

What You Need To Know About Accounting for Non-Fungible Tokens—NFTs



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TL;DR

- Best practices for NFT accounting vary with the underlying asset type
- Accurate accounting for NFTs is crucial to avoid noncompliance
- Companies can mitigate risk by getting professional help with NFT accounting

Have you considered owning an NFT or adding NFTs to your inventory, but aren't sure about the **accounting**? Procuring a non-fungible token (NFT) may feel daunting enough, and nobody likes complicated taxes. Getting the right guidance on accounting for NFTs is crucial before owning any of these digital assets.

What questions do you have about NFT accounting? We've got seven best practices to get you seven notches closer to tracking your non-fungible tokens like a professional.

1. Determine Your NFT's Asset Classification

You may understand non-fungible tokens as digital coins that signify ownership of specific assets. NFTs can indicate ownership of a wide range of underlying assets, ranging from digital art and **music** to virtual **real estate** and domain names. Determining an NFT's asset class for accounting purposes is frequently based on the specific nature of the underlying asset.

NFT asset classification is necessary because asset classification plays a crucial role in accounting and financial reporting. An accurate classification can be essential to fairly valuing an NFT and understanding the potential implications of owning this type of digital asset.

Check out these accounting best practices for classifying NFT assets:

- Understand the characteristics of the underlying asset
- Review regulatory guidance in the relevant jurisdictions
- Consider the purpose of holding the NFT—as inventory or an investment

- Continually reevaluate the NFT's asset class designation

2. Assign a Value to Your NFTs

What is an **NFT** worth? A key part of accounting for NFTs is using a valuation method to assign a dollar amount to each NFT. Here are three methods of NFT valuation:

- Cost-based valuation—valuing an NFT based on what it would cost to recreate the underlying asset
- Income-based valuation—valuing an NFT based on projected future cash flows associated with the underlying asset
- Comparable asset valuation—a valuation method based on sales prices of similar tokenized assets

Many factors can impact the valuation of an NFT, such as:

- Rarity and scarcity of the underlying asset
- Ownership history of the NFT
- Privileges conferred by owning the NFT
- Quality and popularity of the underlying asset
- Market demand for tokenized assets

Valuing NFTs can be particularly challenging due to the unique, non-fungible nature of the asset. Assessing the value of NFTs requires a tailored approach that is customized to individual NFTs.

3. Establish NFT Ownership and Control

What does it mean—for **accounting** purposes—to own and control an NFT? A business that owns an NFT must report that token as an asset on its balance sheet. Clearly establishing ownership and control of an NFT is fundamental to accurate financial reporting.

Let's look more closely at NFT ownership and control in the context of accounting:

- Establishing NFT ownership can be crucial to ensure legal and tax compliance
- Not clearly establishing NFT control can result in incorrect revenue recognition or expense matching
- Clear ownership and control procedures for NFTs can ensure that only authorized individuals have access to an NFT

- Clear ownership and control also creates detailed audit trails that can be used to settle disputes

4. Consider the Tax Implications of Owning NFTs

Accounting and taxation are generally inseparable—including for NFTs. **Understanding** the tax implications of owning NFTs is a major step toward becoming skilled with NFT accounting practices.

Any income or gain derived from an NFT transaction is generally subject to tax, regardless of whether the transaction is a sale or trade. Here are some key best practices to remember, especially if you'd rather avoid a tax or accounting nightmare with NFTs:

- Document all NFT transactions, perhaps by using NFT accounting software from a platform like **Ledgible**
- Understand capital gains tax, including how it applies in your jurisdiction
- Consider the potential tax implications of NFT gifts or donations
- Pay attention to any tax code changes that may affect NFTs

5. Assess the NFT Regulatory Environment

Another best accounting practice for NFTs is to continually assess the regulatory landscape. **Regulations** surrounding NFTs are indeed still evolving and may differ significantly across jurisdictions. Many aspects of the regulatory environment—involving intellectual property rights, taxation, consumer protection, and anti-money laundering rules—are perhaps subject to change.

Individuals and organizations can benefit from routinely evaluating the regulatory environment for NFTs. Here are some useful tactics:

- Stay informed about regulatory developments pertinent to NFTs
- Determine what's needed for your NFT to comply with Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations
- Understand the intellectual property (IP) rights associated with your NFT
- Consider engaging NFT legal experts to ensure ongoing compliance

6. Keep Accurate Records of NFT Transactions

NFT accounting is only as accurate and compliant as the record-keeping that enables it. The importance of accurate **accounting** for NFTs probably can't be understated.

Why? That's because high-quality NFT accounting records can help with investment tracking, determining tax liability, and establishing proof of ownership. Credible NFT accounting records can also help to resolve conflicts, plus serve as documentation for audits or legal proceedings.

What are some expert ways to record and manage your NFT transactions? Let's take a look:

- Document all transactions
- Use only trustworthy NFT platforms
- Independently store your proof of ownership for NFTs
- Consider using a data storage back-up solution
- Regularly and promptly update your NFT records
- Consider leveraging professional record-keeping software

7. Know When to Get Help With NFT Accounting

What's your area of professional expertise? If it's not NFT accounting, then a smart idea may be to get help with this potentially daunting task. You might be unsure of how to track, evaluate, or report NFT transactions—which is pretty understandable.

When's the right time to seek professional help with NFT accounting? Consider these potential indicators:

- The complexity and volume of your NFT transactions is high
- Keeping accurate records of your NFT transactions is difficult
- How to comply with applicable tax requirements is unclear
- Potential legal or regulatory consequences from your NFT activities are uncertain
- You're spending too much time and effort on managing your NFT portfolio

Even seasoned accounting professionals have options to get help with NFT accounting. They can leverage specialized software from [crypto](#) and NFT accounting platforms like Ledgible, plus access specialized consulting services.

Finding an NFT accounting specialist or software solution can mean identifying a cost-effective solution that best meets your unique needs. Make sure to verify the credibility of the platform, understand the value proposition of the solution, and expect high-quality results from whichever NFT accounting solution you ultimately choose.

The Ledgible Platform is a cryptocurrency tax & accounting solution designed for Institutions, Enterprises, and Professionals. Financial institutions, corporations, and accounting firms use the Ledgible platform globally for crypto tax, crypto accounting, and crypto audit for billions of dollars of crypto assets. For firms and enterprises seeking traditional financial verification, reporting, and assurance, Ledgible provides the tools they need to confidently embrace cryptocurrency in their work through a SOC 1 & 2 Type 2 Audited Solution.

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