

Tax Alert

Are Frequent Flyer Miles Ever Taxable?

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If you recently redeemed frequent flyer miles to treat the family to a fun summer vacation or to take your spouse on a romantic getaway, you might assume that there are no tax implications involved. And you're probably right — but there is a chance your miles could be taxable.



Usually Tax Free

As a general rule, miles awarded by airlines for flying with them are considered nontaxable rebates, as are miles awarded for using a credit or debit card.

The IRS partially addressed the issue in Announcement 2002-18, where it said “Consistent with prior practice, the IRS will not assert that any taxpayer has understated his federal tax liability by reason of the receipt or personal use of frequent flyer miles or other in-kind promotional benefits attributable to the taxpayer’s business or official travel.”

Exceptions

There are, however, some types of mile awards the IRS might view as taxable. Examples include miles awarded as a prize in a sweepstakes and miles awarded as a promotion.

For instance, in *Shankar v. Commissioner*, the U.S. Tax Court sided with the IRS, finding that airline miles awarded in conjunction with opening a bank account were indeed taxable. Part of the evidence of taxability was the fact that the bank had issued Forms 1099-MISC to customers who’d redeemed the rewards points to purchase airline tickets.

The value of the miles for tax purposes generally is their estimated retail value.

If you’re concerned you’ve received mile rewards that could be taxable, please contact us. We’ll help you determine your tax liability, if any.