


TD 95/D9 - Income tax: what is the fair market value of flight rewards under frequent flyer or other similar consumer award type programs?

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This document has been finalised by TD 95/61.

Draft Taxation Determinations (TDs) represent the preliminary, though considered, views of the ATO. Draft TDs may not be relied on; only final TDs are authoritative statements of the ATO.

Draft Taxation Determination

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

1. Benefits received by a taxpayer as a result of participation in a frequent flyer program may constitute assessable income under the *Income Tax Assessment Act 1936*. Taxation Rulings TR 93/2 and TR 94/15 state that this Office will accept a fair market value in determining the value of these flight rewards.
2. Frequent flyer 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:

International Fares		Domestic Fares
Economy Class	35%	45%
Business Class	70%	70%
First Class	70%	70%

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 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 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 to be returned as assessable income by him 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 frequent flyer points to upgrade to business class. The fair market value of the business class fare is \$1,260, i.e., 70% of \$1800. She is required to return as assessable income in her tax return an amount of \$160.

Commissioner of Taxation

19/07/95

FOI INDEX DETAIL: Reference No.

Related Determinations:

Related Rulings: TR93/2; TR 94/15

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

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