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Have a Business Credit Card? You Might Owe Tax on the Rewards

Sometimes credit card rewards are taxable. Follow these steps so that you don't get taken by surprise with a tax bill.



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One of the first things entrepreneurs often do when they are [starting a new company](#) is set up a [business credit card](#). Those who don't probably should -- use of personal credit cards for business purposes can be problematic for many reasons, such as the inability to easily separate personal and business expenses, which can cause a huge headache at tax time. Not to mention, many banks offer [signup incentives and purchase rewards](#) that can feel like additional benefits when making company purchases.

But when the rewards are redeemed, you may worry that you just received a reward that could be considered taxable income. For the most part, business credit card rewards are not



1. Determine if the reward was associated with a purchase.

The IRS has issued little guidance with respect to credit card reward programs. However, we do know that most of these are considered rebates or discounts, as opposed to payment from the credit card company. The reward is an incentive to use the card to make a purchase, not payment for services rendered. So, if you use cash back rewards or airline miles associated with a purchase, you do not need to report them as taxable income.

Don't apply this logic with too broad of a brush, though. The rebates or discounts mentioned above are provided by the credit card company for purchases made in general. A manufacturer's rebate, store sales, or coupons used for a purchase are treated differently. In these cases, the purchase price is actually reduced on a specific good; so, the deductible amount associated with the business purchase should reflect the discounted price actually paid.

2. Determine what sign-on bonuses are reportable.

Many credit cards offer a signup incentive--typically airline miles, but sometimes the incentive can be physical items too. In some of these cases, the rewards are not tied to a financial transaction, and cannot be deemed a rebate on a purchased good. So, these benefits would be considered taxable income. Valuing the cash deposit or the mp3 player may be fairly straightforward; however, what about those airline miles?

Banks have, in the past, valued these miles at as much as 2.5 cents per mile (making a 50,000 airline mile reward worth \$1,250)! However, it's frequently left up to the consumer to determine the value of these miles. In 2014, as a result of a [US Tax Court ruling](#), one reward recipient ended up reporting the value of the airline ticket they eventually purchased using the signup points.

If the value of these bonuses exceeds \$600, the banks will send 1099-MISC forms to report to you (and the IRS) a value associated with these rewards. If it's less, then no form is required to be provided, though you are still required to report the value as taxable income.

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From the IRS' perspective, it doesn't matter if these incentives are eventually fed back into the company or used for personal reasons. So, you can accumulate miles based on company expenditures, then cash in those miles for a vacation flight if you wish. The tax treatment won't change. Before booking your flight, just be sure your company policies don't stipulate that the rewards belong to the company.

Then again, especially in a situation like this where the IRS does not have comprehensive formal guidance, you should seek the advice of a tax professional to ensure you're not taking unnecessary risks, and in case new guidance becomes available. Credit card reward programs are always changing, so it's also possible the IRS may decide to step in and change their views too as the market evolves.

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