

## IRS RULINGS

The IRS has issued three local rulings that Time Dollars™ are tax exempt. They have given three reasons for this status. Two of these rulings are attached.

1. An hour is always an hour, regardless of what is offered
2. They are backed only by a moral obligation and are not legally binding
3. Their purpose is charitable.

### **Actual tax exempt rulings:**

AUTHORIZED FOR EDUCATIONAL USE ONLY  
Copr. (C) West 1996 No claim to orig. U.S. govt. works  
PLR 9608009 1996WL76443(I.R.S.)  
Internal Revenue Service (I.R.S.) Private Letter Ruling

Issue: February 23. 1996 November 9. 1995

Section 6045 — Returns of Brokers  
6045.00-00 Returns of Brokers  
CC:DOM:IT&A:1/TR-31-1587-95 LEGEND

Dear \*\*\*

This ruling is in response to the request for a ruling dated June 20, 1995, concerning whether X, which sponsors a Time Dollar program, is a barter exchange under section 6045 of the Internal Revenue Code and section 1.6045- 1(a)(4) of the Income Tax Regulations.

X is a nonprofit corporation that sponsors a program through which it supports and coordinates the exchange of services among residents in the Y neighborhood and surrounding neighborhoods. The purpose of the program is to strengthen the community and to increase access to services and resources for all in the community.

X maintains a file of services that members are willing to provide, matches service providers and service recipients, and maintains accounts of hours of service provided under the program. All services are valued equally under the program: one hour of service equals one good neighbor point. Participants in the program commonly provide services such as housekeeping, babysitting, gardening, and errand running.

The definition of a member of the program is a participant who has completed the application, interview, orientation, and reference check process. X does not charge a fee for participation or membership in the program. Members may earn points, within limits, for work in operating the program. X does not have a staff person that receives monetary compensation.

A person may request services through the program by calling or visiting X's office. After X receives a request for services, it looks for a match based on the service requested, time needed, proximity, and other factors. X then contacts a potential provider for availability. Upon accepting a referral, the service provider is responsible for calling the service recipient and arranging the time and place of service. After the service is provided, either the service provider or the service recipient reports the hours of service to X. X then credits the provider's account and debits the recipient's account for the hours of service.

Although a member may use accumulated points at any time, X encourages members to use their points when needed. The taxpayer does not guarantee that a member will be able to receive services for accumulated points. Members cannot transfer points or sell points except that members may donate points to other members in the member's immediate family or household. In unusual circumstances, X may deny a request for service from a participant with a debit balance of 26 good neighbor points or more. Nonprofit community groups approved to participate in the program may receive good neighbor points for hours of service provided by the group's members and use those points to obtain services. Members who are self-employed cannot use points to obtain services for their businesses.

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) of the Code states that the term "broker" includes a barter exchange.

Section 6045(c)(3) of the Code 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 Income Tax 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.

As explained below, we conclude that X is not a barter exchange within the meaning of section 6045(c)(3) because X's operations provide a means for the informal exchange of similar services on a noncommercial basis and do not result in the creation of contractual rights and obligations among members (or between members and X) for the exchange of property or services.

One element to be considered in determining whether an organization is a barter exchange is the types of services provided by the organization's members. See

section 1.6045-1(a)(4). In the present case, the services provided by X's members are primarily domestic or personal services. Thus, X's operations facilitate the exchange of similar services in accordance with section 1.6045-1 (a)(4).

Other elements to be considered in determining whether an organization is a barter exchange are whether services are exchanged on a commercial or noncommercial basis and whether the exchange of services is formal or informal. See section 1.6045-1(a)(4). The application of these criteria to X is discussed below.

X facilitates the exchange of services on a noncommercial basis as evidenced by the following considerations. First, all services receive a point value based solely on the number of hours of service provided without regard to the type of service. Second, a member who has performed services does not thereby have a contractual right to receive any services from X or from X's members. Third, the organization does not place any limits on when services must be received. Thus, there could be a gap of several years between the time when a member provides services and the time when the member first receives services. Fourth, a member cannot assign (except to family or household members) the points that he or she has accumulated for services performed. Fifth, X is a community organization whose membership consists primarily of individuals living in the Y area. Sixth, X does not charge a fee for participation or membership in the program. Seventh, the records maintained by X show significant disparities in members' accounts as to the number of hours of services provided and the number of hours of services received. Some members typically receive many more hours of services than they provide, while other members—who are apparently motivated by a desire to serve the community—typically provide many more hours of services than they receive. Based on X's records as of July, 1995, there were at that time approximately a active participants over 25 percent of which have performed services but have not received any services in return,

The informal nature of the exchange of services is also evident. X simply links members in need of services with other members who are potential providers of services. It is up to the members, rather than X, to determine whether any services will be performed, to determine the time and place for performance of the services, and to ensure that the services are satisfactorily performed. Also, X does not have any responsibility for crediting the account of the service provider or debiting the account of the service recipient unless a member first contacts X and indicates the number of hours of service provided. Moreover, either member (the service provider or the service recipient) can contact X to indicate the number of hours of service provided, and this information may be provided to X informally through a phone call or postcard.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent, No opinion is expressed about the tax consequences of the program 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 yours,  
Assistant Chief Counsel (Income Tax & Accounting)  
By John M. Coulter, jr. Senior Technician Reviewer

This document may not be used or cited as precedent. Section 6110(j)(3) of the Internal Revenue Code.

PLR96.08009, 1996WL 76443 (I.R.S.)  
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Taxpayer = Consolidated Neighborhood Services, Inc.  
2600 Hadley Street St. Louis, MO 63106  
E.I.N 23-7216273  
(Re: Member Organized Resource Exchange)

Dear Mr. Hillhouse:

This is in reply to your letter dated December 14, 1984 in which we are requested to rule that Taxpayer is not change for purposes of section 6045 of the Internal and the regulations thereunder.

Taxpayer is a not-for-profit organization that currently supervises a community self-help program. The program, operated by volunteers, maintains a file of Individuals with specific skills and abilities. Volunteers link these skilled individuals with individuals needing assistance. The assistance provided is entirely voluntary, with no contractual Obligations incurred.

Volunteers in Taxpayer's program commonly provide housekeeping and babysitting services. However, they also provide more skilled services such as house painting. As anyone can become a volunteer, there is no limit to the range of services that can be provided under Taxpayer's program.

Taxpayer plans to computerize its file of skilled individuals to enable it to better match individuals desiring assistance with those willing and able to provide assistance. Taxpayer also plans to establish computerized records of services provided and received through its program. The basis of the records will be hours spent performing services. .

The records will be kept in the form of a double-entry bookkeeping system. When a volunteer performs a service. Taxpayer credits the hours spent to the volunteer's account, and debits the hours to the service recipient's account.

The credits posted to the volunteers' accounts serve merely as a means to motivate the volunteers. .The continued effectiveness of Taxpayer's program depends on the volunteers perceiving the value of their efforts to the community. Taxpayer hopes that knowledge of the amount of hours they provide, and of how their account credit balances compare to others, will instill pride in the volunteers.

These credits, however, have no monetary value. Service recipients do not incur a contractual liability upon the receipt of services under Taxpayer's program. Service providers do not earn a contractual right to receive services when they perform services. Taxpayer, however, will attempt to link service providers with other volunteers if the service providers require assistance.

In unusual circumstances. Taxpayer may choose not to link service providers with service recipients under the program. This could occur when an individual receives a great deal of assistance from volunteers and thus runs up a large account debit

balance. In this situation, however. Taxpayer will not deny such an individual assistance under other programs which it administers.

Section 605(a) of the Internal Revenue Code provides 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) of the Code provides that the term "broker" includes a barter exchange.

Section 6045(c)(3) of the Code 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 Income Tax Regulations further clarifies the term "barter exchange" by providing that it 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.

Section 1. 6045-1(b) Ex. (4) of the Regulations provides:

X is an organization whose members include; retail merchants, wholesale merchants, and persons in the trade or business of performing services. X's members exchange property and services among themselves using credits on the books of X as a medium of exchange. Each exchange through X is reflected on the books of X by crediting the account of the member providing property or services and debiting the account of the member receiving such property or services. X also provides information to its members concerning property and services available for exchange through X. X charges its members a commission on each transaction in which credits on its books are used as a medium of exchange. X is a barter exchange within the meaning of paragraph (a)(4) of this section.

Although Taxpayer's self-help community program 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) of the Code. Section 6045(c)(3) defines "barter exchange" as any organization of members providing property or services who jointly contract to trade or barter such property or services. This definition envisions an arrangement similar to that described in example (4) of section 1. 6045-1(b) of the Regulations. In that example, X's members have jointly contracted to exchange property and services among themselves using credits on the books of X as a medium of exchange (i.e., the credits serve as a cash substitute).

Under Taxpayer's program, however, the credits posted to the volunteers' accounts have no monetary value. 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, Taxpayer is not a barter exchange for purposes of section 6045 of the Code and the regulations thereunder as a result of its above described community self-help program.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) of the Internal Revenue Code provides that it may not be used or cited as precedent.

Very truly yours,

E. L. Kennedy Chief, Specialty Tax Branch