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**Roman Kepczyk** • Mar. 30, 2021



Headlines over the past few weeks have highlighted a dirge of high-profile sales of digital assets via NFTs or Non-Fungible Tokens (also pronounced “nif-tees”). For example, the rights to a digital house on Mars sold for \$500,000, a digital copy of the first tweet ever sent by Twitter’s Jack Dorsey sold for \$2.9 million, and a digital collage created by Beeple was auctioned off by Christie’s for over \$69 million, with sales completed in Ether (Ethereum cryptocurrency).

What makes these sales so interesting is that the NFT buyer purchased the rights to

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the actual commercial and physical rights to the artwork, thereby directly earn revenue from selling the digital token.

The blockchain documents the digital provenance of the NFT including the current and all previous owners, providing authenticity, the amount of the sale, as well as of course the bragging rights to prove ownership to your friends. The NBA has even gotten onboard by selling highlight clip NFTs to sports fans that want to “own” a favorite video moment in basketball history. Think of NBA Top Shot NFTs as being akin to collectible trading cards where one superfan recently paid \$208,000 for a LeBron James “Cosmic” dunk NFT.

Similar to physical art, value is perceived by the buyer/market and acquisitions are made based on a personal desire to own the digital asset and/or as a speculative investment with the hopes of selling it for a profit at a later time. Eventually the market will have to decide the true value of NFTs and whether they are Picassos or Teeny Beanie Babies.

However, with NFT sales skyrocketing, it won't be long before tax ramifications come into play which accountants need to be prepared for. Considerations such as whether a sale is subject to short or long-term capital gains become increasingly complex as NFT purchases are consummated with cryptocurrencies. Most accountants (and the IRS) have become increasingly aware that sales involving cryptocurrencies often come with complex valuation, legal and tax jurisdiction questions that have not been addressed before so expect to see NFT tax experts and lawyers jumping in to espouse on the topic by the time the fall conferences come around.

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*optimize the internal production workflows within their tax, audit, administrative, and*

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