

Internal Revenue Service

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Refer Reply To:

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Legend:

X =

T =

Dear :

This responds to your request for ruling received August 28, 2006, concerning whether X is a barter exchange under section 6045 of the Internal Revenue Code and section 1.6045-1(a)(4) of the Income Tax Regulations.

FACTS

X is an exempt public charity under section 501(c)(3) that serves as a recordkeeper and coordinator for the exchange of goods and services between community members (Exchange). The purpose of the Exchange is to strengthen relationships between neighbors and members of the community based on reciprocity and equality.

Membership in X is open to anyone who completes an application, interviews, attends an orientation, and submits to a background check, all conducted by X. There is no fee assessed to join and X receives no compensation or other fee for providing the recordkeeping service. X provides a membership directory, which lists the members' names and services offered.

X maintains a computerized file of services that members are willing to provide, provides the names of service providers to service recipients when asked, and

maintains accounts of hours of service provided under the program. All services are valued equally under the Exchange: one hour of service equals one unit of credit, referred to as T. Upon completion of services or the exchange of goods, the member providing the goods or service will contact X. X will enter a credit on the account of the member providing the goods or service and enter a debit on the account of the recipient.

Members in the Exchange commonly provide services such as childcare, housecleaning, home maintenance, music lessons, or other personal services, including medical consultations and exams, massage, and other holistic treatments. Some members also offer tangible items, tickets, or discounts from menu items at certain restaurants for which T can be exchanged. X does not guarantee that a member will be able to use accumulated T or receive any goods or services. Members may donate points to other members

LAW AND ANALYSIS

Section 6045 of the Internal Revenue Code states the general rule that every person doing business as a broker shall, when required by the Secretary, make a return, in accordance with such regulations as the Secretary may prescribe, showing the name and address of each customer, with such details regarding gross proceeds and such other information as the Secretary may by forms or regulations require with respect to such business.

Section 6045(c)(1)(B) states that the term "broker" includes a barter exchange.

Section 6045(c)(3) defines the term "barter exchange" as any organization of members providing property or services who jointly contract to trade or barter such property or services.

Section 1.6045-1(a)(4) of the regulations states that the term "barter exchange" means any person with members or clients that contract either with each other or with such person to trade or barter property or services either directly or through such person. The term does not include arrangements that provide solely for the informal exchange of similar services on a noncommercial basis.

X facilitates the exchange of services on a noncommercial basis. Although X's exchange has some similarity to a barter exchange (e.g., similar bookkeeping procedures and listings of services available), it is not a barter exchange within the meaning of section 6045(c)(3). Under the Exchange, X does not charge a fee for participation or membership in the exchange; all services receive a point value based solely on the number of hours of service provided without regard to the type of service; service recipients do not incur a contractual liability upon the receipt of services; service providers do not earn a contractual right to receive services (or any other

compensation) when they perform services. The credits serve merely as a means to motivate the volunteers to continue their community service.

Accordingly, X is not a barter exchange for purposes of section 6045 and the regulations thereunder as a result of its above described Exchange.

This ruling is directed only to the taxpayer who requested it, and it is limited to the facts as represented. Section 6110(k)(3) provides that it may not be used or cited as precedent. No opinion is expressed about the tax consequences of the Exchange under any other provision of the Code. Specifically, no opinion is expressed concerning whether a member earns income as a result of the member's participation in the program.

Sincerely,

James C. Gibbons
Branch Chief, Administrative Provisions
& Judicial Practice, Branch 1
(Procedure and Administration)