

**Florida Department of Revenue
Tax Information Publication**

**TIP 06A01-01
Date March 17, 2006**

**TRANSIENT RENTAL TAXES
REWARDS POINTS PROGRAMS**

This publication concerns the application of state sales tax, local surtax, and locally-imposed transient rental tax on transient lodging provided to members of hotel rewards points programs. A Notice of Rule Development was published in the December 2, 2005, edition of the Florida Administrative Weekly (Vol. 31, No. 48, p. 4443) and a rule development workshop will be scheduled with the date, time, and location noticed in the Florida Administrative Weekly.

Background

In October 2004, the Committee on Government Efficiency Appropriations of the Florida Senate issued Report Number 2005-131, "Application of the Tourist Development Tax to the Sale of Discounted Hotel Rooms over the Internet and the Hotel Rewards Points Program." The report contains a summary of information regarding the operation of rewards points programs in Florida and other states, an analysis of relevant provisions of the Florida Statutes and the Florida Administrative Code, and the committee's conclusions and recommendations for the tax treatment of rewards points programs and for pending claims for refund. This Tax Information Publication reflects the findings of that report regarding the tax treatment of transient lodging provided to members of rewards points programs.

How a Typical Hotel Rewards Points Program Works

Hotel chains, both national and international, offer guests membership in a rewards points program where members can earn points by staying at participating hotels. Members accumulate points and then redeem them for a room or upgrade at no charge. Points are earned from Florida hotels, as well as from hotel rentals in other states and outside the United States. Members may also earn points by purchasing other items or services, such as air travel or car rentals. Points may also be purchased with cash. Many programs allow members to earn points and redeem them for other items and services, such as airline miles, rental car discounts, or merchandise.**(FN 1)**

Generally, most participating hotels are contractually obligated to contribute a percentage of revenues to a central program fund each time a member stays at the hotel and earns program points. Contributions to the fund are generally made on a monthly basis at a rate of between 2 and 6 percent of the participating hotel's nightly room rate. The programs are generally administered by the hotel chain or a related business entity, but they may be administered by a separate unrelated business entity. Administrative fees may also be assessed against the

participating hotel.

When a member accumulates a sufficient number of points to redeem them for a room or upgrade at a participating hotel, the points are redeemed through the program's redemption center. The redemption center makes reservations for the room or upgrade at a participating hotel. The member is provided a certificate or confirmation number that is presented to the hotel when the guest checks in at the hotel.

The rewards program reimburses the participating hotel when a member uses accumulated points for a room or upgrade. Generally, a credit is issued against the hotel's monthly obligation to the central program fund. Each participating hotel has a balance in the central program fund directly related to its required contributions and reimbursements for members' rooms or upgrades. Typically, the program administrator reconciles the contributions to and the reimbursements from the fund account on a monthly basis.

When Tax is Due

When a member redeems points at a participating hotel for an upgrade in room accommodations at no additional charge, the hotel is required to collect Florida state sales tax, local surtax, and locally-imposed transient rental tax on the base room rent paid by the member occupying the room; however, the hotel is not required to collect Florida tax from the member on the value of the room upgrade. When a member redeems points for a room in lieu of paying room charges, the hotel is not required to collect Florida tax from the member occupying the room. When a member redeems points for a room and the points are not sufficient to cover the room charges, the member is required to pay the hotel room charges in addition to redeeming points and the hotel is required to collect Florida tax only on the charges paid by the member for the room.

In either instance, the participating hotel receives reimbursement from the central program fund as compensation for providing to the member the room or upgrade. The reimbursement is made with funds that were contributed by the hotel from room charges on which Florida state sales tax, local surtax, and locally-imposed transient rental tax in effect has been paid. Because tax on room charges has previously been paid on the funds contributed to the central program fund, no tax is due when a participating hotel contributes more to the fund in any given month than it receives in reimbursements for that same month.

However, in any given month, when the participating hotel receives more in reimbursements from the fund than it is required to contribute, tax in effect has not been paid on the funds that the hotel is receiving in excess of the contributions. The hotel is receiving more funds from the program for providing rooms or upgrades to members than it is required to contribute for members staying and earning points. In such months, tax is due on the amount by which the total reimbursements from the fund exceed the total contributions paid to the fund.

For example, in July 2005, a hotel participating in a rewards points program was required to pay \$700 in contributions to the central program fund for members who stayed at the hotel and earned points. In that same month, the hotel received \$360 in reimbursements from the program for providing members rooms or upgrades at the hotel. No tax is due by the hotel for this month because the reimbursements received from the fund do not exceed the required contributions.

In August 2005, that same hotel is required to pay \$1000 in contributions to the central program fund for members who stayed and earned points. However, in this month, more members redeemed points for rooms or upgrades at the hotel than members staying as paying guests earning points for future rooms or upgrades. In this month, the hotel received \$1300 in reimbursements from the fund. For August 2005, the hotel is required to pay state sales tax, local surtax, and any locally-imposed transient rental tax on \$300 (\$1300 - \$1000).

References: Section 212.03(4), F.S.; Rule Chapter 12-26, F.A.C.; Report Number 2005-131, October 2004, "The Application of Tourist Development Tax to the Sale of Discounted Hotel Rooms Over the Internet and the Hotel Rewards Points Program"

FOOTNOTE 1. This publication does not address the tax treatment of points that are redeemed to purchase or acquire items or services, other than transient lodging, which are subject to state sales tax or local surtax.

FOR MORE INFORMATION

This document is intended to alert you to the requirements contained in Florida laws and administrative rules. It does not by its own effect create rights or require compliance.

For forms and other information, visit our Internet site at www.myflorida.com/dor. Or call Taxpayer Services, 8:00 a.m., to 7:00 p.m., ET, Monday through Friday, excluding holidays, at 800-352-3671 or 850-488-6800.

Persons with hearing or speech impairments may call our TDD at 800-367-8331 or 850-922-1115.

For a detailed written response to your questions, write the Florida Department of Revenue, Taxpayer Services, 1379 Blountstown Highway, Tallahassee, FL 32304-2716.