

From: "Nikolic, Boris" <[REDACTED]>

To: "Jeffrey Epstein" <jeevacation@gmail.com>

Subject: RE:

Date: Wed, 09 Dec 2009 04:25:47 +0000

I was thinking of FFM for a while. I love that system. Taxes are the problem, although IRS has already placed some system in place. In addition, if becomes a bigger issue governments would place new taxes if system becomes bigger. Nonetheless, in my mind taxes are the smaller problem.

1) Also, aren't FFM awards taxable? As far as a direct tax on the award user, the most recent IRS ruling states (with some equivocation) that free tickets are taxable IF they are earned in the course of business travel AND they are used for leisure travel. This rule has proved too difficult to apply, so enforcement has been practically non-existent. For the future, though, we should never underestimate the government's appetite for tax revenues.

More importantly, the recently enacted 1997 Taxpayer Relief Act of 1997 attempts to tax FFP transactions covertly. This new excise tax took effect on October 1, 1997, and will have a significant effect on airlines and their marketing partners, and on the frequent travelers who participate in frequent flyer programs. For a number of reasons, this change to the tax code went largely unnoticed (and uncontested) by legislators and the general public. It has been dubbed the "stealth tax," a moniker which well conveys its insidiousness. While there is still considerable discussion and debate about the interpretation of the new law as it applies, e.g., to the use of miles by the host airlines themselves, and to the sale of miles by foreign-based programs, the following is generally understood and accepted: When a program partner (airline, hotel, car rental company, credit card, etc.) gives miles to a program member, the partner must purchase those miles from the airline that operates the frequent flyer program. The new law imposes a 7.5% tax on that purchase.

2) The creation of meta PPM program would be interesting. However, here we comes to the problem that to me is bigger than taxes: In my mind the bigger problem is all program partners include language in their FFP member materials that states that FFP mileage, coupons and tickets may not be sold, bartered or otherwise transferred for any type of consideration. At one time, this was a \$150 million-a-year business. It continues, but on a much smaller scale because the airlines have aggressively pursued and prosecuted the brokers, sellers and buyers.

It is very interesting to analyze the history of FFP, how they become, what and when enable them (very recent history). From early cigarette coupons and various stamps to modern credit card associated FFP.

Nonetheless, I still prefer some kind of conversion to information.

Please let me think about that. Have few huge deadlines this week, which sucks!

Will call you tomorrow,

Re the second part of your email - I did not know that you are into elimination of discomfort, disease, or poverty!!!

Boris

From: Jeffrey Epstein [mailto:jeevacation@gmail.com]
Sent: Tue 12/8/2009 9:09 AM
To: Nikolic, Boris
Subject:

frequent flier miles. is another form of world currency. . problem is taxes, there is no system to tax trading in miles. so the gov't will eventually go crazy.. // The best work of the foundation would be to create money/value to be used to eliminate discomfort. disease, poverty. , there is no reason that a new form of distribution , can't be created. There is no shortage of food medicine , or information, at the moment the only thing available to the poor is info.

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