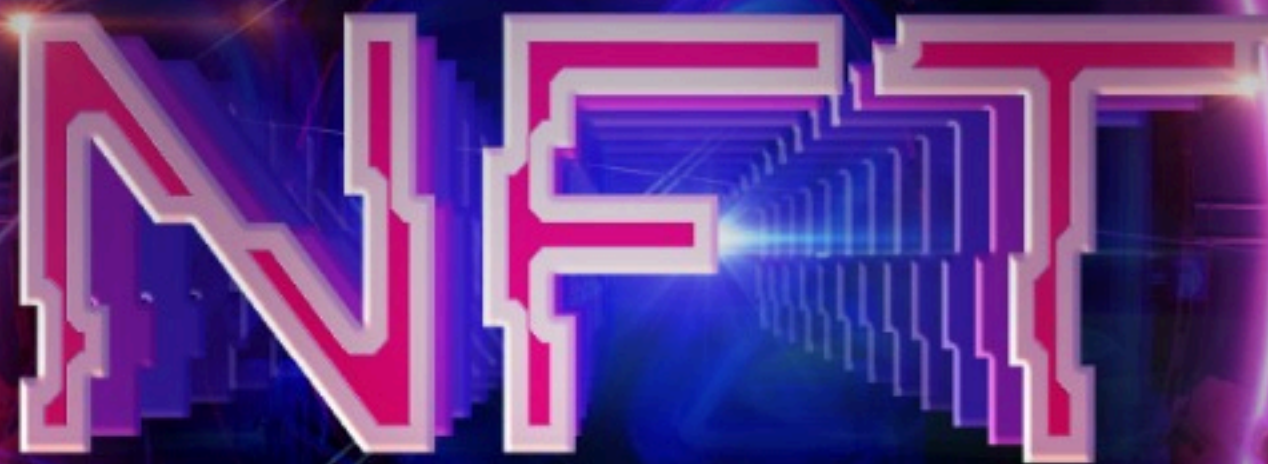


TAX ON MINTING NFTs



NFT



Swipe

WHAT ARE **NFTs**?



NFT stands for '**non-fungible token**'

Non-fungible is a **one-of-a-kind** or **unique** item that cannot be traded, replicated, or replaced for other items

Examples of NFTs



Diamonds have different clarity, cuts, and sizes, which makes it not interchangeable. They are unique in nature



Paintings cannot be replaced or interchanged with another painting just like Mona Lisa's painting



Real estate has different square footage, architecture, and interior features

HOW ARE NFTs DIFFERENT?



NFTs **do not physically exist**. It exists solely online on a blockchain which can be linked to an ownership of digital and physical items



NFTs simply mean having a **digital certificate of ownership** of an item which can be paintings or similar artwork, music, event tickets, gaming assets, and many more



Sometimes, off chain assets such as bonds, shares, parcels of land, apparel etc. may also be owned through NFTs



MINTING NFTs



The process of **creating NFTs** is known as **minting**

Minting NFTs is like publishing or creating your unique asset on the blockchain



The person who mints/ creator is the one who registers the token on the blockchain



Once NFTs are minted, they will be published on the marketplace

MINTING NFTs



THE PROCESS OF MINTING NFT



COSTS OF MINTING INCURRED BY THE CREATOR



Miner

When minting NFTs on a blockchain, a **gas fee** (transaction fee) is incurred by the creator

This fee is paid to the miners who verify the transaction

NFT Marketplace

Apart from the gas fee, NFT marketplaces **charge account and listing fees** to the creator

The creator does not earn any income at the time of minting NFT. Once NFT is minted, the creator may subsequently earn income through lease or sale of the NFT



VAT



1. CREATOR

As the creator only incurs costs and **no supply** is provided, there may not be any VAT on minting NFTs

2. MINER

Gas fee received by miner

As discussed in our previous post on “Tax on Crypto Mining”, in the absence of client-service provider relationship between miner and creator, the gas fee may be treated as **outside the scope of VAT**



However, there are few countries where VAT treatment differs. The service of validating the creation of NFT in exchange of gas fees could be considered a **taxable activity** subject to VAT



Minting NFTs is also viewed as a **VAT exempt** transaction in some countries as this could be considered as a digital **financial service**



The Federal Tax Authority in the UAE has not yet published any guidance on VAT transactions involving NFT. Thus, it may adopt any of the VAT treatment above



3. NFT MARKETPLACES

Account and listing fee received by NFT Marketplace

The account and listing fees received by NFT marketplace for facilitating the creator to mint NFTs could be considered as a **taxable activity**



INCOME TAX



Creator - The process of minting NFTs may **not be considered as a taxable event** for income tax purposes. However, tax may apply at the time of sale or lease of the NFT

Miner and NFT Marketplaces - The gas fee, account fee and listing fee may be treated as **earnings subject to business profits tax** in the hands of the miner and NFT marketplace



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