

# Virtual Worlds and the Implication for Accountants: The Case of Second Life

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## ABSTRACT

*While real world economies may be shaky, economies in virtual worlds keep growing as sites such as Second Life become more and more mainstream. Research firm Gartner Media estimates that by 2011, 80% of Internet users worldwide will be using Second Life (Gartner, 2007). This growing popularity has real world financial implications. On a typical day, Second Life members spend close to \$1.5 million on virtual items and virtual real estate transactions (Alter, 2008), and some residents generate six-figure incomes in real world dollars (Hemp, 2006). Second Life is still in an early stage of development, and there are many financial and legal regulatory issues to be resolved. But with these challenges come opportunities; Second Life may be the impetus for a new accounting platform that may bring different practices together and provide new growth opportunities that financial communities have been looking for in the virtual world. [Article copies are available for purchase from InfoSci-on-Demand.com]*

*Keywords: Accounting; Second Life; Tax; Virtual Property; Virtual Worlds*

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## INTRODUCTION

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worldwide will be using Second Life (Gartner, 2007). This growing popularity has real world financial implications. On a typical day, Second Life members spend close to \$1.5 million on virtual items and virtual real estate transactions (Alter, 2008), and some residents gen-

erate six-figure incomes in real world dollars (Hemp, 2006).

Virtual worlds include multi-player online games and other virtual environments. Multi-player online games include World of Warcraft, Everquest and Ultima Online, among others. Other virtual environments, such as Second Life, lack specific goals but they are imagined, created, and modified by their residents, and provide a world where residents engage in an infinite number of activities.

Second Life is an online three dimensional virtual environment that was created by Linden Lab in 2003 and. A user of Second Life is represented by an avatar, which is a digital representation of a real person. Residents are then exposed to the vast digital environment contained within the site, teeming with content created by its residents, where users can create nearly anything using Second Life's intuitive interface (Bourke, 2008). Animators and programmers have made this breakthrough possible.

Even though the system requirements to access this virtual world are demanding, Second Life's popularity has grown rapidly, with over one million members worldwide (Second Life, 2008). The number of users continues to grow at a high rate and Linden Lab does not have enough server space to sustain this growth (Wagner, 2007). To meet this need, Second Life may have to consider going public or have funds to increase the capacity of its servers or

lease some parts out in order to get the server space required for growth.

While there are other fast-growing online communities, none have a scale that is comparable to Second Life, therefore it bears special attention. This "second world" has lured many real world market players, such as financial institutions, insurance companies and accounting firms and pharmaceutical companies. These entities are leveraging and integrating Second Life in every aspect of their business (Delarge, 2008). Even educational institutions have gotten involved, such as "National Council", which uses Second Life as a platform to inform communities about mental illnesses, addictions and resolutions (Sparks, 2008). With Second Life developing at such rapid rate, a wide range of issues and questions are introduced such as its tax implications, intellectual property issues, and the lack of server space.

## ACCOUNTING AND TAX IMPLICATIONS

Second Life is also offering new channels for companies to organize their meetings and to market their products; therefore in the near future, we must ask: Are businesses inside Second Life going to be allowed to deduct costs incurred in virtual transactions? Do the same rules that govern today's society apply to Second Life? With regard to future business practices, will they follow the Financial Accounting Standard

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