

Thanks, But No Thanks?

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Credit Card Company's Thank You Points Cause Taxable Event

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In a case decided earlier this week, the U.S. Tax Court sided with the IRS (and Citibank) in ruling that redemption of credit card points for airline tickets was a taxable event to the redeemer.

In *Shankar v. Commissioner*, <https://www.ustaxcourt.gov/InOpHistoric/ShankarDiv.Halpern.TC.WPD.pdf> the Court upheld a position advocated by Citibank who, somewhere around 2009, began issuing 1099s-MISC to customers who redeemed their points for tickets. Prior to that, the IRS had taken the position that, absent an appearance of abuse, it would not aggressively pursue similar types of redemptions as taxable events, stating in Announcement 2002-18, 2002-1 C.B. 621 that it “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.” (Full Announcement here: <http://www.irs.gov/pub/irs-drop/a-02-18.pdf>) No longer, my friends. It appears that the function of Citibank’s issuance of the 1099 caused the taxpayer to have to report the value of the ticket as part of his gross income on his tax return.

Luckily (?), the Tax Court drew a distinction between “thank you points” and standard frequent flyer miles, adding: “We are not here dealing with the taxability of frequent flyer miles attributable to business or official travel, with respect to which the Commissioner stated in Announcement 2002-18, 2002-1 C.B. 621, he would not assert that a taxpayer has gross income because he received or used frequent flyer miles attributable to business travel.” So, for now, fly free and often, frequent flyers, and for the rest of us, beware of being thanked.