Don't Run Away from Citibank! Fly!

January 24, 2012 - Banks have made a wide variety of marketing mistakes over the past year. Just remember Bank of America's flirtation with debit card fees. The uproar caused the bank to lose customers and generated so much bad publicity that it had to reverse course within days. But that is so last year! Now that it's 2012, there is a green filed available for new bank marketing screw ups. And Citibank may just have made one that sets the bar for the duration of the year!

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If you signed up for a frequent flyer rewards account at Citibank which awards miles, get ready to dig into your wallet. No, Citibank isn't going to charge you some hidden fee for those miles. They appear to have come up with a much more ingenious plan! They have decided to report those miles as income to the IRS. Maybe they are just returning favors but it looks suspiciously like a "government bailout". Who says there are no quid pro quos in life?

Now, just to be clear, the IRS does not count frequent flier miles as income. But IRS rules notwithstanding, Citibank is reporting them anyway. And according to David Lazarus of the LA Times, they are valuing each mile at around 2.5 cents. That means that if you signed up for an account that awarded you 25,000 miles, they're going to report around $625 in income to the IRS. If you are in a 30% tax bracket, that means that those shiny new frequent flier miles that you thought were free are actually going to cost you just shy of $200. Depending upon where you fly, you might be able to buy your own ticket for less! That awards account isn't looking so good right now is it?

And if you are thinking about not paying those taxes becauseâ€¦ well, because you don't really owe them, then you may actually increase your risk of being audited. Since Citibank has already reported the income to the IRS, there is no good way to get out of the tax.

Now, of course, Citibank has a little different take on this and they believe that the reporting was required by IRS rules. But if that's the case, then there are millions of Americans who should be getting 1099 forms from the airlines that they are frequent fliers on. Of course, the IRS doesnâ€™t appear to be going after any of the airlines for underreporting.

Citibank's out of the box thinking may be appreciated by Uncle Sam! After all, if enough other institutions follow suit, that pesky deficit will be taken care of in no time. I doubt however that it will do too much to win over new customers. Oh well, for every silver lining there is a cloud.

Bottom line here is that this appears to be the worst marketing move made by any financial institution so far this yearâ€¦ at least, in my humble opinion. With that said, it is only January 24th, so there is still plenty of time in 2012 for others in the financial services industry to step up with some bone-headed marketing moves of their own. Game on!

byJim Malmberg
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