

***TR 93/D47 - Income tax and fringe benefits tax:
responses to questions on benefits received under
frequent flyer and other similar consumer award type
programs***

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Draft Taxation Ruling

Income tax and fringe benefits tax: responses to questions on benefits received under frequent flyer and other similar consumer award type programs

other Rulings on this topic

TR 93/2

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What this Ruling is about

1. Taxation Ruling TR 93/2 provides guidance on the taxation treatment of benefits received as result of participation in a frequent flyer or other similar consumer award type programs ('frequent flyer type program'.)

2. Since the issue of that Ruling a number of questions have been raised concerning some practical aspects of the application of that Ruling. The purpose of this Ruling is to provide answers to these commonly asked questions. The questions raised concern the following matters:

- (a) the valuation of frequent flyer benefits
- (b) benefits accruing from private transactions
- (c) frequent flyer points used to purchase a trip for business purposes
- (d) non-transferable benefits.

Ruling

(a) The valuation of frequent flyer benefits

Question 1

3. Is the value of a benefit received by an employee under a frequent flyer type program determined by reference to the actual value of the benefit?

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Answer

4. Guidelines for determining the value of a benefit where its value is to be included in an employee's assessable income under either subsection 25(1) of the *Income Tax Assessment Act 1936* (ITAA) or paragraph 26(e) of the ITAA are set out in paragraph 15 of Taxation Ruling TR 93/2. This paragraph states that the value of a benefit is to be determined by reference to the fair market value of the benefit. The fair market value is not the personal value of the property to the taxpayer but the lowest value of the property if purchased by the employee through an arm's length transaction.

Question 2

5. Can the value of a benefit received under a frequent flyer type program be reduced on the basis that limitations or restrictions are placed on the use of the benefit?

Answer

6. The value of a benefit can be reduced in circumstances where the award is subject to restrictions. The value of a benefit cannot be reduced where any restrictions or limitations are already reflected in its fair market value. (See paragraph 4 above).

Example

7. Mary obtains an airline ticket by redeeming points under a frequent flyer type program. Under the rules of the program these tickets can only be used in non-peak periods. The fair market value of Mary's ticket is the amount that the ticket would have been sold to the general public for travel in similar non-peak periods.

8. John obtains a ticket by the redemption of points under a frequent flyer type program. Under the program stand-by restrictions apply to these tickets. The value of the ticket should be determined by reference to the stand-by value of the ticket.

Question 3

9. Can the value of a redeemed airline ticket be reduced when frequent flyer points do not accrue on that redeemed ticket?

10. No. The fair market value of a redeemed ticket that does not accrue any frequent flyer points is the same as the fair market value of a normal airline ticket. Generally, airline tickets with promotional benefits attached do not cost more than airline tickets with no promotional benefits attached.

Question 4

11. What is the value of a benefit redeemed in a frequent flyer type program where the benefit chosen by the employee is not the benefit she or he would prefer to receive?

Answer

12. The value of the benefit will be the fair market value of the benefit received, as the employee has not received an unwanted benefit but has freely chosen a benefit. It is the employee's choice whether the benefit is ever redeemed.

Example

13. Joan wishes to redeem points accrued in a frequent flyer type program to obtain an economy class ticket. However, she is unable to get an economy ticket on the desired flight, and also redeems more frequent flyer points to obtain a ticket for business class travel. Joan is assessable on the value of the business class ticket even though she preferred to redeem lesser points for an economy class ticket.

Question 5

14. Do the valuation guidelines outlined in paragraph 15 of TR 93/2 for awards received under frequent flyer type programs apply to awards which are non-cash business benefits under section 21A of the ITAA?

Answer

15. No. The valuation rules set out in paragraph 15 apply only to benefits included in assessable income under subsection 25(1) or paragraph 26(e) of the ITAA. Where an award is received by a self-employed person, the benefit may be included in assessable income under subsection 25(1) or section 21A. However, where both subsection 25(1) and section 21A apply, the valuation rules under section 21A are to be used (refer to Taxation Ruling IT 2631 for a full discussion on section 21A).

(b) Benefits accruing from travel paid for by the employee*Question 6*

16. Where an employee receives a benefit as a result of points accumulated from travel which is not paid for directly or indirectly by the employer, is the benefit received assessable under either subsection 25(1) or paragraph 26(e) of the ITAA? It is assumed that the employee's membership of the frequent flyer type program has not

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come about through an arrangement between an employer and an organisation operating a frequent flyer type program.

Answer

17. No. Where the cost of the travel that gives rise to the benefit is not paid for by the employer, any benefits received as a result of those transactions would not be assessable under either subsection 25(1) or paragraph 26(e) of the ITAA.

Example

18. Bill travels interstate and pays for the airline tickets. Any award received from frequent flyer points which have accrued from the travel undertaken will not be assessable to Bill under either subsection 25(1) or paragraph 26(e) of the ITAA.

(c) Frequent flyer points used to purchase a trip for business purposes

Question 7

19. Where an employee is a member of a frequent flyer type program, should any amount be included in the employee's assessable income under subsection 25(1) and paragraph 26(e) of the ITAA where the points derived from an employer paid trip are used to redeem an airline ticket and that ticket is used in travelling for business purposes?

Answer

20. Yes. As set out in paragraph 3 of TR 93/2 such benefits are assessable income under either subsection 25(1) or paragraph 26(e) of the ITAA. However, where the redeemed ticket is used to purchase a trip for business purposes there is an equal loss or outgoing for the purpose of a deduction under subsection 51(1) of the ITAA.

Question 8

21. Where an employer has directed that employees who receive frequent flyer benefits only use redeemed airline tickets for business purposes, and those tickets are in fact only used for business purposes, do the employees need to show the value of the redeemed tickets as assessable income (with a corresponding claim for deduction) in their taxation returns?

Answer

22. No. In cases where the total value of the redeemed ticket is used for business purposes, no amount need be shown in an income tax return. However, where any portion of the trip is private in nature, the

full value of that ticket should be shown as assessable income in the return and the relevant deduction, if any, should be claimed.

(d) non-transferable benefits

Question 9

23. Is the value of an airline ticket received by an employee as a result of points accumulated in a frequent flyer type program assessable to the employee if the ticket received is non-transferable and cannot be converted to cash?

Answer

24. No. However, as set out in paragraph 16 of TR 93/2, self-employed and business persons may be assessable on the value of the benefit received under section 21A of the ITAA. Section 21A applies to non-cash business benefits.

Date of effect

25. This Ruling applies to the year commencing 1 July 1992 and income years subsequent to that date. However, the Ruling 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 Ruling (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Commissioner of Taxation

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- ITAA 21A, 25(1), 26(e)