The IRS is concerned that barter exchanges provide an opportunity for tax avoidance, so an organization that falls within the definition of a barter exchange is required to report to the IRS regarding the transactions of its members.

**ARE COMMUNITY/LOCAL CURRENCIES ALSO BARTER EXCHANGES?**

Unfortunately, it is difficult to determine whether complementary currencies would be considered barter exchanges and therefore subject to these requirements. The IRS has determined in several private letter rulings that an informal, non-commercial time dollar program is not a barter exchange. These private letter rulings indicated that it was significant that the medium of exchange was not easily convertible to U.S. Dollars.\(^5\)

The IRS also considered the existence of contractual liabilities between members and the organization or among members. For example, in P.L.R. 9608009, the IRS acknowledge that the exchange operated on a “noncommercial basis” because members did not have a “contractual right to receive any services from [the organization] or [the organization’s] members,” among other reasons.\(^6\)

There is one example of a private letter ruling that found a different kind of complementary currency system did not fall within the definition of a barter exchange. In a private letter ruling,\(^7\) the IRS found that an “electronic cash exchange system” was not a barter exchange. The system involved the storing and transferring of electronic cash on a card. The stored value could be transferred from card to card by consumers and retailers in exchange for goods and services. One unit of value on the card is equal to one U.S. dollar and is sold to participants in exchange for cash. The amount of money that may be stored on any card is expected initially to be limited to between $100 and $1,000. Members have the right to sell their cards back to the issuer at face value at any time.