

5 Common Questions to Ask Your NFT Tax Accountant

NFT stands for non-fungible tokens, which we can purchase anytime we want and sell whenever we wish to. As exciting as the NFT technology is, the IRS (Internal Revenue System) has been very strict about crypto and NFT taxes and will likely remain so.

Naturally, many NFT holders believe that it's not a good idea to do NFT taxation on their own, and they are completely right.

Even if the guidelines weren't so vague and the technology wasn't so new, we are still humans, and we can't do everything alone. Many NFT tax accountants out there would be more than happy to help you through the taxation process and make it so much easier on you.

Now, when hiring one, you may have some questions regarding taxation (as you should). In fact, the questions you may want to ask your NFT tax accountant are so important that we decided to write a whole blog about it!

You'll learn what questions to ask your NFT tax accountant later in our article.



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NFT: What Is It and How Does It Work?

NFTs are non-fungible tokens. You might be thinking, "I don't know what that means!" It basically means it cannot be replaced or interchanged with anything else. This is unlike fungible things, like physical currencies or Crypto.

Yes - cryptocurrencies like Bitcoin are fungible too, which means if you were to trade one of them for another, you'd still have the same thing. It goes without saying that each NFT is unique and holds data different from another.

Before knowing what questions to ask an NFT tax accountant, you may have some questions about how they fundamentally work. The first thing you should know is that most of the time, NFTs are a part of the Ethereum blockchain.

This doesn't mean other blockchains haven't executed their own version of NFTs. They have, but we are mainly focused on Ethereum's blockchain as it also keeps track of who's holding and trading NFTs.

Taking a step back, let's talk about NFTs from a more fundamental perspective: "how are NFTs even minted?"

How Are NFTs Created (Minted)?

The first step in making NFTs is minting them. Minting is the act of turning pictures, videos, audio, and other things into crypto assets on a blockchain. By definition, minting an NFT involves turning digital files into cryptographic collections or virtual assets.

Uploading your digital content to NFT markets, marketing it for sale, and converting it to NFT is similar to uploading a video or song to YouTube and Soundcloud.

Now whenever an NFT is made, the artist can include the artwork minted into an NFT with their own signature in the NFT's metadata.

Different Types of NFTs

Getting help from an NFT tax accountant is important, but first, you need to know the different types of NFTs.

As you know, there has been a massive interest in NFTs in the past couple of years, and people don't seem to get tired of them this soon! However, NFTs come in a wide range of varieties, such as digital art NFTs, music NFTs, video NFTs, avatar NFTs, game NFTs, and meme NFTs.

- Art NFTs

This is one of the most famous types of NFTs and has gained popularity for two significant reasons. One, you can quickly tell if an art NFT is authentic or not, and two, you can easily prove the ownership of the digital asset.

- Music NFTs

Music NFTs are similar to other forms of NFTs, and the music pieces are attached to the NFT. They can be bought or sold. Whatever you like!

- Video NFTs

These assets are like moving pictures, and they are trendy among NFT fans. They can be favorite sports moments, like LeBron James's famous dunk, a 22-second video. This video NFT was sold for nearly \$400,000! Shocking, right?

The number is much more significant than the tax your NFT tax accountant helps you with paying your taxes!

- Avatar NFTs

These NFTs consist of headshots, and each is created with a specific algorithm and is unique. They are merely created to bring a sense of unity among those who use it. They can also sometimes act as a ticket to some very private metaverse events.

- Game NFTs

Now, this is one of those NFTs that gamers are much more into. The idea behind them is fascinating.

Suppose we have a game with a rare game skin as an NFT. People can come to play; whoever unlocks the game first will be the owner. Seems pretty rad, doesn't it? Of course, that owner shouldn't forget to hire an NFT tax accountant to help pay their taxes!

- Meme NFTs

The idea of meme NFTs is very much liked by meme creators, as it gives them a platform to monetize their memes. Let's suppose a meme maker makes one meme and puts it out there. Now, this meme doesn't have a price tag on it at first. Its value will depend on how viral it goes, how original it is, and whether it has authenticity.

Why Do NFTs Keep Gaining Popularity?

The first ever NFT was created in 2015, but we are now experiencing a boom thanks to the excitement and normalization of cryptocurrencies.

In the realm of technology, NFTs act as artistic expressions or just investment tools. There's more to it than just ape artwork; there are all kinds of things, plus the tax, which an [NFT tax accountant](#) will take care of.

In today's world, technology has an undeniably huge impact on our lives. NFTs are for those who believe that technology has the potential to make a big impact in the future!

When someone mints an artwork, they gain complete ownership over the NFT and can then decide to present it to the online audience. If an NFT is seen more online, it begins to gain popularity, and people will be willing to pay more money for it.

Now let's suppose someone has sold their NFT. If the current owner decides to sell the NFT to someone else, the original creator gets a 10% cut of the NFT. This is excellent news for those who want ongoing revenue!

But where do collectors do such things?

Popular NFT Marketplaces

There are some big and popular NFT marketplaces right now where you can get your wallets ready and buy yourself an NFT.

- OpenSea - To use this platform, all you need is an account where you can buy NFT by browsing the website's collection. One of the best things about this platform is that it also allows gas-free minting for creators. Its platform fee is 2.5%.

Overall, this platform is suitable for beginners, creators, and those looking for ways to avoid paying gas fees. However, it would be best if you got those taxes on your NFT minting sorted out with the help of an NFT tax accountant.

- SuperRare - SuperRare is one of the best marketplaces for crypto art and music NFTs. If your application is accepted, you'll be allowed to join the platform. To be

accepted on this platform, you need an impressive portfolio that showcases your artwork.

- This platform is much better than OpenSea, which is a general marketplace because your art will be more visible to the buyers.
- Rarible - As a creator, you'll need to submit many things to get accepted on this platform. Still, it's totally worth it because Rarible is very popular among creators.

Which NFT Transactions Are Taxable?

There are many cases where the IRS makes you pay the taxes you've been ignoring. It is important for you to understand [the best practices of reporting taxes on cryptocurrency](#) to do your NFT taxation correctly.

1. Selling NFT You Created Yourself

Creating NFT alone is not a taxable event. However, whenever you decide to sell your newly minted NFT, you should keep in mind that your NFT is taxable, and you should fill out the relevant forms under your accountant's guidance.

As a result, anything associated with the act of minting and then selling the NFT will be taxed. The highest rate in ordinary income brackets is 37%, in addition to income tax and self-employment tax.

2. Selling a Purchased NFT

Selling an NFT that was recently purchased will be treated the same as the deposition of land or stock. Your capital gain or loss should be filed short-term or long-term.

Your capital gains rate will also be something between 0% to 20%. It all depends on your income level in the year of your deposition.

3. Exchanging One NFT for the Other

Both people who decide to exchange their NFTs with each other should be informed about their gain, loss, and ordinary income. They also should know how much their NFT is worth at the time of exchange.

The gain from each NFT will be subject to tax with the right rate, be it short-term or long-term capital gain rates. Once again, with the help of an NFT tax accountant, calculating your tax will be much easier.

The bottom line is paying taxes on NFTs will vary based on many factors. Artists, traders, and gamers who mint, purchase, and exchange NFTs should file any transaction that has happened in the process of minting, purchasing, or exchanging NFTs.

They will be subject to ordinary income tax and self-employment tax.

However, what if you want to mint NFTs and sell them immediately?

In that case, you should know that your transactions may be subject to sales tax collection. That's why we recommend getting help from an NFT tax accountant, as calculating your taxes yourself will be tricky!

What Will Getting Help from an NFT Tax Accountant Be Like?

Getting help from an NFT tax accountant will be a joyful experience. You'll relax, and they'll do the job for you! Doing other types of taxes is painful enough, let alone NFT taxes, with all the complexity involved.

They could advise you on many cases where you'd lose money if you did your NFT taxes yourself. For example, they could help you with claiming losses, which will save you a fortune. There are confusing stages to claiming losses, which should be handled carefully.

NFT tax accountants will also tell you exactly what records and data you need to keep track of. Overall, your experience with them will be satisfying if you choose your accountant with care and ask them the right questions.

Note: you can learn everything about [Bitcoin Losses Taxes](#) in case you are wondering how you can leverage the losses you have realized this year.

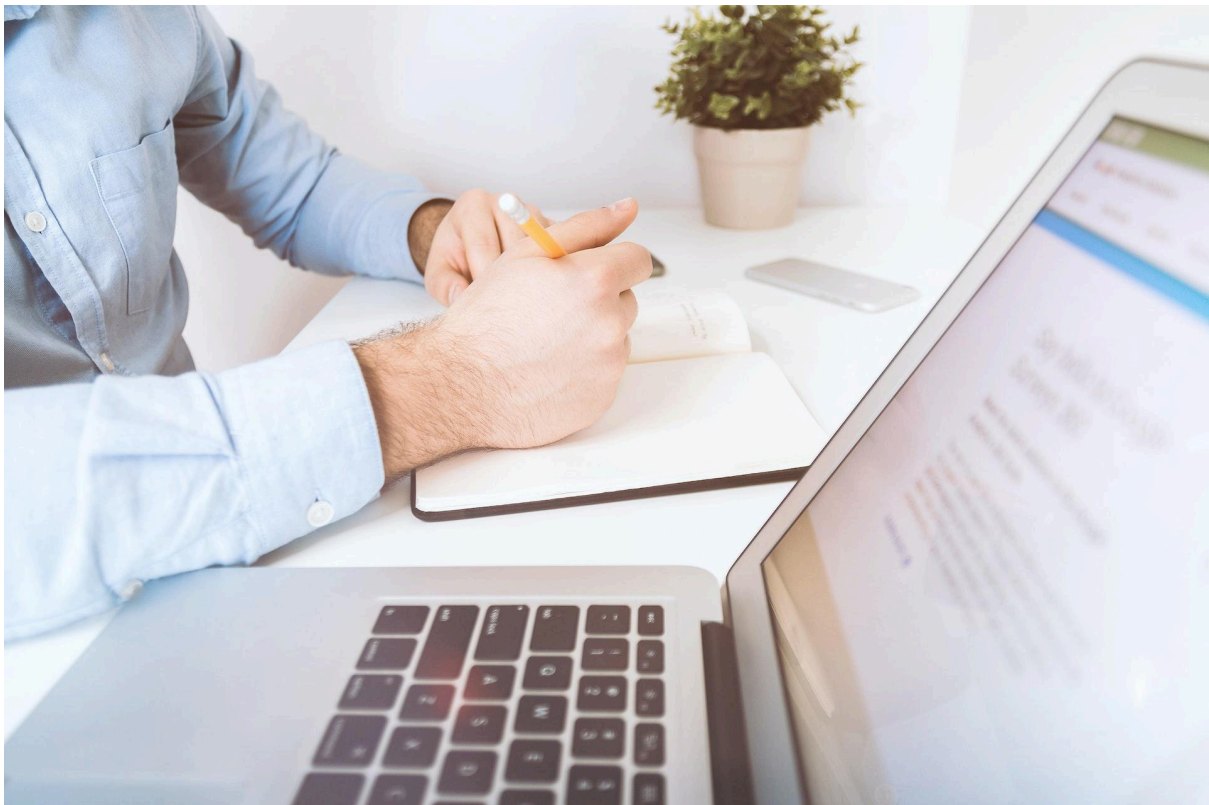


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What Questions Should I Be Asking My Tax Accountant?

We are going to see 5 questions you should ask your accountant. These questions do not tell you [all you need to know about your NFT tax accountant](#), but they get you off to a great start.

1. Do You Have Other NFT Clients?

By asking this question from your accountant, you will pretty much get the gist of how your accountant's business is. Everyone has to start somewhere, for sure. But if your accountant

isn't a pro in this field and puts your case to the test, you might not get the result you're looking for.

It's even better to ask what percentage of their clients are crypto and NFT-related. Past experiences can tell you a lot about your NFT tax accountant.

2. Can You Explain to Me What Taxable Events Are?

Even if you have already read this article or other articles and know which events are taxable, you can ask this question once again. Your NFT tax accountant should be able to answer this question like it's a piece of cake.

Each transaction may create capital gain or loss. By providing the date, cost basis, sale value, etc., to them, you'll help your accountant in the taxation process. By looking at the data you provided, they should be able to tell which event is taxable and which is not.

3. Do You Use NFT or Crypto Tax Software?

Doing NFT tax is tricky enough. All the data you have, such as cost basis, sale value, date of purchasing/selling, etc., are sensitive information. Using tax software can help your accountant and make it a whole lot easier when they need to import all your NFT transactions.

4. Where Can I Get Accurate Records of My NFT Transactions?

A professional NFT tax accountant will be able to tell you where to get all the transaction data from. Your transactions will be anything related to selling, buying, minting, or exchanging NFTs. Your accountant should be able to tell you where to trace those data back.

5. Up Until Now, I Haven't Been Paying My NFT Tax. What Can I Do Now?

Let's hope you have been filing your taxes accurately, but if you haven't, this is an excellent question, as it lets you know how professional your NFT tax accountant is. The IRS is stringent on crypto and NFT tax and will continue to impose even stricter guidelines in the coming years.

Although there are some cases in which people even ask, "[Can I avoid paying taxes on Bitcoin?](#)" it's definitely smarter to pay your tax than to be arrested for tax fraud!

But if you have forgotten to pay them until now, you might not have much time to lose, especially if you are a trader with thousands of transactions per year.

Final Word

Whether you are someone who mints or merely trades NFTs, you must know that tax will apply to selling, investing, and minting NFTs. However, this shouldn't be a general rule when it comes to NFTs.

NFT tax accountants should look into your transactions carefully and cautiously. Tax accountants like [Lorenzo Tax experts](#) know exactly how to reduce the taxes applied to your NFT purchases.

There are many options when it comes to choosing the best NFT tax accountant, and you may have some questions in mind. In this article, we attempted to list some of the most

common questions you may ask your NFT tax accountant. Remember, getting help from a pro can always simplify your tax preparation!

Newsletter

Dear readers of the Lorenzo Tax newsletter,

Do you know anything about NFTs? What about the popularity they're gaining day by day? Do you know that you can get help from an NFT tax accountant to help you with your NFT taxes?

So many tried to stop people from going into the NFT world, only to fail miserably! So if you're also among the horde of collectors, you should educate yourself on its taxation rules and get help from [a certified CPA](#).

In the most recent article (hyperlinked to this blog) published on Lorenzo's blog, we also touched on some common types of NFTs, including the following.

- Digital art NFTs - these NFTs are very popular because you can verify whether they're authentic or not, and you can also claim ownership.
- Music NFTs - music pieces or audio files are attached to an NFT and can be sold or bought.
- Avatar NFTs - portraits of your favorite characters, each with a unique algorithm. These avatars can bring a sense of community to those who buy and use them.
- Meme NFTs - meme makers can make original and authentic memes and put them out there as NFTs. This is a perfect time for them to monetize their memes.

Even though NFTs are now big, they continue to grow, and nobody seems to be able to stop them!

Taxes will apply to some and not to others. Doing your taxes alone will be confusing; therefore, you should discuss them with an expert.

Now, when looking for a professional NFT tax accountant, you may have some questions and concerns that must be addressed carefully. We have listed those questions for you as well.

Contact Lorenzo professionals in case you have any questions left unanswered about NFT taxes and their guidelines.

(Lorenzo Abbatiello, Founder and Principal of Lorenzo Tax)

Twitter Thread 1

What do you know about the world of NFTs?

Did you know that you can mint and sell them? What about the fact that taxes will apply to them too?

Taking care of your taxes may seem like the hardest thing you'll ever have to do!

That's why we recommend hiring an NFT tax accountant. An NFT tax accountant will greatly help those who are too busy with their lives to calculate their taxes.

Well, there goes your solution! An NFT tax accountant who is specialized in NFT tax matters.

You may want to ask your tax accountant questions, like whether they have other NFT tax clients, which events are taxable, and where you can get your transaction records from. These are some questions that are totally OK to ask your NFT tax accountant. Let us know if these questions are the questions you'd ask your accountant about!

Twitter Thread 2

NFTs are getting bigger and bigger, and nothing seems to be stopping them! NFTs can be an opportunity for those who want to experience new forms of art, music, meme, etc., and make money from them.

But in every NFT creator or trader's life comes a time when they should pay taxes.

Yes, dealing with taxes can be so frustrating. This is why it's always a good idea to get the help of a tax accountant at NFT.

NFT tax accountants should be able to answer your important questions, like:
Do you use NFT or crypto tax software?"

Up until now, I haven't been paying my NFT tax; what can I do now?

Have you had other NFT tax clients?

All in all, doing your taxes with the help of a professional Lorezo accountant can make the process go more smoothly!