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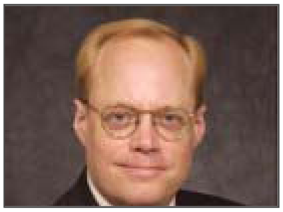

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$5 United Tickets? Priceless, But IRS Still Gets A Piece

United Airlines mistakenly offered fares for $0 for several hours, many tickets costing a total of $5 to $10. United's booking engine applied the Sept. 11 federal security fee, but didn't even add taxes. Who can resist a great bargain? It's even ***more*** exciting if you know it was a mistake.

(Image credit: Getty Images via @daylife)

And United is honoring the bargain tickets. But many bargains are taxed. You have probably received something that wasn't entirely yours. Say you receive $100 but must hand half over to a family member, partner or colleague.

You might assume you're only taxed on $50. Not always. Often, the question is not who ***ended up*** with it as who got it ***initially***. See Who Pays Tax On Joint Bank Accounts? If you find a diamond ring, it's taxable based on its fair market value even if you don't sell it. See Who Pays Tax On Hef's Engagement Ring Sale?

So are United's $5 tickets taxed? It depends. If you bought them for yourself, no. But if your employer hands them out, yes. And probably they're taxed at their full value, not just $5. There could be gift tax on the tickets if you bought them and give them to family and friends, though presumably they would fall within the $14,000 annual gift tax exclusion.

Still, get used to thinking that taxes apply everywhere. You can bet that United will deduct all the costs of the glitch that resulted in the free tickets it has decided to honor. See United Airlines to honor free tickets. United will also deduct all its operating costs for flying passengers for free.

If you win the lottery, win cash in a game show, or hit it big at the casino, you must pay tax. It's even worse if you win goods instead of cash, since their value is income too. When Pontiac gave away cars on Oprah, the recipients were on the hook for taxes even though they didn't receive cash.

Income is taxable whether in cash or in kind. If you receive it in kind, its fair market value is taxed. A cash bonus from your boss at year-end, a briefcase your employer gave you when you were promoted, a free country club membership from a grateful client? You name it, it's taxed.

In employment, you face withholding and employment taxes. Your employer must withhold extra taxes from your cash pay to make up for the property you received in kind. Can't you claim it was a gift?

Many people use this as an excuse why they didn't pay tax on something they received. Remember John Edwards' "it was a gift, not a campaign contribution" defense? See Surprising Tax Lessons From John Edwards's Indictment. How do you distinguish between income and gifts?

By intent and the surrounding circumstances. Gifts involve "detached and disinterested generosity." Was the transfer of the briefcase or the country club membership detached and disinterested? The IRS would say no.

After all, they were meant to reward you for a job well done. They may also be intended to secure additional services in the future. There is an exception for small holiday gifts to employees. The IRS says you can hand out turkeys and holiday baskets to employees provided the gifts don't exceed $100 in value.

Suppose a worker puts in extra, unpaid overtime and you reward her with tickets to the Super Bowl or those $5 United tickets? They are wages. How do you withhold? You're supposed to increase the withholding on his cash wages to cover the value of the tickets.

But that works only if you pay with a combination of cash and goods. If a buddy who isn't a regular employee helps out at your business occasionally and you thank him with tickets, the IRS will view them as taxable pay on a Form 1099, not a tax-free gift.

Bottom line? Better use up those $5 United tickets yourself.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.