letter. Typically, this will require completing the Identity Theft Affidavit.

### Take identity theft seriously

For years, the IRS and credit card companies have cautioned taxpayers and consumers about identity theft and fraud. Their multitude of warnings may have actually numbed people to the possibility of it ever happening to them. But don't be lulled into complacency. Keep your eyes open and follow up with the IRS if you feel you've been victimized.

For more information on identity theft and taxes, check out the Taxpayer Guide to Identity Theft at [irs.gov](http://irs.gov). In addition, contact your CPA. He or she can answer your questions and provide helpful information. ♦

## Class is in session: A primer on 401(k) plans

Offering a 401(k) continues to be a popular way to help employees build up their nest eggs. The most common version is the traditional one, which allows employees to save for retirement on a pretax basis and the employer to match all or a percentage of employee contributions. But there

are other 401(k) options you might want to consider as well.

### How it works

With a traditional 401(k), plan assets grow tax-deferred, but withdrawals are taxed. In 2012, employees can defer up to \$17,000



through salary reductions. (Employees age 50 and over by year end can make an additional contribution of \$5,500.) The 2012 combined employer-employee contribution limit is the lesser of 100% of compensation or \$50,000 — \$55,500 for those age 50 or over.

One detriment to a traditional 401(k) plan is that it's subject to rigorous testing requirements to make sure the plan is offered equitably to employees.

### **Finding safe harbor**

Federal rules require a traditional 401(k) plan to benefit rank-and-file workers and highly compensated employees (HCEs) proportionally. This means that, if rank-and-file workers don't contribute enough, HCEs may not be able to contribute the maximum — and may get a portion of their contribution returned to them.

If your company can't easily meet these rules, consider a Safe Harbor 401(k). Under this plan, employers must make certain contributions, but owners and HCEs can maximize their contributions regardless of the amount rank-and-file workers contribute.

To qualify for the safe harbor election, the employer needs to either:

- ◆ Contribute 3% of compensation for *all* eligible employees, even those who don't make their own contributions, or
- ◆ Match 100% of the first 3% of worker deferrals and 50% of the next 2% of deferrals.

The required contributions can make a Safe Harbor 401(k) a substantial investment for your company. Plus, employer safe harbor contributions vest immediately, which could be costly if your staff turns over quickly.

### **Keeping it simple**

If your business has 100 or fewer employees, consider a Savings Incentive Match Plan for Employees (SIMPLE) 401(k). Like a Safe Harbor 401(k), the employer must make fully vested contributions, and there's also no rigorous testing (though the IRS does require an annual filing).

But under a SIMPLE 401(k), eligible participants can defer a smaller amount: only up to \$11,500 in 2012 (\$14,000 for those 50 and over). As the employer, you generally must match contributions up to 3% of employees' pay or make nonelective contributions of 2% of all employees' pay regardless of whether they contribute. So required employer contributions are a little lower than with a Safe Harbor 401(k).

***In 2012, participants can make combined contributions to traditional and Roth 401(k) accounts of up to \$17,000 (\$22,500 for those age 50 or over).***

### **Why you may want a Roth**

A Roth 401(k) allows employees to contribute *after-tax* dollars but take *tax-free* withdrawals (subject to certain limitations).

Employer contributions, however, can go into only traditional 401(k) accounts. And many employees will still want to use the traditional plan for their own contributions to take advantage of the current tax savings.

Generally, employees who expect their marginal tax rates to remain almost as high or be higher

in retirement are better off with a Roth 401(k). Conversely, those who expect their tax rates to decrease significantly will likely do better with a traditional plan.

Some employees may like having the opportunity to split their contributions between the two types of accounts. And employees whose incomes are too high for them to be eligible to make Roth IRA contributions may especially appreciate the Roth 401(k) option, because no such limits apply to the Roth 401(k).

In 2012, participants can make combined contributions to traditional and Roth 401(k) accounts of up to \$17,000 (\$22,500 for those age 50 or over).

### Closing thoughts

A 401(k) plan is still one of the best options for employees who want to diligently contribute to a retirement plan. So make sure you continue contributions to your employees' 401(k) or Roth 401(k) plans. Class is over. ♦

## Moving day: Don't forget to pack a tax planning checklist

Whether you're taking advantage of currently low housing prices to move up the property ladder, relocating for a job or downsizing to save on housing costs, there are many tax considerations worth your attention. This tax planning checklist provides a starting point:

- ✓ **Home sale gain exclusion.** You generally can exclude from your taxable income up to \$250,000 (\$500,000 for joint filers) of gain on your home if you meet certain tests. (Talk with your tax advisor for more information.)
- ✓ **Losses on the sale of your home.** These generally aren't deductible. But if part of your home was rented or used exclusively for business, the loss attributable to that portion may be deductible.
- ✓ **Deductibility of moving expenses.** These expenses generally are deductible only if you're moving because of a job location change. Your *new* workplace must be at least 50 miles further from your old home than your *old* workplace was. You also must satisfy a "time" test.
- ✓ **Mortgage interest deduction limit.** If you're financing more than \$1 million for your new home or you also hold a mortgage on another home, keep this limit in mind: You generally can deduct interest on up to a combined total of only \$1.1 million of mortgage debt incurred to purchase, build or improve your primary home and a second home.
- ✓ **Tax consequences of moving to a new state.** You'll need to consider how your new state's income, property, sales and estate taxes compare to your old state's. And if you're retired, see if the new state offers tax breaks for pension payments, retirement plan distributions and Social Security payments.

Be sure to discuss these considerations with your tax advisor, because additional limits and exceptions might apply.





# THERE'S NO TIME LIKE THE PRESENT TO START PLANNING FOR THE FUTURE...

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