

FRANZEN & FRANZEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

February 4, 2012 – Are Frequent Flyer Miles Taxable?

There has been a lot of discussion recently over Citibank's recent issuance of 1099 forms reporting taxable income to those who received frequent flyer miles for opening a checking or savings account.

(See a recent LA Times story here:

<http://www.latimes.com/business/la-fi-lazarus-20120131,1,196451.column>)

Frequent flyer miles may be earned for a variety of reasons, such as for opening an account, using a credit card, or by flying with a certain airline. It has been long held that rewards (miles) for purchases or the use of credit cards are not taxable income because they represent a rebate or discount.

However, in the case of Citibank's 1099s, the rewards are granted for opening a financial account, such as a checking or savings account. The IRS, at least unofficially for now, is agreeing with the issuance of 1099s. An IRS spokesperson recently states that although frequent flyer miles awarded only on airline travel are considered a nontaxable rebate of the original ticket price, offers of "reward miles" or "reward points" to taxpayers in exchange for opening a financial account can be taxable.

Please call our office if you have any questions, or if you'd like to discuss further.