

INTERNAL REVENUE SERVICE

Number: **2001-0070**  
Release Date: 3/30/2001  
Index No.: 4261.00-00

MAR 6, 2001

Dear [REDACTED]

I am responding to your January 9, 2001, inquiry on behalf of your constituent, [REDACTED] requested information about the excise tax on the sale of frequent flyer miles. As you requested, we responded directly to [REDACTED]. A copy of our response is enclosed.

[REDACTED] also asked how you and now former [REDACTED] voted on this issue. This tax was enacted as part of the Taxpayer Relief Act of 1997. We have no information on Congressional voting, so we are unable to answer this part of [REDACTED] request.

If you have any questions, please contact either me or [REDACTED]

Sincerely,

Associate Chief Counsel  
(Passthroughs and Special Industries)

By:  
Richard A. Kocak  
Chief, Branch 8

Enclosure

INTERNAL REVENUE SERVICE

Index No.: 4261.00-00

MAR 6, 2001

[REDACTED]

Dear [REDACTED]

I am responding to your letter to [REDACTED] requesting information about excise tax on the sale of frequent flyer miles. [REDACTED] asked us to respond to you.

Your letter states that your long distance carrier charged \$5.00 for federal excise tax on the frequent flyer miles credited to your account. You asked for information on the origin of this tax. The Congress in the Taxpayer Relief Act of 1997 said any amount paid for the right to award frequent flyer miles is subject to an excise tax. [Section 4261 of the Internal Revenue Code] When your long distance carrier purchased the right to award the frequent flyer miles, it paid the tax to the air carrier selling the miles. The air carrier then should have paid the tax to the United States. This tax does not apply to you because you are not paying for the right to award frequent flyer miles. The long distance carrier may be charging you an amount representing the tax paid on its purchase of the frequent flyer miles, but the tax does not apply to your receipt of the miles as a result of changing long distance carriers.

This tax and several other air transportation federal excise taxes are paid into the Airport and Airway Trust Fund (the Trust Fund). The Trust Fund uses these funds to plan, construct, develop, operate, and maintain air traffic control, air navigation, and airway system communications. In addition, the Trust Fund covers the portion of the Department of Transportation's budget dealing with air transportation and air safety. This includes over half of the costs of the Federal Aviation Administration.

You have also asked how [REDACTED] and [REDACTED] voted on this tax. We have no information on this matter.

I hope this information is helpful. If you have any questions, please contact either me or [REDACTED]

Sincerely,

Associate Chief Counsel  
(Passthroughs and Special Industries)

By:

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Richard A. Kocak  
Chief, Branch 8

CC:

