

# NFT CASE STUDY

# NFT FLIGHT TICKETS (NFTickets)

Swipe



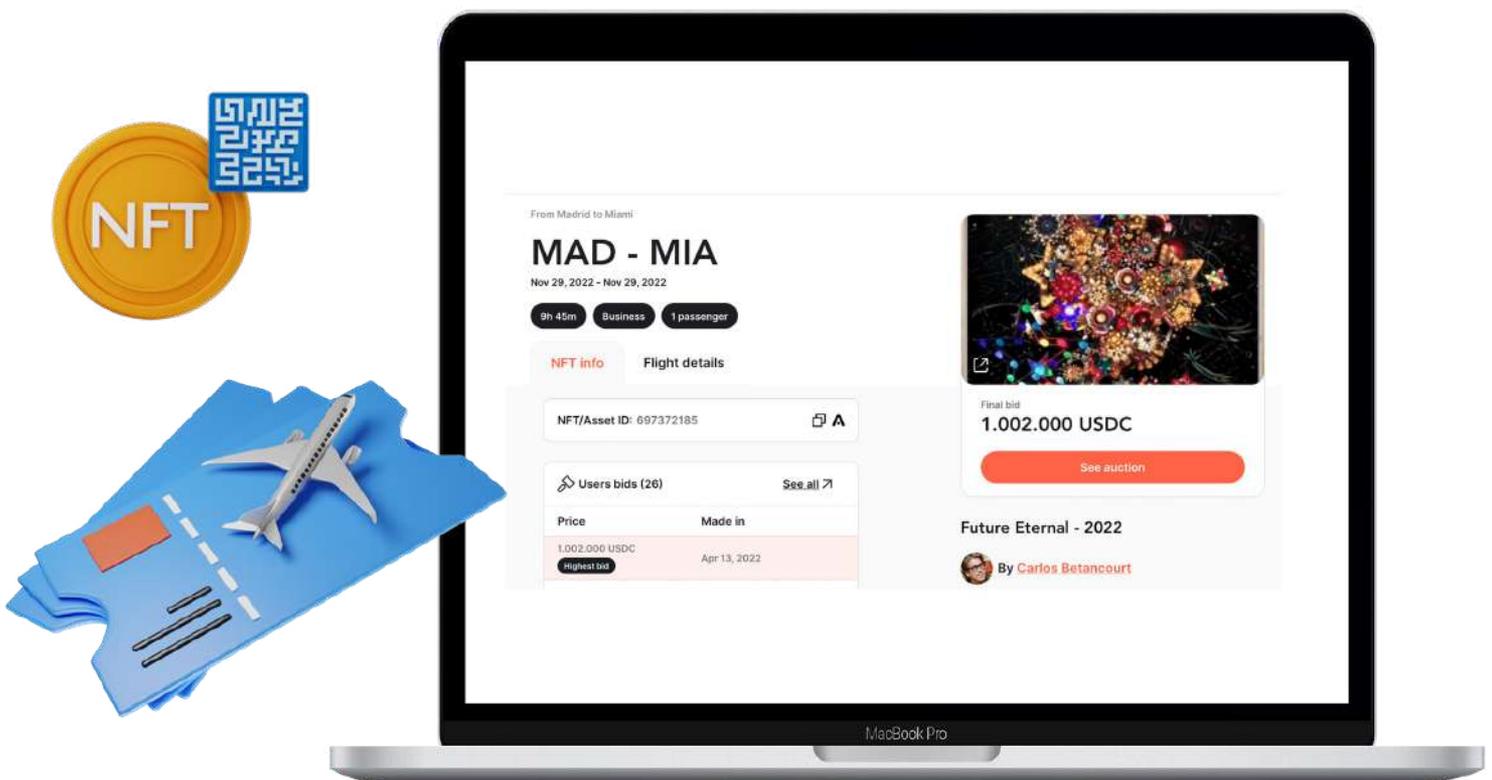
# BACKGROUND



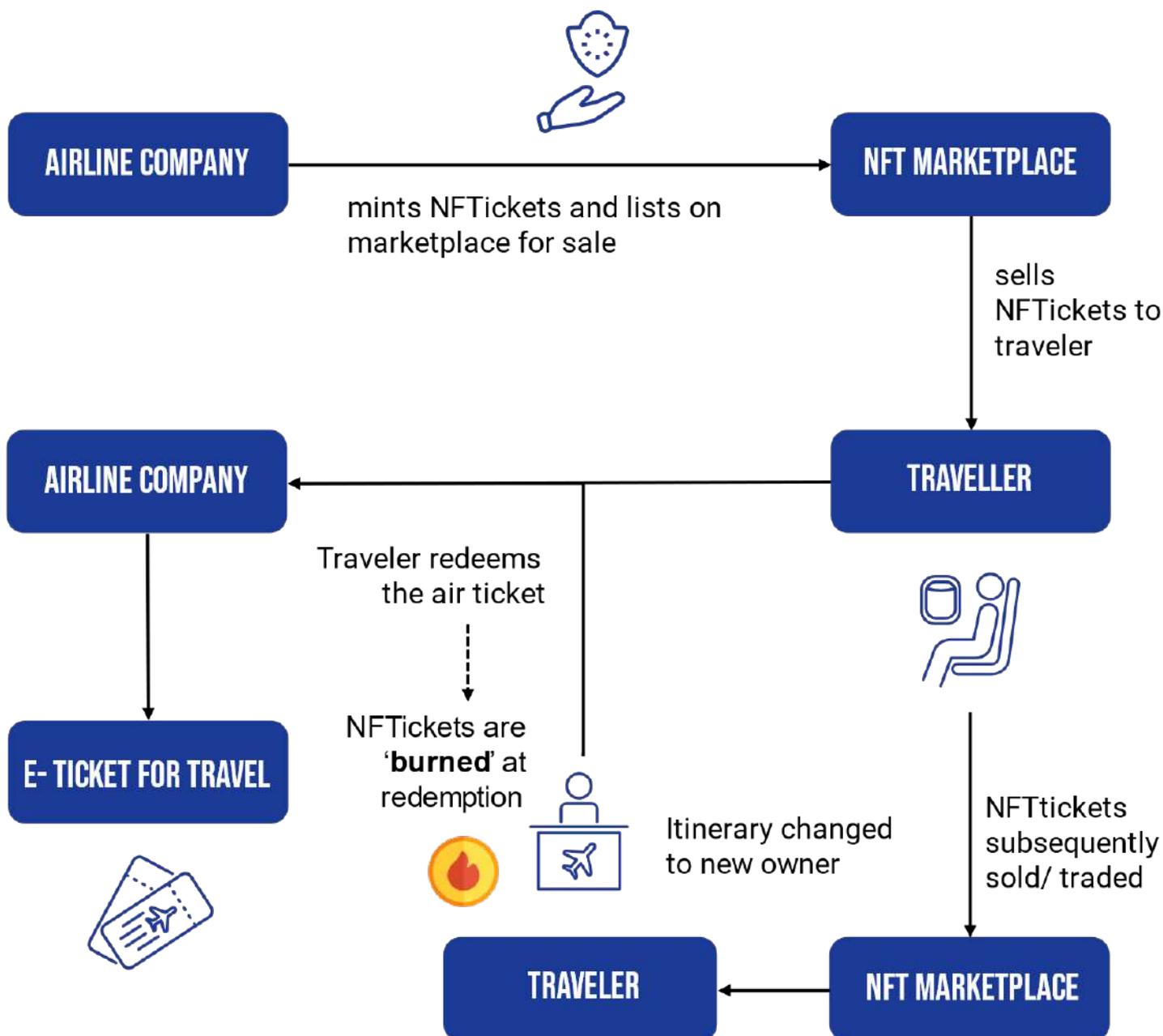
Airlines are jumping into the bandwagon of NFTs and crypto. Recently, they have launched air tickets in the form of NFT which are called 'NFTickets'

NFTickets can be bought via NFT marketplace such as TravelX. Buyer can use it to redeem the actual tickets from the airlines. Further, they can resell the ticket and change the traveler's information

This case study covers the possible tax implications and key takeaways pertaining to NFTickets



# FLOW OF TRANSACTION



Note: Airline company and NFT marketplace will receive 2% commission on any subsequent sale of NFTickets



## **NFTs linked to an actual service**

Generally, NFTs are linked to an asset, either digital or physical. Certain NFTs give 'right to use' a digital asset whilst some serve as a proof of ownership over the physical asset

The taxability may depend on whether the NFTs are linked to a digital or physical asset

There are also cases where NFTs are linked to an actual service. This gives a right to use/ enjoy the underlying service such as traveling, attending a concert, etc.

Taxability of NFTs linked to an actual service may follow the tax treatment of the underlying service





## AIRLINE COMPANY

Taxable Event	Possible Tax Implication
<b>Minting NFTickets</b>	There may not be any VAT implication on minting NFTs since there is no supply
<b>Sale of NFTickets</b>	<ul style="list-style-type: none"><li>• When NFTickets are sold, it may be treated as if the underlying air tickets are sold</li><li>• Cryptos received on account of sale of NFT may be treated as consideration for sale of air tickets</li><li>• Generally, international transport of passengers is a zero-rated supply. Hence, supply of NFTickets may be treated as zero-rated supply</li></ul>
<b>Commission on subsequent sale of NFTickets</b>	Taxability of commission may need to be evaluated for applicability of zero rate
<b>Redemption of NFTickets for actual air ticket</b>	There may not be any VAT implication as VAT may have already been considered as zero-rated at the time of sale of NFTickets



## NFT MARKETPLACE

Taxable Event	Possible Tax Implication
<b>Commission on subsequent sale of NFTickets</b>	Commission received may be considered as a taxable activity
<b>Redemption of NFTickets for actual air ticket</b>	Gas fees are usually charged on “burning” an NFT and may be considered as a taxable supply



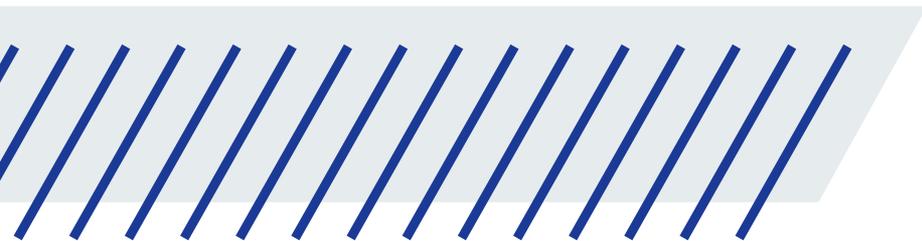


## TRAVELLER

Taxable Event	Possible Tax Implication
<b>Purchase of NFTickets</b>	Purchase of NFTickets in exchange of crypto may be treated as outside the scope of VAT as cryptos may be considered as akin to fiat currencies
<b>Subsequent sale of NFTickets</b>	Supply of NFTickets may be treated as zero-rated supply
<b>Redemption of NFTickets for actual air ticket</b>	There may not be any VAT implication as VAT may have already considered as zero-rated during the sale of NFTickets

### Note:

- Input tax recovery will be dependent on the taxability of the related income
- The above VAT implications are based on the assumption that NFTickets are pertaining to international transport



# CORPORATE INCOME TAX



## AIRLINE COMPANY

Taxable Event	Possible Tax Implication
<b>Minting NFTickets</b>	Minting of NFTs may not have any corporate tax impact
<b>Sale of NFTickets</b>	Sale of NFTickets may be treated akin to sale of air tickets thus may be considered as taxable business income
<b>Commission on subsequent sale of NFTickets</b>	Commission may be considered as taxable business income
<b>Redemption of NFTickets for actual air ticket</b>	There may be no tax implication on redemption of NFTickets for actual air ticket

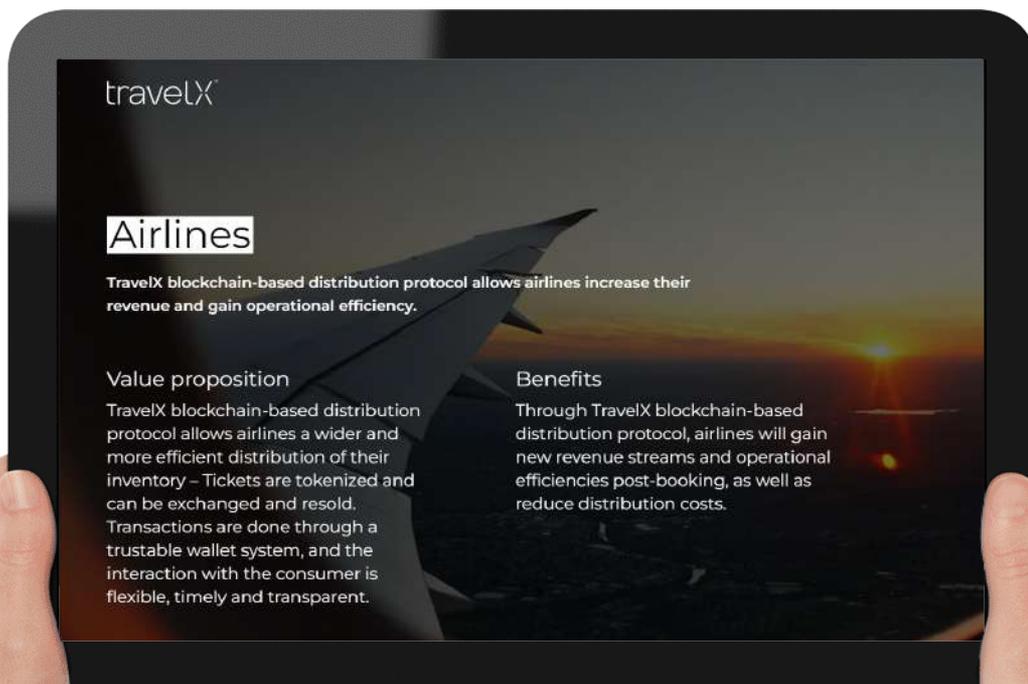


# CORPORATE INCOME TAX (CONT.)



## NFT MARKETPLACE

Taxable Event	Possible Tax Implication
<b>Commission on subsequent sale of NFTickets</b>	Commission received for facilitating the sale of NFTickets may be considered as a taxable business income
<b>Redemption of NFTickets for actual air ticket</b>	Any gas fees received may be taxable business income



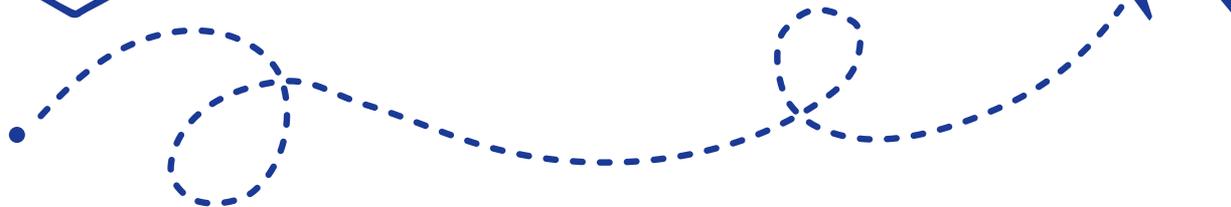
# CORPORATE INCOME TAX (CONT.)



## TRAVELLER

Taxable Event	Possible Tax Implication
<b>Purchase of NFTickets</b>	Difference in purchase value of crypto and the value for which it is being exchanged (i.e., NFT value) may be subject to capital gains tax for the buyer
<b>Subsequent sale of NFTickets</b>	Gains made (if any) on resale of NFTs may be subject to income tax
<b>Redemption of NFTickets for actual air ticket</b>	There may be no tax implication on redemption of NFTickets for actual air ticket

Note: The proposed UAE Corporate Tax law applies only to individuals engaged in business activity. Thus, any gains on sale / exchange of NFTs earned by non-business individuals may not be taxable in the UAE



# KEY TAKEAWAYS



- ✓ Determine the type of service to which the NFTs are linked in order to evaluate its tax implications
- ✓ As cryptos are generally used as a payment for NFT transactions, the value of supply should be appropriately calculated
- ✓ Consider the impact of corporate tax on the transfer of NFTs and subsequent redemption of the underlying service



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