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INFORMATION PAPER

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SUBJECT: Changes in Rules Governing Frequent Flyer Miles and Promotional Items

PURPOSE: To provide information on changes in the rules governing ownership of frequent flyer miles and other promotional items received as a result of official travel.

FACTS:

a. What is Changed? National Defense Authorization Act for Fiscal Year 2002 provision permits Federal civilian and military employees to accept promotional items such as frequent flyer miles earned when traveling in an official capacity.

(1) DOD travel regulations applicable to military and civilian personnel and the DOD Joint Ethics Regulation (JER) have been amended to reflect the change in the law.

(2) Law is retroactive. It applies to frequent flyer miles earned on, before, or after the effective date of the Act.

(3) When a non-Federal entity pays for the travel, e.g., under authority of 31 USC 1353 or 5 USC 4111, Federal military and civilian personnel may retain frequent flyer miles that are derived from such travel provided the entity paying for the travel does not object.

b. What is Not Changed?

(1) The rules on voluntary and involuntary "bumps" remain the same. A traveler voluntarily vacating a seat may keep payments from the carrier; however, no additional expenses, e.g., per diem, may be paid as a result of the traveler's delay. A traveler involuntarily denied a seat enters an "Awaiting Transportation" status for per diem and miscellaneous expense reimbursement. Any monetary compensation (including meal and lodging vouchers) for denied seating belongs to the Government.

(2) Military and civilian personnel may use their frequent flyer miles to upgrade from coach class to any higher class when on official travel, but military may not fly first class in uniform.

c. Supervisory Challenges--What to Look Out For!

(1) Unnecessary travel, scheduling meetings at more distant locations, and scheduling travel with multiple legs.

(2) Avoiding the contract (city-pairs) carrier when the traveler does not have a frequent flyer account with that carrier.

(3) Scheduling travel to increase an individual's frequent flyer account that results in additional costs to the Government violates the JER, and in some cases, criminal conflict of interest statutes.

d. Taxability of the Benefit. The IRS announced on 20 February 2002 that frequent flyer miles earned from business travel will not be taxed as income. The only exception is a frequent flyer program that allows award miles to be converted to cash. The IRS considers that money taxable income that must be reported by the taxpayer.

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