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On business: IRS might tax online game gains

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Parents, keep an eye on the computer games.

If you or your children busy yourselves slaying ogres and destroying wizards, you might end up facing a much tougher foe: the Internal Revenue Service.

The IRS might start to realize tax revenue is out there in the virtual world. The general premise is along these lines:

People play online games, collect various items and upgrade the characters they use. They develop a stockpile of items or decide they don't want to keep playing with that character. They then sell the items or character online for real money.

Third-party Web sites even create currency markets for games, where actual cash is traded for gil, or credits, or whatever term the game uses.

The Office of the Taxpayer Advocate, which recommends tax-related legislative changes, said in its annual report released this month that in 2005, about \$1 billion in real dollars changed hands in virtual worlds. It recommends the IRS "proactively address" confusion taxpayers face in deciding whether and how to report income from these games. China already taxes these gains at 20 percent.

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