

Virtual world: tax man cometh

NICK MILLER

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Best consult your accountant before selling your Level 60 gnome warlock, for you may end up facing a terrible foe: the tax man.

Virtual lifers making virtual fortunes in virtual worlds such as World of Warcraft or Second Life could face a real tax bill, the Australian Tax Office warns.

"If you are getting a monetary benefit then it's not treated any differently - normal rules apply," an ATO spokeswoman says - in what is believed to be a world first.

"Your income will not be treated any differently than if you earned it working nine to five in an office."

If a virtual transaction has real world implications - if it can be attributed a monetary value - it attracts the attention of the Tax Office. Sites such as slexchange.com set rates for swapping Second Life's Linden dollars for "real" money.

"The real world value of a transaction may form part of your taxable income, even if it is in Linden dollars," the ATO spokeswoman says. "In addition, there may be GST to consider."

In other words, if you are turning over the equivalent of more than \$50,000 selling virtual jewellery to Second Life avatars, you must get an ABN and register for GST.

People trading in virtual worlds should consider very carefully whether they are conducting a business or a hobby, the Tax Office advises.

If conducting a business, then all money earned is generally assessable income. But expenses, such as the cost of computer equipment for accessing the virtual world, can be deducted. Any loss can be offset against other income.

A US congressional committee is tackling similar issues, debating whether new regulations should give the Internal Revenue Service the power to tax virtual economies.

The Republican head of the committee, Jim Saxton of New Jersey, has said taxing virtual transactions would be a mistake.

The online world Second Life hosts a thriving and rapidly growing community. Companies such as Toyota and computer maker Sun Microsystems have established virtual presences there. Adidas and American Apparel sell clothes and accessories for people to dress their avatars (animated characters) there, and Starwood Hotels has built a virtual version of "aloft", a new hotel chain it plans to open in the real world in 2008.

Players spend about \$US350,000 (\$A459,000) a day on average, or about \$US130 million a year,

and usage is growing in double-digit terms each month. At the time of writing \$257 Linden dollars cost \$US1.

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