



***TD 95/61 - Income tax: what is the fair market value of flight rewards under frequent flyer or other similar consumer award type programs ('frequent flyer type programs')?***

 This cover sheet is provided for information only. It does not form part of *TD 95/61 - Income tax: what is the fair market value of flight rewards under frequent flyer or other similar consumer award type programs ('frequent flyer type programs')*?

 This document has changed over time. This is a consolidated version of the ruling which was published on *6 December 1995*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

## Taxation Determination

### **Income tax: what is the fair market value of flight rewards under frequent flyer or other similar consumer award type programs ('frequent flyer type programs')?**

1. Generally, benefits received by a taxpayer as a result of participation in frequent flyer type programs do not constitute assessable income under the *Income Tax Assessment Act 1936*. However, in the limited circumstances covered in Taxation Rulings TR 93/2 and TR 94/15, a taxpayer may be subject to income tax on benefits arising out of business related transactions. The Rulings further state that this Office will accept a fair market value in determining the value of assessable flight rewards.

2. Frequent flyer type programs entitle airline passengers who are members of the program to earn points from airline travel (amongst other things) and redeem those points for flight rewards or a range of merchandise. This Determination addresses the calculation of the fair market value of flight rewards in respect of international and domestic travel.

3. This Office will accept a valuation method based on a percentage of the full published fare (referred to in the industry as the full undiscounted fare) for economy, business and first class travel of the relevant airline. The percentages to be adopted for this method are detailed in the following table:

Flight Rewards	International	Domestic
Economy Class	35%	45%
Business Class	70%	70%
First Class	70%	70%

The above table is to be used as a guide in determining the fair market value. The percentages take into account restrictions applicable to flight rewards in respect of each class of fare and are based on fare information provided by the airline industry. Any other method of valuation which would produce a fair market value will be accepted by this Office.

4. Where accumulated points are redeemed for an upgrade in the class of travel, the fair market value of the upgrade will be the fair market value of the class travelled, determined by reference to the above table, less the amount paid for the lower class of travel.

*Example 1*

Joan redeems business related travel points accrued in a frequent flyer program to obtain an economy class return ticket in her name for private travel from Melbourne to Sydney. The full economy class air fare is \$500. The amount assessable to Joan is 45% of \$500, i.e., \$225.

*Example 2*

James has accumulated sufficient business related frequent flyer points to obtain a return ticket from Australia to USA. He travels business class and is advised that the full fare is \$7,000. James is aware that he is required to return the value of the ticket as assessable income in his tax return. The amount assessable to James is 70% of \$7,000, i.e., \$4,900.

*Example 3*

Dianne has paid \$1,100 for an economy class ticket from Sydney to Perth and wishes to redeem business related frequent flyer points to upgrade to business class, the full undiscounted fare for which is \$1,800. The fair market value of the business class fare is \$1,260, i.e., 70% of \$1,800. On the basis that Dianne is assessable on the upgrade, the amount to be returned as income in her tax return is \$160, i.e., \$1,260 - \$1,100.

**Commissioner of Taxation**

06/12/95

FOI INDEX DETAIL: Reference No. I 1014734

Previously issued as Draft TD 95/D9

Related Determinations:

Related Rulings: TR 93/2; TR 94/15

Subject Ref: assessable income; benefits; frequent flyer program; market value

Legislative Ref:

Case Ref:

ATO Ref: FBT CELL 163; NAT 95/5342-8

ISSN 1038 - 8982