

# The Art of Barter

*Expert knowledge means success*

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Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

## Introduction

Barter is a type of trade, either between individuals or organisations, using goods and services rather than money.

Barter is often regarded as an old-fashioned means of exchange that was superseded because money is, or is thought to be, far more efficient. After all, in a monetary system a potato grower who needs shoes simply has to find a cobbler. In a pure barter system the potato grower would have to find not just any cobbler but one who happened to want potatoes at that specific time. It didn't always work that way which is why, in virtually all civilisations, money came to play an important role and mostly replaced barter.

Barter and money are not necessarily completely incompatible. "One of the most important improvements over the simplest forms of early barter was first the tendency to select one or two particular items in preference to others so that the preferred barter items became partly accepted because of their qualities in acting as media of exchange although, of course, they still could be used for their primary purpose of directly satisfying the wants of the traders concerned".<sup>1</sup>

## Who is Bartering?

Families across the UK are swapping surplus food and drink, personal possessions, their skills – and even their homes – with each other in a bid to save money.

In recent months there has been a huge increase in demand for websites such as U-Exchange or TimeBank which act as online marketplaces for those who want to swap their wares:

### U-Exchange

Both visitors and members are able to browse trades. You can search any Country, State (U.S.), Province (Can.) or County (UK) or you can be more precise by using a Keyword Search. They also have a Map Location button at the top of each category.

You can contact any member whose trade interests you simply by clicking on the contact button in their listing. For privacy reasons, the member's e-mail address will not be visible to you. Your e-mail is sent through an anonymous contact form in which you must enter your message and your reply e-mail address. You must also re-enter a random eight digit security code which is already provided for you on the contact member page. Visitors are able to read the U-Exchange Discussion Board but can only post offerings by becoming a member

[www.u-exchange.com/barter-uk](http://www.u-exchange.com/barter-uk)

### TimeBank UK

TimeBank UK is a national charity providing volunteers with information on voluntary work and volunteering projects in the UK. TimeBank helps create volunteering campaigns and to find solutions to volunteer recruitment challenges.

From sparking ideas for a short term campaigns to comprehensive management of large-scale projects, TimeBank claims to be the only organisation in the voluntary sector that offers a full menu of services for conceiving, promoting and managing successful volunteer recruitment programmes. The Time bank website, which encourages people to give their services and expertise for free in return for credits which allow them to call on the services of fellow members, has seen swapping schemes sprouting up across the country in the past two months. [www.timebank.org.uk](http://www.timebank.org.uk)

### Freecycle

The number of British users of Freecycle, a website that allows members to trade goods and services, has more than doubled to 1.2 million in the year to July 2008<sup>2</sup>. Households are discovering they can collect second-hand toys, furniture and even cars for a token gift of a chocolate bar or bottle of wine. The pioneering website, created by eco-warriors trying to prevent unwanted white goods polluting landfill sites, is attracting more than 2,000 new members every day. As wages have failed to keep pace with spiralling prices, the average family is now left with £155 a month less to spend than in 2004. Middle-class households, who might have once turned up their noses at second-hand goods, are finding the website provides a lifeline.

## Examples

In one of the most famous examples, Pepsi took profits from Soviet Russia in the form of vodka.

The largest barter of all time took place when China agreed to build a massive infrastructure in the Democratic Republic of Congo in exchange for copper and cobalt supplies worth an estimated £6 billion. About the same time, Saudi Arabia and Iran agreed with Pakistan and Thailand, respectively, to swap oil for food.

In October 2008, Thailand said it planned to barter rice for oil with Iran in the clearest example to date of how the triple financial, fuel and food crisis is reshaping global trade as countries struggle with high commodity prices and a lack of credit. The **United Nations' Food and Agriculture Organisation** said such government-to-government bartering – a system of trade not used for decades – was likely to become more common as the private sector was finding it hard to access credit for food imports.

More recently, a South Yorkshire restaurateur believes bartering is the key to surviving the economic downturn for businesses in Sheffield. Richard Mills, who runs the Walnut club restaurant, said that by sourcing goods and services within the city the economy could benefit by £5m a year. Locals at a village pub in Norfolk are beating the credit crunch by bartering home-grown produce for pints.

The Pigs public house, in Edgefield, near Holt, encourages drinkers to contribute to its traditional food menu in return for free alcohol. A sign placed inside the pub reads: "If you grow, breed, shoot or steal anything that may look at home on our menu, bring it in and let's do a deal." Fresh fruit, fish, meat and vegetables have been traded for pints.

Dominic Littlewood, presenter on the BBC's *Don't Get Done, Get Dom Show* suggests that barter schemes are becoming more popular as times get harder. Because there is no cash involved you eliminate VAT and income tax. People are counting their pennies and these totally cashless schemes are becoming more popular.

## How does Bartercard work?

Bartercard is unlike any other credit or debit card because you fund your card with your own goods and services instead of cash.

Bartercard currently helps over 55,000 smart businesses in 12 countries around the world (over 4,000 in the UK) to increase sales, customer base, cash-flow and profit.

Bartercard enables member businesses to exchange goods and services with other Member businesses, saving valuable cash, without having to engage in a direct swap of goods.

A Bartercard transaction is similar to a credit/debit card transaction. Members receive a plastic transaction card and an interest-free line of credit. Trade Pounds are credited to the member's Bartercard account upon the sale of goods and services through the exchange. Members use their Bartercard transaction card to spend their credit balance or draw on their interest-free line of credit, on goods and services from any other Bartercard member.

[www.bartercard.co.uk](http://www.bartercard.co.uk)

## Lets Link UK

LETS - Local Exchange Trading Systems or Schemes - are local community-based mutual aid networks in which people exchange all kinds of goods and services with one another, without the need for money. As grassroots initiatives, they are open to everyone - people of all ages, skills and abilities; local clubs and associations; voluntary groups, charities, community initiatives; housing co-operatives, small businesses and local services - helping everyone to give and take, connect to new resources, and find a genuine community identity.

LETS offer equal opportunities to all - whether employed or unemployed, financially secure or on low income, black or

white, able or disabled. They use a system of community credits, so that direct exchanges do not have to be made. People earn LETS credits by providing a service, and can then spend the credits on whatever is offered by others on the scheme: for example childcare, transport, food, home repairs or the hire of tools and equipment. They claim to have about 30,000 members in the UK.

LETS LINK UK is a non-profit voluntary agency with charitable objectives, dedicated to testing, researching and developing sustainable models for local and community-based LETS and complementary currencies. They exist to encourage organisers of LETS schemes to network with each other locally, and are developing a range of practical administrative services and training opportunities for LETS organisers. They can be contacted at: [admin@letslinkuk.net](mailto:admin@letslinkuk.net) and their website is at: [www.letslinkuk.net](http://www.letslinkuk.net)

## BizXchange

BizXchange offers businesses new sales opportunities to businesses in the current struggling economy. BizXchange helps businesses - large and small - not running at full capacity improve cash flow and generate higher sales by facilitating business-to-business trading within its barter network. BizXchange currently has over 1500 members and has conducted over \$150 million in member barter transactions since it began in 2002.

Modern trade and barter differs from direct "company-to-company" barter - which limits participants to using only what an individual company has to offer. Membership in BizXchange allows businesses to trade within a large pool of other member businesses. Members buy and sell products and services with other exchange members using a currency called "BizX dollars," which are equivalent to U.S. dollars. BizXchange acts as a third-party record keeper, just like a bank, providing monthly statements and current dollar balance. BizXchange account managers connect businesses directly with other members to make sales or purchases. BizXchange acts as an external marketing channel and brings new customers to purchase a company's products and services with BizX dollars.

The BizXchange website is at: [www.bizx.com](http://www.bizx.com)



Dominic Littlewood

*"Barter schemes are becoming more popular as times get harder."*

## Can Businesses Barter?

In today's economic climate, it's rare for a company to have too much business. In fact, most companies have unsold stock or spare capacity. There are always items a business needs to buy but, disappointing sales can mean a shortage of cash - that's where exchanging goods or services can be most valuable.

Exchanging goods or services (commonly known as bartering) is the original business system known to man - it is however, alive and growing within the global business community with over 470,000 businesses worldwide earning an estimated \$12 Billion dollars in previously lost and wasted revenues.<sup>3</sup>

Over 65% of the corporations listed in the New York Stock Exchange are presently using Barter to reduce surplus inventory and bolster sales and to ensure that production facilities run at near capacity. The US Department of Commerce estimates that 20% to 25% of world trade is now barter-with-corporate barter now a £20 billion industry. Barter continues to carve out an important place in the world economy.<sup>4</sup>

## What is IRTA?

The International Reciprocal Trade Association (IRTA) supports and promotes the barter industry worldwide. It is a non-profit organization committed to promoting just and equitable standards of practice and operation within the modern trade and barter and alternative capital systems industry and raising the awareness and value of these processes to the entire Worldwide Community.

Ancient Barter was man's first form of commerce and consisted of the one to one direct exchange of goods and services. Advances in technology have greatly expanded and enhanced the scope of Barter far beyond this limited one-to-one model. IRTA Member Companies can help your business realize lost revenues and make additional profits by making use of your Excess Business Capacity and Underperforming Assets. Consult the worldwide Membership Directory listing on the IRTA web site at <http://irta.com> for an IRTA Member Company located in your

geographical area.

Businesses that choose to participate in Modern Trade and Barter will become a client of an IRTA Member Company. As clients when they sell their goods and services to other clients in the system they earn trade credits which are deposited into their accounts. They then have the ability to purchase goods and services from other member clients utilizing trade credit in their accounts.

All IRTA Members Companies adhere to a strict IRTA Code of Ethics. Businesses that utilize Modern Trade and Barter can be assured that their trade credits are earned and spent within a network that is committed to a high standard of business by meeting requirements that prove the strength and sustainability of their exchange networks.

It is important to note that there are other forms of modern trade and barter. Some of these include complementary (or local) currency organisations, LETS (Local Exchange Trading Systems) and many other forms of alternative monetary systems to help local and regional economies. The mission of IRTA is to provide to all Industry Members with an ethically based global organisation dedicated to the advancement of Modern Trade and Barter and other alternative capital systems, through the use of education, self regulation, high standards and government relations.

## e-Gold

e-gold is a monetary (payments) system which enables the use of gold as money. Gold & Silver Reserve, Inc. administers the system, and oversees an inventory of gold coins and bars held in allocated storage by third party custodians. A quantity of e-gold in your account constitutes title to a precise weight (fine) of this physical gold. This means 100% backing with physical gold for the quantity shown in your account.

The primary function of the system is to facilitate payments, in gold (or silver, platinum, palladium), between e-gold customers. A secondary function is for e-gold customers to make payments to entities who are not e-gold customers. For this purpose, the e-gold system can be instructed to send payments in government money to specified entities, e.g., to pay bills.

[www.buildfreedom.com/e-gold.htm](http://www.buildfreedom.com/e-gold.htm)



Modern Trade and Barter and the Economy

*"It is a rule of thumb that modern trade and barter is more active in a slow economy. The reasons are simple: when cash is scarce, businesses are more apt to consider and implement alternative methods of obtaining the things they need to continue operating."*

Source: IRTA

## ITEX

The ITEX Retail Trade Exchange is the world's largest retail trade and barter exchange. ITEX claims to be the leading marketplace for cashless business transactions enabling you to put your cash and credit cards away and buy and sell using a currency called "ITEX dollars". However, it appears to be heavily slanted towards US participants.

[www.itex.com/](http://www.itex.com/)

## Barter and Counterpurchase

### True Barter

In a *true barter*, the consideration for each party's delivery obligation is the other's counter-delivery obligation. Because the parties' respective delivery obligations are directly connected, with no monetary consideration being interposed, can lead to practical difficulties.

### Value Barter

In a *value barter*, some of the problems of the true barter can be avoided because a monetary value is given to the goods to be supplied by each party.

### Counterpurchase

Counterpurchase is a technique with the flexibility, absent in barter, allowing countertrade practices to be integrated with the legal and commercial devices involved in trade finance generally. *Investopedia* ([www.investopedia.com](http://www.investopedia.com)) explains that Counter purchase is an exchange of goods between two parties who, by means of two contracts, agree to act as purchaser and supplier to each other and to purchase all goods in cash. The first contract is the original sales contract, outlining the terms in which an initial buyer purchases from an initial seller. The second contract, a parallel contract, outlines the terms in which the original seller agrees to buy unrelated goods from the original buyer. Basically this is a contractually enforced relationship between two parties who agree, at some point, to provide business for one another.

## UK Accounting for VAT on Barter Transactions

Generally, correct VAT accounting required each party to account for the full amount of any barter arrangement. For UK VAT-registered traders (including those whose business activity requires registration, VAT is chargeable on barter, part-exchange, gifts and samples<sup>5</sup>:

- If you receive goods or services as full or part payment such as barter, or if you receive items in part-exchange, you must account for VAT on the full value of the item sold, rather than the amount that you charged the buyer.
- If you give free gifts that are worth more than £50 to someone, or if you give a series of free gifts to someone and the combined value of those gifts exceeds £50, you must account for, and pay the VAT on, the value of the gifts.
- If you give a free sample to a person or a business you do not need to account for, or pay VAT on, the value of that sample. However, if you give more than one free sample to a person or a business, you must account for, and pay VAT on, the value of all but one of the samples. If you sell any free samples that you have received from other businesses, you must account for, and pay VAT on, the sales.

### How to determine the amount of VAT on barter, gifts or samples

You charge VAT on the full value, or the cost, of the goods or services you supply:

- Value. Normally you calculate the full value on an item you supply by determining the price (excluding VAT) that a customer would pay in money for the goods or services.
- Cost. What it would cost you to purchase the goods, excluding VAT, at the time of the supply. If that cost is not available, you determine the cost based on what it would cost to produce the goods at the time they are supplied.

### Where no VAT is chargeable

You do not have to account for, or pay VAT on the following:

- Free samples of goods: If you give a free sample of your goods to another person or business. The sample must be an example of one of your products. Only one virtually identical example of each product can be supplied to one person, unless the samples are given for testing purposes, or given to a client

### Exchange and Mart: Barter since 1868

In normal circumstances retail barter is much less important but its persistence has puzzled some economists. The magazine *Exchange and Mart* devoted partly to barter has been published in Britain every Thursday since 1868.

so that they can give several of their customers one of your samples each.

- Free loans of business assets: If you make free loans of business assets to your customers. The cost of hiring the asset must be included in the selling price. For example, where you sell tea, coffee, water etc and you provide for 'free' a vending machine for these items and none of your customers pays extra for the machine.
- Free goods: If you occasionally give away as gifts or free goods to different people an item from your stock that cost less than £50. There must not be a series or succession of gifts to the same person.
- Free services: Genuinely free services that you provide. You must not receive any payment, goods or services in return.

## Free gifts of goods for no consideration

If goods on which you have an entitlement to input tax are given away and there has been neither monetary nor non-monetary consideration, you must account for VAT on their cost value, unless the cost to you is £50 or less and it does not form part of a series or succession of such gifts to the same person.

## Free gifts of your own services

If you provide a service yourself to a customer free of charge, there is usually no supply and no output VAT is due. Where you simply pay for services to be supplied direct to your customer the VAT shown on the invoice is not claimable by you as input tax although it may be claimable by your customer. Although VAT is usually due on free loans of business assets, some free loans to your customers may be treated as outside the scope and no VAT output tax is due. Where you incur VAT in respect of providing free hospitality to non-employees the business entertainment provisions mean you are unable to deduct this. Examples of services where this might apply are hotel accommodation, tickets for a day at the races or similar events.

## Examples of items where VAT is chargeable

When pricing, costing, estimating or supplying any type of products or services, you should ask yourself if you should charge VAT. In addition to charging VAT on the goods and services that you supply to your customers, you must account for and pay VAT on:

- items sold to staff, such as canteen meals or via vending machines;

- sales of business assets, such as commercial vehicles or machinery;
- hiring or loaning of goods to someone else;
- commission received from selling something on behalf of someone else;
- goods or services, such as products or computer software, that you or your staff take out of the business for personal use.

## UK Taxation on Barter Transactions<sup>6</sup>

### Market value and production of the sales invoice

Clearly the service or product provided must be at market value (as in the *Sharkey v Wernher* case) and a 'contemporaneous' sales invoice must be made with sequential sales/fee invoice number and date. The business records must show how the invoice was settled, perhaps via a drawings journal or by the settlement of a purchase ledger invoice. Advice regarding the recording of such revenue is given in the Inland Revenue Booklet '*Self Assessment – A General Guide to Keeping Records*'. To quote direct from the booklet:

*"Even if you do not record these through a till, you will need to make a record at the time the transaction takes place of the goods taken or supplied and their retail selling price."*

### Entertainment

It is important here to refer to HMRC Business Information Manual (BIM45020) dealing with this. It says that expenditure on business entertainment is not allowable as a deduction against profits, nor may a deduction be made for any expenditure, which is incidental to business entertainment.

Traders may obtain entertainment through 'Barter' arrangement in which their own goods or services are exchanged for hospitality. The amount to be disallowed is larger of:

- the value at which the transaction is recognised in the profit and loss account; and
- the cost of the goods or services exchanged for business entertainment.'

## Barter problems for Kings School

This VAT and Duties Tribunal decision, *Riverside Sports & Leisure Limited*, concerned the grant of a lease over sports facilities. It illustrates the point that value added tax (VAT) can be problematical in the most innocuous of transactions.

In December 2002, Kings School, Gloucester, granted a lease over sports facilities to two individuals. The lease, later acquired by Riverside, contained provisions allowing Kings exclusive use of the facilities at certain times, and also for free membership for up to 30 members of staff at any one time. The provision of education by a school is generally an exempt supply for VAT purposes and Kings would have been unable to reclaim any VAT charged by Riverside. It was perhaps for this reason that the right to use the facilities was contained within the lease itself, with no separate consideration on which VAT could have been charged.

Kings argued that the rights had merely been reserved under the lease, rather than having been granted in exchange for the lease. However, HMRC argued, and the tribunal agreed, that Kings received its rights to use the sports facilities as consideration from Riverside in exchange for the grant of the lease. This was on the basis that the rights had been granted to Kings and were therefore akin to a supply of services, on which VAT had to be paid.

The actual value arrived at by HMRC is not given in the decision, but Riverside would have had to account for VAT on that and it would also have constituted chargeable consideration for the purposes of stamp duty land tax.

Source: *Eversheds LLP, solicitors, [www.eversheds.com/](http://www.eversheds.com/)*

## Further Information

Bartering is growing in popularity today with consumers and businesses realising that it's a different way to budget and a creative way to lower expenses. It certainly isn't something new; bartering has been around for a very long time. It's the way our ancestors conducted their daily business and how they survived. The *Introduction to the Barter System Online* at U-Exchange ([www.u-exchange.com/barter-system](http://www.u-exchange.com/barter-system)) is a good place to start to read up on what Bartering is all about.

This publication provides only an outline to Barter and is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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### References/Acknowledgement:

- <sup>1</sup> Quoted from History of Money, see: <http://projects.exeter.ac.uk/RDavies/arian/llyfr.html>
- <sup>2</sup> See Daily Telegraph, 6 July 2008: [www.telegraph.co.uk/news/uknews/2259308/Freecycle-helps-millions-hit-by-the-credit-crunch.html](http://www.telegraph.co.uk/news/uknews/2259308/Freecycle-helps-millions-hit-by-the-credit-crunch.html)
- <sup>3</sup> These statistics are based on figures from the International Reciprocal Trade Association (IRTA): <http://irta.com/>
- <sup>4</sup> Source: Capital Barter Bank: [http://www.cbbank.co.uk/barter\\_explained.php](http://www.cbbank.co.uk/barter_explained.php)
- <sup>5</sup> This section is derived from information provided by HMRC and Crown copyright therein is duly acknowledged. HMRC information about VAT on promotional schemes is available at: [http://customs.hmrc.gov.uk/channelsPortalWebApp/downloadFile?contentID=HMCE\\_CL\\_000091](http://customs.hmrc.gov.uk/channelsPortalWebApp/downloadFile?contentID=HMCE_CL_000091)
- <sup>6</sup> Based on an article on Taxation Web.UK in September 2005, supplied by Julie Butler FCA., Butler & Co, Bowland House, West Street, Alresford, Hampshire, SO24 9AT. Tel: 01962 735544. E-mail: [j.butler@butler-co.co.uk](mailto:j.butler@butler-co.co.uk)

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