

Consumer Taxes

TVQ. 350.7.2-1/R1 Barter Transactions and Designation of a Barter Exchange Network
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Reference(s): *Act respecting the Québec sales tax* (CQLR, c. T-0.1), sections 1, 16, 51, 82, 83, 198 and 350.7.1 to 350.7.6

This version of interpretation bulletin TVQ. 350.7.2-1 replaces the version of June 29, 2006, in order to explain how section 51 of the Act respecting the Québec sales tax applies in the context of barter transactions. The interpretation and the bulletin's effective date, December 10, 1998, remain unchanged.

This bulletin clarifies the application of the *Act respecting the Québec sales tax* (AQST) to barter transactions in which barter units are used as consideration for supplies received. The bulletin also sets out the rules governing the designation of a barter exchange network.

GENERAL POINTS

1. A barter exchange network, within the meaning of section 350.7.1 of the AQST, is a group of persons, each member of which has agreed in writing to accept as full or partial consideration for the supply of property or services by that particular member to any other member of that group one or more credits (referred to as "barter units") on an account of the particular member maintained or operated by a single administrator of all such accounts of the members. The credits can be used as full or partial consideration for the supply of property or services between members of that group.
2. The administrator of a barter exchange network, within the meaning of section 350.7.1 of the AQST, is the person who is responsible for administering, maintaining or operating a system of network members' accounts to which barter units may be credited.
3. A supply, within the meaning of section 1 of the AQST, is the provision of property or a service in any manner, including sale, transfer, barter, exchange, licence, lease, gift or alienation.
4. Furthermore, section 16 of the AQST provides that every recipient of a taxable supply made in Québec must pay Québec sales tax (QST), calculated at the rate set out in said section 16 on the value of the consideration for the supply.

5. According to section 51 of the AQST, the value of the consideration, or any part thereof, for a supply is deemed to be equal to either the amount of money, where the consideration or that part is expressed in money, or to the fair market value of the consideration or that part at the time the supply was made, where the consideration or that part is expressed otherwise than in money.

6. Under section 350.7.6 of the AQST, barter units used as a method of payment are not financial instruments but rather incorporeal movable property, and they constitute a taxable supply other than a zero-rated supply. The said section 350.7.6 provides that each of the following is deemed not to be a financial service:

- (a) the operation, maintenance or administration of a system of accounts (for members of a barter exchange network) to which barter units can be credited;
- (b) the crediting of a barter unit to such an account;
- (c) the supply, receipt or redemption of a barter unit; and
- (d) the agreeing to provide, or the arranging for, any of the aforementioned services.

APPLICATION OF THE ACT

BARTER TRANSACTIONS

7. Generally speaking, a supply of a barter unit by a QST registrant in the course of a commercial activity constitutes a taxable supply, and the members of a barter exchange network must pay or collect tax (if they are QST registrants) on the barter units accepted in exchange for their supplies of property and services.

8. In other words, where a member pays for a purchase with barter units, two supplies are made—a supply of property or the provision of a service, and a supply of barter units. Each member makes a supply in exchange for the supply received by that member, and the value of each supply is considered to be the value of the consideration for the other supply.

9. Generally, the fair market value of barter units given in exchange for property or a service corresponds to the fair market value of the property or service.

10. For example, X and Y are QST registrants and members of a barter exchange network that is not a designated barter exchange network. X supplies a table, valued at \$100, to Y. As consideration therefor, Y gives X 150 barter units, the value of which is also \$100. In that situation, X must collect and remit QST calculated on the value of the consideration offered by Y to acquire the table, that is, 150 barter units. The QST to be collected must therefore be calculated on the fair market value of the barter units (\$100), which generally corresponds to the fair market value of the property or service supplied in exchange for the barter units (in this example, \$100, that is, the value of the table). Y made a supply to X of 150 barter units valued at \$100, for which Y received a table as consideration. Y must therefore collect and remit QST calculated on the fair market value of the consideration for the supply, that is, \$100 (the value of the table).

11. Barter units may also be provided as a loan, a line of credit or an advance. The barter units involved in such a transaction constitute a taxable supply, other than a zero-rated supply, of incorporeal movable property. No QST is to be paid in respect of barter units so provided, as long as no consideration (that is, no property, service or money) is given in return.

12. The barter units so provided will be subject to QST when they are used in a barter transaction or sold for money consideration. At that time, QST will have to be paid on the value of the consideration, in accordance with the general provisions of broad application under sections 51, 82 and 83 of the AQST.

13. To summarize, the transfer of property or the provision of a service, and the transfer of barter units constitute supplies subject to QST calculated at the rate in effect on the value of the consideration determined in accordance with section 51 of the AQST.

APPLICATION FOR DESIGNATION OF A NETWORK

14. Pursuant to section 350.7.2 of the AQST, the administrator of a barter exchange network may make an application to the Minister of Revenue to have the network designated.

15. Designation of a barter exchange network relieves the members of the network from the obligation to pay QST in respect of barter units accepted as consideration for their supplies of property or services.

16. An application for designation is made by writing a letter that is signed by the administrator, or by an authorized person, and includes

- (a) the name of the barter exchange network;
- (b) the name, address, telephone number, trade name and identification numbers of the administrator of the barter exchange network;
- (c) the effective date requested;
- (d) a copy of the membership agreement of the barter exchange network describing the responsibilities of the members and of the administrator;
- (e) a declaration signed by the administrator certifying that the latter meets the definition of an “administrator” of a barter exchange network under section 350.7.1 of the AQST; and
- (f) a declaration signed by the administrator, or by a person authorized to sign on the latter’s behalf, certifying that the information provided in the application and in any document enclosed therewith is true, accurate and complete.

17. An application for designation must be sent to:

Senior Director, Direction principale des lois sur les taxes et l'administration fiscale et des affaires autochtones
Direction générale de la législation, des enquêtes et du registraire des entreprises
Revenu Québec
3800, rue de Marly, secteur 5-2-2
Québec (Québec) G1X 4A5

18. Further to an application by an administrator of a barter exchange network, the Minister may, in accordance with section 350.7.3 of the AQST, designate the barter exchange network. In that case, the Minister must notify the administrator in writing of the designation and its effective date.

19. As indicated in section 350.7.4 of the AQST, on receipt of a notification by the Minister of a designation of a barter exchange network, the administrator of the network must, within a reasonable time, notify each member of the network in writing of the designation and its effective date.

20. According to section 350.7.5 of the AQST, if a member or the administrator of a barter exchange network gives property, a service or money in exchange for a barter unit while a designation of the network is in effect, the value of that property, service or money as consideration for the barter unit is deemed to be nil, notwithstanding section 55 of the AQST.

21. For example, X and Y are QST registrants and members of a designated barter exchange network. X supplies a table, valued at \$100, to Y. As consideration therefor, Y gives X 150 barter units, the value of which is also \$100. X must collect and remit QST calculated on the value of the consideration offered by Y to acquire the table, that is, 150 barter units. The QST to be collected must therefore be calculated on the fair market value of the barter units (\$100), which generally corresponds to the fair market value of the property or service supplied in exchange for the barter units (in this example, \$100, that is, the value of the table). Y is not required to collect QST on the value of the consideration that Y received (in this case, a table) in exchange for the supply of 150 barter units.

22. To summarize, in the case of designated barter exchange network, supplies of barter units made by members are not subject to QST.