

## Sales/Use/Indirect:

### Arizona Supreme Court Says Rewards Program Reimbursements for Hotel Lodging is Taxable Consideration

*Case No. CV-23-0176-PR, Ariz. (6/7/24).* Addressing the Arizona Court of Appeals' "split decision" from 2023 that certain customer loyalty program reimbursements paid by a hotel chain to an Arizona hotel/lodging provider fell within Arizona's statutory definitions of gross receipts and gross income and thus were subject to Arizona's transaction privilege tax (TPT), the Arizona Supreme Court (Court) vacated the 2023 Court of Appeals ruling even though it agreed with the overall taxability result – holding instead that the reimbursements were a transfer of monies to cover rewards members' complimentary stays and thus constituted taxable consideration for lodging space provided in the course of the Arizona hotel's business activities under the TPT. Distinguishing the case at hand from a previous Court case involving a different type of loyalty program implementing a grocer's stamp redemption plan for customers that were engaged in "a system of advanced spending and deferred enjoyment of the fruits thereof" where TPT imposition on such "whole transactions" would have amounted to "double taxation," the Court reasoned that any points-earning transaction at the Arizona hotel in this case would probably not result in a future complimentary stay at the same hotel. Among its claims, the Arizona hotel unsuccessfully argued that it was *not* being paid for providing free lodging to members but was merely receiving nontaxable reimbursements for participation in the hotel chain's rewards program and any TPT levied on these "redemptions" resulted in double taxation. Please contact us with any questions.

**URL:** <https://www.azcourts.gov/Portals/0/OpinionFiles/Supreme/2024/CV230176PR.pdf>

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