# The Business of Barter
## make it work for you

By Phyllis Hanlon

Like many massage therapists starting a business, Enrique Ramirez, spa director and founder of Face to Face NYC Day Spa, struggled to stay afloat in the early going. With approximately five clients at the outset, his budget didn't allow for advertising or marketing expenses. To help get the word out about his business without breaking the bank, Ramirez resorted to a time-tested technique.

"I began trading massage services for a small ad in a local magazine and also with a friend who served as my marketing director," Ramirez says. This arrangement enabled him to build his business without waiting for his savings account to grow or having to secure a large business loan.

### Common Practice

Since before written history and the invention of a common currency, barter—the exchange of services and goods for the same—has been a common practice and continues to flourish today. A 2003 study titled "U.S. Domestic Barter: An Empirical Investigation" by Barbara Cresti indicates that barter

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has realized a dramatic growth since the 1950s. The study examines both corporate barter, which combines product/service exchange with cash payments, and retail barter or commercial trade exchange, a cash-free system between small and medium-size businesses.

Many massage therapists can testify to the benefits of barter from personal experience. Carla Joyce, LMT and registered yoga teacher in Cranston, Rhode Island, began trading while still a student ten years ago. Now that she has her own practice, she continues to barter for massage, but has broadened her exchanges to include personal training sessions, acupuncture, chiropractic, reflexology, architectural services, gym memberships, and reduced rent. "It's a good opportunity to get a service or product that might be a little out of reach otherwise," she says. "It's also a good way to experience a different type of bodywork, develop a professional relationship, and learn new techniques."

Leslie Z. Hollingsworth tells an even more dramatic story. She actually began her fifteen-year massage therapy career thanks to a barter agreement. She felt her initial training fell short and wanted to enroll in a top-notch massage school, but the $6,000 tuition tab was beyond her reach. "This was in the days before massage therapy was considered acceptable," she says. "No school loans or financial assistance was available."

By a stroke of luck, she met a wealthy couple with whom she made an agreement. They wrote out a check for the full tuition and she performed massage for them every Sunday until the loan was paid off. "The whole arrangement was completely business-like. They were like angels to me," Hollingsworth says. "It got me ahead in a big way. I wouldn't have been able to go to school without that couple."

## Taxing Matters

As beneficial as barter can be, those who engage in the practice often overlook or ignore one important aspect. Sandy Botkin, CPA, esquire, and former trainer of Internal Revenue Service (IRS) attorneys, notes that "barter is fully taxable," adding that the most prevalent form occurs in the service industry and is largely unreported. He calls the situation "an underground economy."

Reporting barter is a fairly straightforward tax issue, according to Roger Lirely, associate professor of accountancy at Western Carolina University, who has written extensively about tax matters. "Both parties to a barter have taxable income—it is generally assumed that the transaction does not take place until both parties have agreed that the exchange is equal in value, so the amount of income can be determined by reference to either the value of what was given up or the value of what was received, whichever is more readily determinable," Lirely says.

"In practice, barter exchanges are seldom reported by the parties and are very difficult for the IRS to discover and enforce," Lirely says. He reassures the many people who fail to report their barter transactions that the IRS does not actively seek out those who practice barter. And if they did, they might not pursue legal action. "They wouldn't waste the money. They would weight the cost of proceeding first. They don't aggressively seek litigation."

According to the IRS, income from barter arrangements must be reported as income in the year in which the goods or services are exchanged. However, arrangements on a noncommercial basis are exempt and fewer than one hundred commercial transactions in a given year do not need to be reported.

## Honesty is the Best Policy

Oftentimes, the IRS will discover an unreported barter arrangement purely by accident. According to Lirely, a routine audit might uncover a problem when the amount of goods and/or services received does not balance with fiscal receipts. He explains that an IRS auditor consults the Market Segment Specialization Program (MSSP) audit guide, which is part of the IRS manual and was implemented in 1992. For those in a service business, such as massage therapists, the accounting books should reflect a balance between clients and cash.

"Appointments without corresponding revenue are not necessarily proof, but the auditor would ask about it," Lirely says. "It could trigger a closer audit of the person's business."

MSPP guides currently exist for several industries, including construction workers, drywallers, farmers, furniture manufacturers, gas retailers, ministers, used car dealers, and a few other industries. To date, no guide exists for the massage industry.

Other unreported barter might come to the government's attention when a spiteful partner involved in a breakup reveals the discrepancy. Lirely notes that the IRS has created a "reward program available to those who snitch."

As far as medical services are concerned, practitioners usually extend a professional courtesy, i.e., they reciprocate equivalent services on a pro bono basis, Lirely says. He places massage in this category.

Penalties for failure to report barter transactions vary between $75,000 ($25,000 for small businesses) and $250,000 ($100,000 for small businesses), depending on the date the corrected tax return is filed. The IRS defines a small business as one whose average annual gross receipts for the last three years are $5 million or less. Additionally, any income earned from barter might require the recipient to make estimated tax payments.

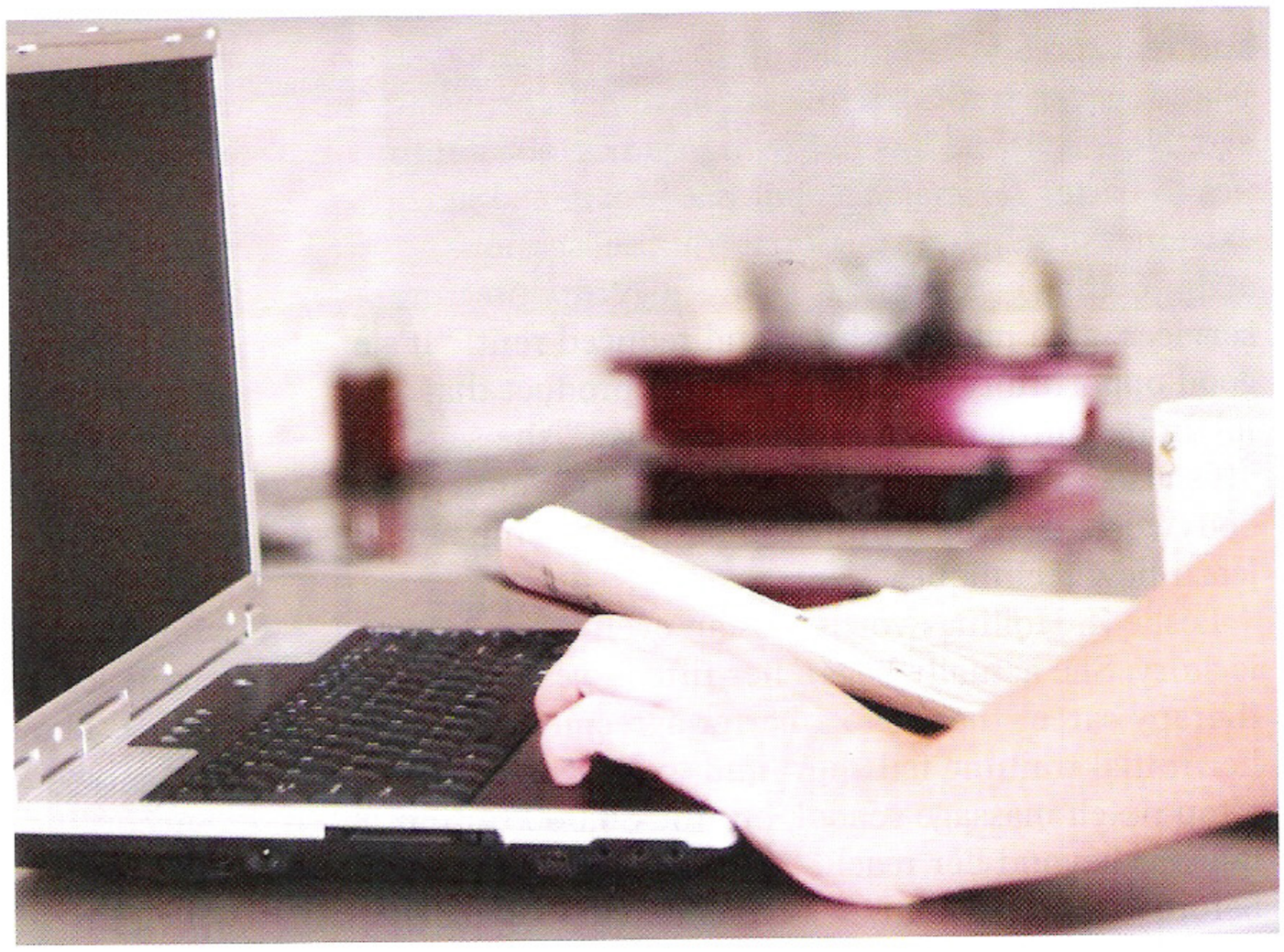
Greg Hurd, career services director at Bancroft School of Massage Therapy in Worcester, Massachusetts, emphasizes the importance of honestly reporting any barter arrangements, no matter the product or service. "We also teach that the IRS states that a person should report 100 percent of the barter because it is considered the same as income," Hurd says.

## Weighing Options

In spite of tax considerations, barter is flourishing and the Internet has made the practice much easier. If you conduct a Google search, there are more than 240,000 websites related to barter, including individuals looking to barter services and/or products and professional barter organizations. Susan MacTavish Best, public relations officer for Craigslist.com, reports that at last count (June 2007), the site contained 1,225 ads in the barter section with the word *massage* in them.

Another option Web surfers will find is the professional trade exchange group.

Don Mardak, president and founder of International Monetary Systems, Ltd. (IMS), began his company thirty-five years ago and espouses the benefits of barter for all industries, including massage. With an office in every major city, IMS connects people all over the world with services (dentists, attorneys, electricians, plumbers) and products (retail merchants, hotel and restaurant owners, major league sports events). He asserts that massage therapists can utilize barter as a "new vehicle for marketing" their businesses, creating a wider customer base, and positively impacting their revenue stream.



The $595 IMS membership cost, along with a 6 percent fee on every transaction, might seem a bit daunting to a massage therapist on a limited budget. However, Mardak says, "If you spend money for business expenses, it can be deducted."

He promotes barter as "real commerce outside of the mainstream economy" and says "barter can be a panacea for weak economic times. If the economy tanks, in our system [members] can still use our secondary currency. They can fulfill their needs."

Tom McDowell, executive director of the National Association of Trade Exchange (NATE), agrees that →

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—Carla Joyce, Rhode Island bodyworker

membership in a barter organization could mean a bigger customer base with less effort. "A group already has a network of businesses that use barter. We provide each other with new customers," he says. For instance, if a massage therapist needs a brochure or newsletter printed, she has to expend time and energy finding the resources. "NATE sends people to the massage therapist," McDowell says. "The work is done and paid in trade. It takes away the aggravation and hard part of barter."

## The Right Fit

McDowell reports that most barter exchange groups work on an individual basis and will match industries with the dollar amount appropriate for them. He notes that if you can add $5,000 in new business to your current income, he recommends joining a barter organization.

While membership brings many perks, there could be one drawback. McDowell points out that members are obligated to do business with other companies/individuals in the barter group so massage therapists might have to change current vendors and suppliers.

However, McDowell reports that membership numbers bear out the appeal of organized groups to the massage industry. "Around the country there are approximately two thousand massage therapists and spas that participate on an organized basis," he says, pointing out that members can tap into hundreds of businesses and a network of thousands of potential prospects for new business.

Some formal barter groups operate on a national or international scale, but McDowell notes that many exchanges have local chapters. To make membership in a group worthwhile, the individual has to consider "dollars and distance," he adds.

Before joining a group, McDowell suggests potential members practice due diligence. "Meet the people, the administrators, and talk to others in the group. Get a list of the members. If there is anyone you know on the list, contact them," he says.

Additionally, he offers questions that will help determine if a formal group is right for you. "Consider what you are looking for. Does it have customers you'll do business with? Are there things that you as a massage therapist spend money on and would rather trade for?"

These organized groups also handle tax reporting, relieving members of the hassle of complying with federal regulations. In 1982, Congress passed the Tax Equity and Fiscal Responsibility Act, which classifies trade exchange organizations as third-party record keepers and obligates them to issue 1099s to members for all transactions.

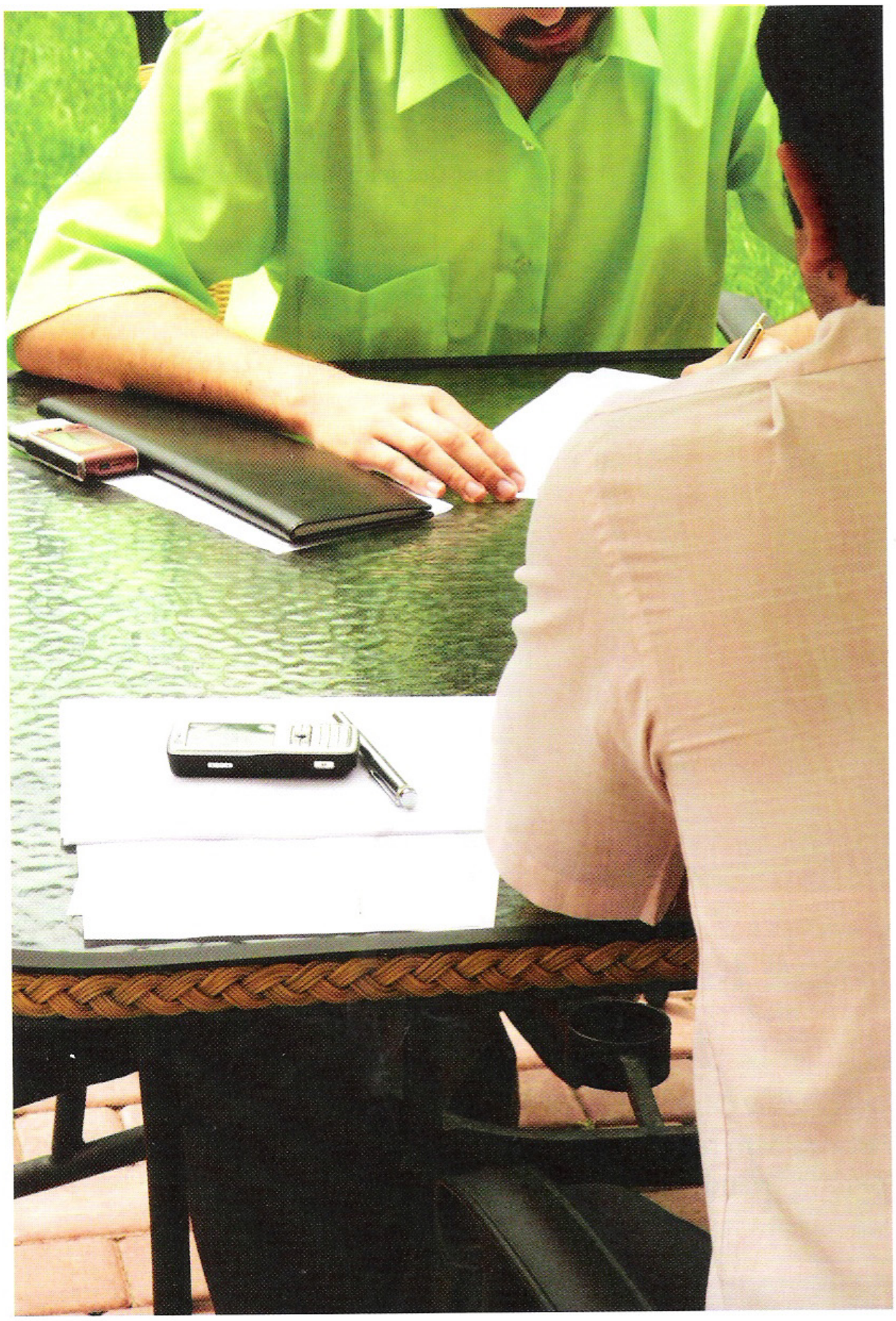
However, not all massage therapists look favorably on this option. Joyce encountered a formal barter group when she belonged to a networking group several years ago, but was unimpressed with the idea. "I wouldn't want to feel pressured to barter, so I didn't look into it," she says.

Hollingsworth briefly considered a barter group in 1994 when she practiced in Monmouth, New Jersey. "But it didn't strike me as appropriate. For example, there was gardening and other services I couldn't use," she says. "Also it was too impersonal. I didn't know the person who was looking for massage. Since massage is such a personal service, I wondered what I was getting into." She did, however, barter for housekeeping services for a short time.

## Barter Gone Bad

No matter which barter path an individual pursues, there can be some bumps in the road. Although Ramirez found his barter experiences mostly positive, he did encounter some challenges along the way. "Since I didn't create a written contract with my informal arrangements, I ended up with a surprising bill from my photographer and an unscheduled visit from a family member of my marketing agent," he says. "Both events were very unpleasant and created resentment on my part. Therefore it made their massage appointments with me fast and furious." He points out the importance of basic communication, even with informal arrangements.

Ramirez adds that scheduling demands can interfere with appointments for paying clients. "Now that I



have built up a solid private practice, my regular massage clients prefer to come during prime time—after work or on weekends," he says. "This time is also preferred by my 'trading partners' and it makes it difficult when you have to turn a paying client away to accommodate your 'trader.'"

Rhode Island-based Joyce also ran into a negative barter situation when the person she traded with acted irresponsibly. "He ran late, which made me late. It got to be more aggravation, so I quit the arrangement," she says.

Joyce points out the importance of balance in business. "You can get overwhelmed if you do too much barter. When you have one too many no charge visits, you're not getting money for your time," she says. "You have to portion your barter with paying clients."

Massage therapist Elizabeth Lalumia, who works at Bliss Spa in New York City and also has her own private clientele, has bartered for haircuts, landscape services, and furniture. At times, Lalumia has felt that she is on the short end of the deal. "It doesn't feel like I'm fully compensated," she says. This happens a bit with friends. "But if you're going to count pennies, you shouldn't barter."

## Recommendations

One of the most important criteria when considering barter is how well you know the other person, Lalumia says. She suggests a formal sit-down session in which you spell out all the details, including the product/service, time frame, and estimated costs. "Be ultra-clear about the monetary value of the exchange so it feels fair on both ends," she says.

In spite of some negative experiences, Ramirez still recommends barter, with a few caveats. "Check your wallet or savings account first to help you decide if a barter is really necessary, then make sure you create a written contract specifying every detail, such as the exact amount and who's going to be covered, and be very clear with your massage hours," he says. "Before you commit to this contract, review it two or three times or share it with your business partner, lawyer, or best friend in case you miss an important piece of information. This will avoid headaches and disappointments down the road."

Whether you opt for informal barter exchanges or the structure of an organized group, make sure you've explored all aspects of trading and asked the right questions before you jump in. By doing your homework and following the rules, you might find your client base growing along with your bank account. M&B

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