

Are Frequent Flyer Miles Taxable Income?

Citibank is treating certain frequent flyer miles as taxable income, and they are sending IRS Form 1099 to customers who were given miles in exchange for opening bank accounts. (1099s report income other than wages to the IRS.) Now, don't panic, not all frequent flyer miles are taxable. In fact, the IRS issued a [policy announcement in 2002](#) regarding frequent flyer miles stating “[t]here are numeral technical and administrative issues relating to these benefits,” including issues of timing and valuation, and as a result of the unresolved issues, “the IRS has not pursued a tax enforcement program.”

How is the Citibank situation different? Frequent flyer miles and cash back on credit cards have historically been treated as *rebates* on spending which are not taxed as income. That is likely the type of miles the IRS announcement was referring to. Citibank takes the position that the miles they are taxing are different, the miles were given as a *reward/prize* for opening a bank account, not as a *rebate* on spending, and therefore the miles are taxable. (The IRS said earlier this year taxpayers must pay income tax on prizes greater than \$600.) However, [one news agency](#) refers to a statement by IRS representatives that the 2002 announcement focused on a specific area and does not address the issue Citibank faces. The IRS has not released an official statement on this issue. This may be the beginning of a debate whether these particular frequent flyer miles are taxable. United States Senator Sherrod Brown of Ohio wrote a [letter](#) earlier this week that is receiving a lot of attention, urging Citibank to stop treating the miles as income.

Bottom Line: The only certainty at this point is if you received a Form 1099 from Citibank, the IRS sees those miles as income to you.

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